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Sat, Dec 1, 2018 at 1:06 AM

Yth. Editor JAK

Dengan ini saya mau memberitahu bahwa artikel saya yang berjudul " Board of Commisioners Composition, Governance Committee and Stock Price Synchronicity" telah dikirim via OJS ke Jurnal Akuntansi Keuangan Petra. Terimakasih atas perhatiannya.

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Messages

Note	From
<p>sansaloni Butar Butar:</p> <p>We have reached a decision regarding your submission to Jurnal Akuntansi dan Keuangan, "Board of commisioners Composition, Governance committee, and stock price sinchronicity".</p> <p>Our decision is to:</p> <p>Please revise the article according to one review from our two reviewers. Some points have been written down below. We hopefully could receive the article after revision not before 2019-05-07. Thank you.</p> <p>Dr. Juniarti, M.Si., Ak., CA. . Accounting Department, Petra Christian University yunie@petra.ac.id</p> <p>-----</p> <p>Reviewer B:</p> <p>Apakah sistematika dan format penulisan telah sesuai dengan pedoman?: Sudah sesuai.</p> <p>Apakah telah menggunakan bahasa Indonesia yang baik dan benar?: Penulisan sudah menggunakan Bahasa Inggris yang cukup baik. Masalah spelling and grammatical errors yang ada cukup minor.</p> <p>Apakah judul makalah cukup ringkas dan dapat melukiskan isi makalah dengan jelas?: Cukup ringkas dan jelas.</p>	<p>sansaloni_butar 2019-04-30 01:29 PM</p>

Apakah hasil pembahasan disajikan secara ringkas sebagai berikut :
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Saran/komentar:

- 1) Menurut saya definisi yang diberikan kepada Stock Price Synchronicity tidak tepat. Lebih tepat jika diuraikan sbb: "the extent to which market returns explain the variation in firm-level stock returns".
- 2) Hasil regresi perlu melaporkan jumlah observasi dan Adjusted R-Square.
- 3) Model terlalu simple. Perlu mengikutsertakan Industry control (Industry fixed effect, jumlah perusahaan dalam industry bersangkutan) dan Firm control variable tambahan seperti Market-to-Book ratio, Korelasi earnings perusahaan terhadap market earnings dan volatilitas earnings perusahaan.
- 4) Abstrak menyatakan "... Governance Committee in lowering stock price Synchronicity." tidak tepat karena metode yang diterapkan mengamati korelasi dan bukan sebab akibat.
- 5) Komentar minor: "insynchronous" bukanlah kata yang ada dalam kamus Bahasa Inggris; H4 mestinya menyatakan "negative association"; Halaman 3 Paragraph 2: "lost confidence", "credible information" - tolong perhatikan spell check; Halaman 4 Baris 3: "... concludes that transparency is associated with higher price-synchronicity", higher atau lower?

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Saya telah melakukan revisi yang diminta oleh reviewer. Namun poin 3 dari saran reviewer mengharuskan saya menambah enam variabel kontrol lain untuk karakteristik industri dan karakteristik perusahaan seperti volatilitas laba karena menurut reviewer model regresi yang saya gunakan masih sederhana. Saran reviewer ini mengharuskan saya mencari data, menghitung variabel dan melakukan regresi ulang dengan persamaan regresi yang baru. Ini sama halnya dengan melakukan perubahan total terhadap paper saya dan akan memakan waktu yang lama. Setelah mempertimbangkan hal ini, saya memutuskan untuk tetap menggunakan model regresi yang ada tanpa perubahan. Akan tetapi, untuk mengakomodasi saran reviewer saya telah menambah saran reviewer ini sebagai keterbatasan penelitian.

Salam
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Board of commissioners Composition, Governance committee, and stock price synchronicity

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ABSTRACT

Market returns do not fully explain individual stock return changes, suggesting **unsynchronous** movement between the two types of returns. The phenomena is widely called stock price synchronicity. Stock price synchronicity refers to the extent to which firm-specific information incorporated in stock prices. Prior studies suggest that price synchronicity is negatively associated with information quality. Firms with poor informational environment is likely to produce unreliable financial reports. Hence, it is a necessity for a firm to establish internal mechanisms, reflected in its corporate governance system, to promote conducive informational environment. One pillar of good corporate governance is the existence of effective Board of Commissioner. This study examines the association between Board of Commissioner composition and stock price synchronicity. Board of Commissioners composition includes Board independence, Board size, and gender diversity. In addition, this study also examine the association between **Governance Committee and stock price synchronicity**. **Using firms listed in Indonesia Stock Exchange** from 2013-2015, regression analysis show that Board size and Board independence are negatively associated with stock price synchronicity. But no significant result were found for gender diversity. These findings suggest that larger Board size and more independent Board play significant role in improving the quality of financial reporting. And the presence of female commisioners do not affect financial reporting quality.

