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Impact of Intrinsic Corporate Governance on Financial Performance of Indonesian SMEs

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Corporate governance is described as the policies and processes adopted by firms to reduce agency problems by considering the differentiation between owners and managers. This study aims to investigate corporate governance in the context of the profitability of small and medium-sized entities (SMEs) in Indonesia. Corporate governance is the process and structure used to direct and manage the business affairs of a corporation with the objective of enhancing shareholder value. For the examination of the relationship between corporate governance and SME profitability, this study utilised panel data obtained from 50 samples of Indonesian SMEs during a period of five years from 2013–2017. The findings of this study reveal that family ownership has a significant negative relationship with profitability of Indonesian SMEs. Furthermore analysis shows that board size and gender diversity have significant positive influence on the profitability of SMEs. This study contributes to the theoretical body of knowledge in this field by providing fresh empirical evidence on the impact of corporate governance on profitability of SMEs. Specifically, the study is beneficial for SME owners, managers, the government, management consultants and financial institutions in policy and decision making related to SMEs in Indonesia. However, this study used the data of only 50 SMEs, future studies could use a sample of more than this data set.

Key words: *Corporate Governance, Profitability, SMEs, Panel data.*

Introduction

In the modern corporative context, corporate governance practices have gained keen interest from researchers for the last two decades. The reason behind the popularity of the concept is the disaster of numerous high-profile large firms. Corporate governance refers to the resolving of issues with collective efforts for varied stockholders and involves their matters of conflict. Corporate governance is described as the policies and processes adopted by firms to reduce agency problems by considering the differentiation between owners and managers. Corporate governance systems define the appropriate lines of responsibility by considering the extent of relation among the firm itself and key constituencies of corporations. Rapid acceptance of corporate governance and its practices is significance with regard to corporate entities and groups, and for governments (Roy, 2018).

Better corporate governance (CG) ensures that business is operating with fair and transparent culture and firms are answerable for their activities (Larcker et al., 2007). Hence, the interest in prevailing aspects of business management is revealed by the extensive literature on this topic. Whether these mechanisms play a role in the enhancement of the financial activities and position of an enterprise, they have become a topic of interest for numerous researchers. Particularly, La Porta et al. (1997) emphasised the "enormous practical importance" of CG (p. 737). Their conclusion emphasized the dimension of conducting research in this area because it has direct association with company practice. CG researchers have a unique outlook to directly inspire CG's practices through the watchful incorporation of theory and empirical studies. More specially, on the inconsistency between ownership and control and the deviation from the desirable one-share one-vote rule (Javid & Iqbal, 2010).

Research in corporate governance has gone beyond large corporations to now also include studies in relation to SMEs. According to Sarvikivi et al. (2012), most prior research studies in in relation to corporate governance mechanism (family ownership were related to number of board directors in the large listed organizations in developed countries such as the UK and USA. This is because in general, corporate governance practices are connected with developed businesses due to separate ownership and management (Abor & Biekpe, 2007). This is especially as a result of recent corporate problems resulting in a financial crisis and consequent failure of many large corporations in the USA, Europe, some African countries and Southeast Asia, including Indonesia.

The phenomenon largely disturbed the trust of both existing and potential investors in the capital markets and created agitation for improvement in corporate governance practices. The significance of appropriate corporate governance practices can never be ignored with regard to the existence of firms. Better corporate governance not only enhances financial efficiency and progress but it also develops investor trust (OECD, 2004). Furthermore, it increases the ability of firms to generate external finance, reduces financing costs and enhances operational efficiency. Grove et al. (2011) stated that when companies have effective corporate governance mechanisms, investors pay large amounts of premiums easily. Consequently, corporate governance can be considered as the factor responsible for increased firm value and organizational performance. Similarly, from an economic perspective, better CG practices significantly affect the economy by attracting investors, reducing risk for investors and enhancing performance of business (Walls et al., 2012).

By considering the relationship of corporate governance with organizational performance, it is extensively recognised that good CG increases the firm performance (Bai et al., 2004; Sami et al., 2011). Despite the common perception that CG has significant positive association with performance, some studies concluded an inverse or neutral relation of the variables (Ibrahim & Samad, 2011; Singh & Davidson III, 2003). Furthermore, limited studies are available on the topic specifically regarding SMEs in the context of developing economies (Al-Najjar & Clark, 2017). Therefore, it is important to study the issue of corporate governance in the SME sector, especially in the developing economies, taking into consideration the importance of the sector for economic development of such countries. Hence, the current study aims to examine the influence of CG on the SMEs' profitability in Indonesia by considering the importance of this sector in the Indonesia economy.

According to (Keasey et al., 1997) *"corporate governance is the process and structure used to direct and manage the business affairs of a company towards enhancing business prosperity and accountability*". Achchuthan and Rajendran (2013) added "*corporate governance encompasses the authority, accountability, stewardship, leadership, direction and control exercised in the process of managing organisations"*. The foremost goal of corporate governance is to achieve sustainable stockholder's value, while considering cognisance stakeholder other interests. In case of SMEs, CG is considered the associated role of owners, managers and other executives (Abor & Biekpe, 2007). Better corporate governance will play a prominent role for SMEs not only in gaining finance from investors but also from other financial organisations. Good corporate governance can improve profitability of the firm, which is believed to be the key objective of any business organisation (Gill & Biger, 2013).