Keywords: price synchronicity, Board of Commissioners, financial reports,
Governance Committee,

INTRODUCTION

In the last five years, Jakarta Stock Exchange Composite Index (JCI) changes in Indonesian Stock Exchange were so intense, causing capital market investors feel great uncertainty about the prospect of their stock investment. Except for 2008, JCI showed up trend until 2012 and dropped significantly at 2013. But at the end of 2014 managed to rise by 22,29%. In 2015, JCI dropped once again by 12.13% and recovered in 2016 after recording an increase of 15.32%. The trend still continue by 2017 with an increase of 19.99%. But at the end of September 2018, JCI dropped again by 7.5% [1].

The volatility of market return had drawn several empirical studies, attempting to identify factors that might have caused abrupt market index changes. Prior studies showed that inflation rates, GDP, exchange rates, economic growth, world oil prices and interest rates are major determinants of unprecedented changes in JCI [2,3]. These findings suggest that market index movements are largely driven by macro economics factors rather than firm fundamentals. Then a question arises: why does the market seem to ignore firm-related information?. One possible answer to this question is that the market losing confident on the credibility of financial reports. If this is the case, then why dit it happen?.

Roll [4] described two types of information that investors might use in making investment decisions; firm-specific information and market-wide information. While firm-specific information are directly related to companies, market-wide information are all information that is closely related market condition. Examples of specific information include financial statements and other information intended to help investors assessing firms' prospects. On the other hand, market-wide information includes but not limited to interest rate, national economic growth, inflation, industrial information, level of motor vehicle demand, commodity prices, government policies and regulations.

The market response to the two types of information determine variation in individual stock returns and risks. Li et al. [5] stated that total variations in individual stock returns can be divided into idiosyncratic and systematic variation. Idiosyncratic variation, also known as unsystematic variation, is related to firm-specific information. On the other hand, systematic variation is related to market-wide information. It is the unsystematic risk, according to CAPM, that can be eliminated through proper diversification. As a consequence, investors need only to consider systematic risk when making investment decisions.

However, Roll [4] discovered that stock return variation do not proportionally follow market returns. Li et al. [5] argued that comovements between stock return and market return

depend on the proportion of systematic variation as a fraction of total variation. The phenomenon is widely referred to stock price synchronicity. A stock price synchronicity reflects the extent to which firm-specific information is impounded in stock prices. When changes in a stock return of particular company are largely influenced by its firm-specific information rather than market-wide information, the firm's stock price synchronicity is regarded as low. A study of Morck et al. [6] shows that stock prices in an efficient capital market exhibit higher idiosyncratic risk, suggesting lower stock price synchronicity. These results suggest that when market participants can get information quickly and cheaply, more firm-specific information will be absorbed into stock prices relative to market-wide information [7]. As informational environments are getting transparent, the more firm-specific information will be absorbed into the stock price and the lower is stock price synchronicity.

Chan and Hameed [8] argued that an important issue related to stock price synchronicity is whether firm-specific information contain noises that impede users of financial reports to gain insight into firms' fundamental value. Hutton et al. [9] investigate empirically the relation between financial statement transparency and stock return distributions and find that less-transparent financial reports is associated with less revelation of firm-specific information. Hutton et al. [9] findings suggests that opaque financial reports eroded investors' confidence on financial reports, forcing them to look for other alternative information. When investors have lost **confidence** on financial reports and shifted away to find more **credible** information, the ability of financial reports to influence stock price diminishes. In effect, stock price synchronicity will be higher. A higher price synchronicity reflects lower financial report quality and vice versa.

Most stock price synchronicity studies reported in accounting literature generally focus on the quality of financial statements. Morck et al. [6] reported evidence that price

synchronicity is higher in emerging capital markets, suggesting that investors in developing capital markets put more trust in market-wide information than firm-specific information. Analytic study of Jin and Myers [10] concludes that transparency is associated with **lower price synchronicity**. Rajgopal and Venkatachalam [11] show that high idiosyncratic volatility in the US during the period 1962–2001 is associated with deteriorated earnings quality overtime. Rajgopal and Venkatachalam's findings is indicative of diminishing relevance of financial reports in making investment decisions. Gul et al. [12] report that auditor quality is negatively associated with price synchronicity.

The preceding findings suggest that price synchronicity is a function of information quality. Firms with poor informational environment is likely to produce unreliable financial reports. Therefore, it is crucial for a company to establish internal mechanisms to promote conducive informational environment. One key factor is to set rules, procedures, and internal monitoring function embodied in a firm's corporate governance practice. The existence of the Board of Commissioners is a manifestation of good governance. Boards with effective monitoring function prevent managers from exploiting firm resources and from using accounting discretion to hide bad performances.

The purpose of this study is to examine the role of the Board of Commissioners in promoting high quality financial reports through its effects on price synchronicity. If Board of Commissioners improve the credibility of financial reports, then price synchronicity is expected to decrease. More specifically, this study examines the effect of Board composition on price synchronicity. In this study, Board composition comprises proportion of outside members, Board size, and gender diversity. Unlike previous studies which were conducted in relatively stable capital markets, this research is carried out in a capital market marked by high stock price volatility such as Indonesia. In addition to Board composition, this study also examines the effect of governance committee and stock price synchronicity. Despite the fact

that it is still voluntary, the establishment of governance committee is crucial to ensure sound business practices have been followed throughout companies, including financial reporting disclosure. Firms having governance committee is more likely to report credible financial reports and thus lower price synchronicity.

LITERATURE REVIEW AND HYPOTHESIS DEVELOPMENT

Corporate Governance and Board of Commissioners

Agency theory of Jensen and Meckling [13] describes the relationships between principal (stockholders) as capital providers and agents (managers) who have been given authority to run the company. They described principal and agents relationship as a contract, requiring managers to act in the best interests of shareholders. But the goal of managers are sometimes in conflict with those of shareholders and often time in opposite direction. The incongruent goal may result in expropriation of a firm's assets by managers. To avoid such adverse situation, firms need to create monitoring mechanisms to prevent managers' opportunistic behaviors and at the same time promote interest alignment between the conflicting parties. A popular concept of good corporate governance can be considered as an embodiment of agency theory suggestion with regard to conflict of interests between managers and stockholders. A good corporate governance system require companies to establish Board of Commissioners (or Directors) whose main duties are to monitor manager activities and to ensure shareholders' interests are taken into account in the process of strategic decision-making. In addition to establishment of Board of Commissioners, good corporate governance system also require financial statements to be verified by external auditor.

In general, corporate governance include policies, procedures, and processes within the company to promote transparency, accountability, integrity, and fairness. Rezae [14]

defines corporate governance as a process of encouraging managers to act in the best interests of stockholders and to maintain investor confidence in stock markets. LaPorta et al. [15] view corporate governance as a set of mechanisms through which a firm protect outside investors from possible misuse of company resources by insiders. From these two perspectives, we can define corporate governance as various systems and procedures employed by companies to protect stockholders' interests and to prevent managers from using his power irresponsibly.

Agency conflict is a function of firm size. Larger firms are more likely to experience agency conflicts due to its complex activities [16]. Board of Commissioners are responsible for monitoring the implementation of firms' strategies and to prevent dysfunctional behaviors of managers that bring harm to firm values, including inappropriate accounting discretion.

As one of corporate governance organs, the role of Board of Commissioners in monitoring managers' actions has received wide attention, especially in large companies [17]. Board of Commissioners are responsible for urging managers to use firms' resources effectively and efficiently and to protect stockholders' interests. As outsiders, stockholders are unable to completely monitor managers and gain access to company internal records. Lack of accessibility to company records force them to rely on the published financial statements. In this regard, the role of Board of Commissioners in increasing earnings informativeness are very crucial, as suggested from many empirical results [18,19,20]. Firms with effective Board of Commissioners are less likely to adopt aggressive accounting and reporting policies [21] and manipulation of financial statements [20].

Stock Price Synchronicity

Efficient market theory suggests that stock prices absorb quickly all widely available information and no one can get abnormal returns using information that every one can access. The theory assumes market participants always act rationally and can digest all information and use them as a basis for investment decisions. It also assumes that publicly available

information are produced by credible sources and have been genuinely prepared to help investors in estimating a firm's cash flow generating ability and firm's real economics condition. These assumptions are not necessarily true and sometime contradict to reality. Some investors are irrational in making stock investment decisions, causing stock prices deviate from its intrinsic value. Even if investors are rational, stock prices can still fail to reflect intrinsic values when an investor bases his decision on false information. Some investors, especially institutional investors, have better capacity to process information than individual investors. With their skills and knowledge, they manage to choose relevant and credible information for stock trading, leaving unreliable information unused. Therefore, variation in stock prices (return) are strongly influenced by credibility of information.

Roll [4] distinguishes firm-specific return variation from market related variation and reported that existing asset pricing models produce low R^2 . The findings reflect a low ability of market returns in explaining variations in individual returns. He then concluded that firm-specific variation reflects the capitalization of private information. When the markets believe that firm-specific information are reliable and value-relevance, they will use this information in trading causing stock prices moves. On the other hand, when the quality of firm-specific information is in doubt, investors will look for other alternative information. As a result, stock prices changes are more affected by market-wide information rather than firm-specific information. After the release of Roll's work, a great deal of research have investigated factors causing investors to rely on market-wide information rather than firm-wide information when making investment decisions. This kind of research is widely referred to price synchronicity study.

A great deal of research have been conducted to seek determinants of price synchronicity. Morck et al. [6] report that stock returns in emerging capital markets are more synchronous than in developed capital market. Similarly, Daouk et al. [7] find that

improvement in capital market governance index are negatively associated with stock price synchronicity. Piotroski and Roulstone [22] show that analyst forecasting activities are positively related to price synchronicity. Chan and Hameed [8] provide evidence that analyst coverage has a positive influence on price synchronicity. Gul et al. [12] find that foreign ownership and auditor quality are inversely related to price synchronicity.

Hypothesis Development.

Board of Commissioners Composition and Price synchronicity

As discussed earlier, monitoring functions of Board of Commissioners are expected to reduce the likelihood of a manager to opportunistically use his power for personal benefit. However, to carry out its monitoring functions effectively, Board of Commissioners should have freedom to express critiques and suggestions openly against a director's decisions. It is hard to expect from Board of Commissioners to have a courage to question managers of inappropriate accounting policies used to prepare financial reports when all members come from inside company. Therefore, the existence of independent commissioners are very crucial to maintain Board independence

Klein [18] shows that firms with higher Board independence is associated with fewer earnings management. The results support the importance of independent members in a firm's board of commissioners. Outside members who do not have any ties or interests in the company business are expected to have more courage to express their views openly when discussing sensitive issues with directors, including financial reporting process. Similar results have also been reported by other researchers regarding the the role of independent members in mitigating manager dysfunctional behaviors [20,23,24].

The preceding discussion and empirical results suggest that outside members play significant role in monitoring process and disciplining managers . Lack of control induces managers to expropriate firm resource and manage to cover up its adverse effect on firm

financial health by choosing accounting policies and accruals that overshadow poor performance. In this case, financial statements are no longer reflect a firm's real economics and potentially mislead uninformed users. On the other hand, rational investors who are suspicious of accounting numbers may choose to ignore the financial statements and turn to other sources of information. If this is the case, less firm-specific information will be absorbed in stock prices and price synchronicity increases. Based on the argument, the relationship between Board of Commissioners independence and price synchronicity can be expressed in the following hypothesis:

H1: Board of Commissioners independence is negatively associated with price synchronicity.

Board of Commissioners monitoring function can also be affected by the number of people serving in the Board. Combination of skills, knowledge and experience from various members with different background are very significant in exercising monitoring function effectively. Board of Commissioners with larger members can be expected to function effectively and mitigate potential abuse of authority by managers. Various skills and knowledge brought into a company by members with different backgrounds increases the opportunity of detecting material misstatement. Thus, firms with larger Board size are expected to function effectively and increase investor confidence in financial statements. More firm-specific information will be absorbed in stock prices, leading to higher stock price synchronicity.

However, prior studies on the association between information quality and Board size show inconsistent results. Vafeas [25] find that Board size is negatively associated with earnings quality, suggesting higher price synchronicity. On the other hand, Budsaratragoon et al. [26] find a positive relationship between Board size and financial reporting quality, suggesting lower price synchronicity. In addition, using data from the Greek capital market,

Dimitropoulos and Asteriou [27] failed to find a significant relationship between the two variables.

Because of the inconsistent results, the association between Board size and price synchronicity is not stated in specific directions.

H2: Board of Commissioners size is associated with price synchronicity.

Gender diversity in Board of Commissioners is expected to improve the quality a firm's financial reporting. A study of Adams and Ferreira [28] shows that Board with fewer female members exhibit higher return variance. Similarly, Gul et al. [29] reported that Board with higher proportion of female members is associated with higher information quality. These results suggest that gender diversity increases the quality of financial reports and hence more specific-information will be incorporated into stock prices. Thus, gender diversity is expected to lower price synchronicity. The association between gender diversity and price synchronicity is stated in the following hypothesis:

H3: Gender diversity is negatively associated with price synchronicity.

Governance Committee and price synchronicity.

Corporate governance committee is one of several committees under the supervision of Board of Commissioners. At present, the existence of governance committees among public companies in Indonesia are still new and so far, no regulation has ever been imposed to public companies requiring firms to establish corporate governance committee. Therefore, not much attention has been given to governance committee from academic community. Observing from annual report of firms that have established governance committee, its main responsibilities are monitoring and evaluating corporate governance policies to ensure firms' objectives are met. In addition, the committee are also responsible for promoting consistency in applying governance policies firm-wide. PT Petrosea Tbk. is one of public companies that has established corporate governance committee. Petrosea has established several functions

of its governance committee, including reviewing and controlling the implementation of good corporate governance, ensuring compliance with prevailing laws and regulations, and corporate social responsibility. When Governance Committees discover shortcomings in the implementation of corporate governance, they will propose recommendation to improve firm's corporate governance system.

The strategic role of Governance Committee in encouraging sound business practices is expected to narrow the opportunities for a manager to use his authority irresponsibly, including financial reporting process. Specifically, the Governance Committee prevent managers to use accounting discretion to hide misconduct or mismanagement of firms' resources. More transparent financial reporting bolsters investors' confidence on financial statements and in turn lower the stock price synchronicity. The association between Governance Committee and stock price synchronicity is stated in the following hypothesis:

H4: Corporate Governance Committees are negatively associated *stock price synchronicity*.

RESEARCH METHOD

Population and Sample

Population of this study are all companies listed on the Indonesia Stock Exchange and sample period covers 2013-2015. Random sampling is employed to select firm samples using Slovin formula ($n=N/1+Ne^2$). Number of firm samples (N) listed in Indonesia Stock Exchange from 2013-2015 is 1.480. Applying *margin error* (e) of 5%, Slovin's formula results in 314 firm samples. But 55 firm samples were excluded to meet normality assumption, leaving 259 of total firm samples for further analysis.

A firm's financial data is manually collected from annual reports and downloadable from Indonesia Stock Exchange official website www.idx.co.id. Stock price data is extracted from <https://finance.yahoo.com>.

Model Specifications

Following regression model is estimated to test the hypotheses:

$$\text{SYNCH}_{it} : \beta_0 + \beta_1 \text{Bd_INDP}_{it} + \beta_2 \text{Bd_SIZE}_{it} + \beta_3 \text{Bd_GEN}_{it} + \beta_4 \text{Gov_COM}_{it} + \beta_5 \text{LEV}_{it} + \beta_6 \text{FSIZE}_{it} + e$$

Where,

SYNCH	= Price Synchronicity
Bd_INDP	= Board Independence
Bd_SIZE	= Board Size
Bd_GEN	= Board Gender
Gov_COM	= Governance Committee
LEV	= Leverage
FSIZE	= Firm Size

Measures of Variables

Stock price synchronicity

Stock price synchronicity reflects the extent to which **returns explain the variation in firm-level stock returns**. When investors perceive firm financial reports are of high quality, information contained in financial reports are impounded in stock price as suggested by efficient market theory and stock price synchronicity increases. Most stock price synchronicity studies follow Roll [4] and Morck et al. [5]. They use original market model to decompose market-wide factors and firm-specific factors. Since this study is conducted in emerging capital market where non synchronous trading usually exist, expanded market model with lead and lag to anticipate non synchronous trading, as suggested by Dimson [30], will be employed. The residuals from the adjusted market model reflect firm-specific information. The following expanded market model is estimated for each-firm years.

$$\text{RET}_{it} = \beta_0 + \beta_1 \text{MKTRET}_{it-2} + \beta_2 \text{MKTRET}_{t-1} + \beta_3 \text{MKTRET}_{it} + \beta_4 \text{MKTRET}_{it+1} + \beta_5 \text{MKTRET}_{it+2} + e_{it}$$

Where:

RET_{it} = Stock return for firm i and week t.
 MKTRET = weekly market return (JCI)

According to Gul et al. [12], stock price synchronicity is the ratio of common return variation to total return variation, which is reflected in the adjusted R^2 obtained from the above equation. Since adjusted R^2 is bounded by 0 and 1, Piotroski and Roulstone [22] transformed it into unbounded continuous variable using logistic transformation to facilitate normal distribution. Thus, stock price synchronicity is defined as:

$$SYNCH = \text{Log}\left(\frac{R^2}{1 - R^2}\right)$$

A higher value of *SYNCH* suggests that more market-wide information have been incorporated in stock prices. Conversely, lower value indicates more firm-specific information have been absorbed into stock prices .

Board of Commissioners Independence

Independent Commissioners are expected to increase the effectiveness of Board monitoring function because they have adequate skills to monitor managers and are more able to express their views and suggestions freely. As proportion of outside Commissioners increases, Board of Commissioners independence increases as well and the more effective is Board monitoring function . Board of Commissioners independence is defined as a proportion of outside Commissioners to total number of Board of Commissioners.

Board of Commissioners Size

Larger Board size is expected to increase Board of Commissioner monitoring functions. The size of the Board of Commissioner is measured by the total number of Board of Commissioners' members.

Gender Diversity

Gender diversity is the proportion of female members serving in Board of Commissioners relative to male members. The variable is measured by the percentage of female members to total number of Board of Commissioners.

Governance committee.

Governance committee is part of corporate governance organs under the supervision of Board of Commissioners. The existence of these committees in Indonesia are still voluntary. In this study, Governance committee is a binary variable, coded 1 if a firm has established Governance Committee and 0 otherwise.

Control Variables

Firm Size

Piotroski and Roulstone [22] argue and find that that stock return of larger firm is associated with higher stock price synchronicity. Thus, firm size should be controlled to avoid spurious results. The measure of firm size is the natural logarithm of the total assets.

Leverage

Hutton et al. [9] find that leverage is positively associated with price synchronicity. Leverage is measured as total debt scaled by total assets.

$$LEV = \frac{\text{Total Debt}}{\text{Total Aset}}$$

Descriptive statistics

As much as 259 firm sample years are employed for the test of hypothesis. Table 1 reports descriptive statistics of main and control variables.

Table 1
Descriptive Statistics

Variabel	Mean	Median	Minimum	Maximum	Dev Stand
SYNCH	0,61	0,62	-0,52	1,88	0,45
Bd_INDP	0,41	0,40	0,25	1,00	0,11
Bd_SIZE	4,99	5,00	2	11	1,76
Bd_GEN	0,10	0,00	0,00	1,00	0,15
Gov_COM	0,19	0,00	0,00	1,00	0,389
LEV	0,54	0,53	0,02	0,98	0,15
FSIZE	16,74	14,93	10,30	21,95	3,36

Table 1 shows stock price synchronicity (SYNCH) has a mean of 0.61. This indicates that individual stock price movements are more influenced by firm-specific information. The mean for board of commissioners independence (Bd_INDP) is 41%, suggesting 33% minimum requirements set by the capital market regulator is met. However, there is still a company having a percentage of Board of Commissioners independence below 33%. This is reflected in minimum value of 0.25. In addition, standard deviation of 0.11 indicates that the percentage of independent commissioners vary among firms. The mean for Board of Commissioners size (Bd_SIZE) is 4.99, suggesting that firms samples had met the minimum requirement of 3 members. The proportion of women in the Board of Commissioners (Bd_GEN) has a mean of 0.10, reflecting a small proportion of female members relative to male members. The proportion varies greatly among sample firms, ranging from no female members (min = 0) to all female members sitting in Board of Commissioners (maximum value = 1). The governance committee has a mean of 0.19, suggesting only 19% of sample firms have a governance committee. For control variables, the mean for leverage (LEV) and firm size (FSIZE) are 0,54 and 16,74 respectively.

Correlation Matrix

Table 2 displays the correlation coefficients for all variables. In the table, correlation between stock price synchronicity and Board of Commissioners independence is -0.13 and statistically significant at the 5% level. The correlation is consistent with the prediction. Stock price synchronicity and Board of Commissioners size also have negative correlation with a value of -0.26, significant at 1% level. This is consistent with predictions as well. On the other hand, the correlation between stock price synchronicity and gender diversity are not statistically significant. Similarly, the correlation between stock price synchronicity and governance committee is insignificant. Overall the results reported in table 2 provide preliminary evidence to accept H1, H2 and to reject H3 and H4.

Table 2
Correlation Matrix

	SYNCH	Bd_INDP	Bd_SIZE	Bd_GEN	Gov_COM	LEV	FSIZE
SYNCH	1,000						
Bd_INDP	-0,13*	1					
Bd_SIZE	-0,26**	-0,03	1				
Bd_GEN	-0,04	0,02	-0,15*	1			
Gov_COM	0,02	-0,03	0,18**	0,09	1		
LEV	0,06	0,21**	-0,05	0,07	0,07	1	
FSIZE	-0,10	-0,03	0,03	-0,11	-0,09	0,03	1

*Significant at the 0,05 level ; **Significant at the 0,01 level

Results and Discussion

Tests of hypotheses are conducted by employing multiple regression analysis. Linear regression require data distribution to meet normality, heteroscedasticity, multicollinearity and autocorrelation assumptions. Results of data distribution tests are reported in the appendix. Table 3 displays the test of hypothesis results in which the regression analysis are grouped into two models: a model with control variables and without control variables. Inferences are drawn on two-tailed test.

Table 3
Rgression Results

Variabel	Expected Sign	Without Control Variables (N=259)			With Control Variables (N=259)		
		Koefisien	t	P-value	Koefisien	T	P-value
Bd_INDP	-	-0,545	-2,259	0,025	-0,622	-2,530	0,012
Bd_SIZE	+/-	-0,074	-4,759	0,000	-0,073	-4,666	0,000
Bd_GEN	+/-	-0,259	-1,439	0,151	-0,302	-1,674	0,095
Gov_COM	-	0,087	1,243	0,215	0,070	0,996	0,320

LEV	+				0,164	-0,140	0,175
FSIZE	+				-0,014	-1,720	0,087
<i>Adj. R</i> ²					0,094		0,084

As described in table 3, the association between Board of Commissioners composition and stock price synchronicity for both models are generally consistent. However, the association between these two variables are slightly stronger when leverage and company size are included in the model. This suggests that the level of debt and company size does not significantly affect the relationship between Board of Commissioners composition and stock price synchronicity. Therefore, discussion of the main findings are focused on models with control variables.

Hypothesis one predicts Board of Commissioners independence and stock price synchronicity is negatively associated. Consistent with the prediction, regression coefficients reported in table 3 is -0.622 and statistically significant at less than 5% level (p-value of 0.012). Thus, H1 is supported statistically. The finding is consistent with previous studies that had documented evidence of negative association between Board of Commissioners independence and financial reporting quality. Klein [18] reports firms with more independent Board of Commissioners are less likely to practice earnings management. In addition, Ferreira et al. [31] provide evidence of positive association between Board of Commissioners independence and price informativeness.

A negative association between price synchronicity and board independence suggests that independent commissioners play a significant role in improving and maintaining financial reporting credibility. As previously explained, stock price synchronicity reflects market confidence on information contained in financial statements. When market participants perceive the reported financial information are of good quality, they will use the

information in stock transactions. Such a information is expected to be absorbed in stock prices and will result in less synchronous stock return movements between individual return and market returns.

Hypothesis two predicts a Board of Commissioners size have an effect on stock price synchronicity. The hypothesis is not stated in a certain direction because the arguments for negative or positive effect of Board of Commissioners on stock price synchronicity are equally strong. Large number of Board of Commissioners suggest more skills and experience brought into the company, leading to more effective monitoring function. But monitoring functions of Board of Commissioners can be disrupted when the number of commissioners being too large. Firms with a larger Board of Commissioners size are more likely to have problems with coordination, causing a decline in monitoring functions. Table 3 shows that Board of Commissioners size and stock price synchronicity are negatively associated at less than 1% level. These results indicate that the greater the size of the Board of Commissioners, the higher the quality of financial statements and the lower the synchronicity of stock prices. Thus, H2 is supported statistically. However, the findings is not consistent with Ferreira et al. [31] and Vafeas [25].

The negative effect of Board of Commissioners size on price synchronicity reflects a higher market confidence on firm-specific information of firms with larger Board of Commissioners. The market perceives that a Board of Commissioners with larger members can carry out the monitoring function effectively relative to those with smaller size.

Hypothesis three predicts the proportion of women serving in the Board of Commissioners are negatively associated with stock price synchronicity. Table 3 reports regression coefficient of gender diversity with significant negative value at 10% level, suggesting a weak correlation between the two variables. Although influential, the role of

women in improving supervisory functions of Board of Commissioners are not quite effective. One reason is a low proportion of women serving in the Board of Commissioners. Descriptive statistics show that on average there are only 10% of women serving as Board of Commissioners. The proportions are too small to have a significant impact on the performance of the Board of Commissioners.

Hypothesis four predicts firms with governance committee produce more reliable financial reports. As a result, information contained in the financial statements will be absorbed quickly into stock prices, leading to lower stock price synchronicity. Table 3 shows that the existence of a governance committee has no significant effect on stock price synchronicity with p-value of 0.320. Thus, H4 is not supported statistically. The insignificant result may have something to do with governance committee functions. As stated earlier, governance committees are concerned about implementation of good corporate governance and has not focused specifically on financial reporting issues. Financial reporting issues are part of Audit Committee's responsibility. Therefore, increasing financial reporting qualities are beyond Governance Committee responsibility.

As for control variables, leverage does not affect stock price synchronicity but firm size does at 10% level. These suggest that financial statements quality is not affected by firms' debt level but by firm size. Furthermore, size and leverage have no effect on the association between Board composition and stock price synchronicity.

CONCLUSIONS, LIMITATIONS, AND SUGGESTIONS

Conclusions

Several empirical studies have examined the relationship between individual stock returns and market returns. Some studies find the low ability of market returns to explain

variations in individual stock returns. These findings suggest that stock price movements do not fully follow the dynamics occurring in the market. The phenomenon is known as stock price synchronicity. In theory, stock price movements are much affected by various information circulating in the market. Publicly-available information can be divided into firm-specific information and market-wide information. When stock return changes are predominantly affected by firm-specific information price synchronicity is expected to be lower and vice versa.

The quality of information affects investors decision-making. The higher the quality of the information, the more of that information absorbed in stock prices and the lower the stock price synchronicity. Therefore, price synchronicity is a function of information quality and information quality are much affected by firms' informational environment. There are two variables that may have shaped a firm's informational environment: Board of Commissioners composition and governance committee.

This study examines the effect of Board of Commissioners composition and governance committee on stock price synchronicity. Board of Commissioners compositions differ from one firm to another, and they are reflected in the size of Board of Commissioners, the proportion of independence Commissioners, and the proportion of women serving in the Board of Commissioners. Using regression analysis, this study finds that Board of Commissioners independence and size are negatively associated with stock price synchronicity. These findings suggest that independent Commissioners have significant roles in enhancing the quality of information. Regarding the size, firms with larger Board of Commissioners carry out the monitoring function more effectively, resulting in a lower stock price synchronicity. Meanwhile, the proportion of women serving in Board of Commissioners have a weak negative association with stock price synchronicity, suggesting

the presence of women are not quite helpful in improving the quality of information. In addition, the existence of governance committee has no effect on stock price synchronicity.

Limitations and Suggestions

Sample selection is based on Slovin formula, resulting in 314 firm-samples. But as much as 55 firm-samples have to be eliminated, leaving only 259 firm-samples for further analysis. Compared to total firm-samples for period of 2013-2015, it is only 17% of the population. Thus, generalization has to be taken cautiously. In addition, regression model does not control for industry effect and other control variables such as market to book ratio, and earnings volatility.

Board of Commissioners composition are limited only to Board of Commissioners independence and size, and gender diversity. Future research can test another Board composition, such as frequency of Board of Commissioners meetings. In addition, subsequent research can also consider the role of Audit Committee and financial statements transparency in lowering stock price synchronicity. A measure of transparency is magnitude of discretionary accruals.

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APPENDIX

Test of Hypthotesis

Model Summary^b

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Durbin-Watson
1	,339 ^a	,115	,094	,42595	1,891

ANOVA^b

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	5,928	6	,988	5,445	,000 ^a
	Residual	45,722	252	,181		
	Total	51,650	258			

Coefficients^a

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.	Collinearity Statistics	
		B	Std. Error	Beta			Tolerance	VIF
1	(Constant)	1,390	,193		7,208	,000		
	BD_INDP	-,622	,246	-,154	-2,530	,012	,952	1,050
	BD_SIZE	-,073	,016	-,286	-4,666	,000	,937	1,068
	BD_GEN	-,302	,180	-,102	-1,674	,095	,953	1,049
	GOV_COM	,070	,070	,061	,996	,320	,940	1,063
	LEV	,164	,121	,083	1,359	,175	,942	1,062
	FSIZE	-,014	,008	-,103	-1,720	,087	,979	1,022

Coefficients^a

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.	Collinearity Statistics	
		B	Std. Error	Beta			Tolerance	VIF
1	(Constant)	1,390	,193		7,208	,000		
	BD_INDP	-,622	,246	-,154	-2,530	,012	,952	1,050
	BD_SIZE	-,073	,016	-,286	-4,666	,000	,937	1,068
	BD_GEN	-,302	,180	-,102	-1,674	,095	,953	1,049
	GOV_COM	,070	,070	,061	,996	,320	,940	1,063
	LEV	,164	,121	,083	1,359	,175	,942	1,062
	FSIZE	-,014	,008	-,103	-1,720	,087	,979	1,022

Normality test

Tests of Normality

	Kolmogorov-Smirnov ^a			Shapiro-Wilk		
	Statistic	df	Sig.	Statistic	df	Sig.
Unstandardized Residual	,040	259	,200*	,989	259	,040

a. Lilliefors Significance Correction

*. This is a lower bound of the true significance.

Heteroscedasticity test and Autocorrelation

Model Summary^b

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Durbin-Watson
1	,155 ^a	,024	,001	,24048736175	1,838

a. Predictors: (Constant), FSIZE, BD_INDP, BD_SIZE, BD_GEN, LEV, GOV_COM

b. Dependent Variable: Absolut_res

Coefficients^a

Model		Unstandardized Coefficients		t	Sig.	Collinearity Statistics	
		B	Std. Error			Tolerance	VIF
1	(Constant)	,111	,109	1,017	,310		
	BD_INDP	,151	,139	1,089	,277	,952	1,050
	BD_SIZE	,014	,009	1,628	,105	,937	1,068
	BD_GEN	,052	,102	,514	,608	,953	1,049
	GOV_COM	,025	,040	,618	,537	,940	1,063
	LEV	,040	,068	,593	,554	,942	1,062
	FSIZE	,004	,005	,912	,363	,979	1,022

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