Furthermore, SMEs are found to be the most common form of business which is believed to be significantly influence the growth and development of many economies in the world (Boonpattarakan, 2012). SMEs have been recognised in the Indonesian economic policies and programmes as viable. SMEs are particularly viable in the area of income generation, poverty reduction and employment generation coupled with the fact that a small amount is needed to start SME operations. The relevance of SMEs and their contribution to economic development cannot be overemphasised. Sunday (2011) considered SMEs as the most powerful indicator in the growth and development of economy because they have produced many turning points in numerous developing sectors.

Contemporary research has its focus on the influence of corporate governance on SMEs' profitability in Indonesia because SMEs are the backbone of any developing economy. The Indonesian government is showing much interest in growth, survival and sustainability of the SME sector through policies and programmes. The problems of the sector include higher cost of operations (infrastructure), lack of available external finance, poor management of resources and government policies (Sunday, 2011). This study utilises a sample of Indonesia SMEs with the objective of providing empirical conclusion on the impact of corporate governance on their profitability. In Indonesia, the capital market is weak and the financial system is less efficient (Eniola & Entebang, 2015). Further, to achieve long term financial development and growth, SMEs are regarded globally as a key driver, SMEs are considered the basic strength of financial growth, employment creation and poverty alleviation (Eniola & Entebang, 2015).

Therefore, this research is conducted with the purpose of examining the corporate governance mechanism of SME firms and its association with the profitability of SME firms in Indonesia. The study will adopt the sequence of reviewing the relevant topic literature followed by the methodology, present results of the study and finally conclusions and findings.

Literature review

Separate ownership and management of a firm sometime face many conflicts of interest between both stakeholders and managers. The risk management committee as an efficient platform for risk management has emerged as the committee that controls managerial risk-taking behaviour (Nugraha et al., 2019). The phenomenon has developed an opinion on the divergence of interest that cost associated with this disagreement should be minimal. To reduce this cost at appropriate level, one of the proposed solutions is good corporate governance practices. Therefore, CG is a system that creates balance among owners and managers and results in reduction of agency problem. As a result, managers will opt standard policies and practices for firm.

Numerous research defined corporate governance in different ways. Gompers, Ishii, and Metrick (2003) defined that it is associated with the practices that streamline the interest of owners and managers by ensuring that firm is managed in the best interests of stockholders. Moreover, association of internal governance practices of firms and extent of corporate responsibility concept of the society considered as corporate governance (Council, 2007). Achchuthan and Rajendran (2013) stated that better CG practices significantly affect the economy by attracting investors, reducing risk for investors, and enhancing performance of business.

According to Mulili and Wong (2011), the underlying concepts of corporate governance are agency theory and proprietorship theory. The assumption of agency theory is that the function of management is to enhance the wealth of shareholders of the firm to maximum level (Ujunwa, 2012). Agency theory has the basic concept of examining and resolving the divergence of interest that occurs between the owners and the agents or mangers (Mulili & Wong, 2011; (Fitri et al., 2019). The conflict originates from the difference of control from ownership in which the owners or shareholders perceive that the manager's actions are based on self-interest (Achchuthan & Rajendran, 2013; Ujunwa, 2012). This implies that agency theory is applicable in public listed companies rather than the SMEs where the owners retain both control and management (Amaeshi et al., 2016). Duality leadership is most common in SMEs where both ownership and control remain with the owners or their family members. Most SMEs are family owned where the founder is Chief Executive Officer (CEO) and has keen interest in business sustainability to safeguard their legacy for the benefit of future generations (Amran, 2011).

Similarly, in SMEs, the owners and their family members or close associates constitute the board of directors. Thus, CG can be instituted in the SMEs to ensure a check-and-balance in the process of managing the enterprises in the best interest of all stakeholders, despite the absence of agency theory. Mulili and Wong (2011), suggest that according to stewardship theory, "organisations serve a broader social purpose than just maximising the wealth of the shareholders". Another name for the concept of stewardship is stakeholder theory which suggests that organizations are social setups that have impact on the welfare of many investors (Achchuthan & Rajendran, 2013). The stakeholders are either a group or individuals that interact with the companies and are influenced with the attainment of the business's objectives (Mulili & Wong, 2011). Achchuthan and Rajendran (2013) argued that where executives and CEO are working as stewards, they are highly motivated for the welfare of the firm rather than their own welfare because they view the firm as an extension of themselves. This implies that the top management tends to give much attention to the sustainable achievement of the firm compared to the success of shareholders (Mulili & Wong, 2011). The stewardship theory is most applicable in listed companies where management assumes the responsibility of serving all stakeholders rather than just maximising the stockholder wealth as in the case of SMEs.

In practice, compliance with codes of corporate governance traditionally lies with public listed companies in many countries of the world. The firms with small and medium size are not obliged to comply with the codes due to absence of agency problem and less noticeable separation of owners and managers (Abor & Biekpe, 2007). Furthermore, SMEs work with less employees and they are mostly related to the owners and so the financing of the business is mostly dependent on the owner's personal resources, hence not requiring public accountability (Abor & Biekpe, 2007).

However, in the past few years, there has been a growing concern globally for the implication of the elements of corporate governance in SMEs (Abor & Biekpe, 2007). The main concern of corporate governance is to ensure protection of investors and corporate efficiency, transparency and accountability, in addition to mitigating arising conflicts. To pursue these objectives, many corporate governance mechanisms are designed to monitor the activities of the managers and to moderate the deviation of benefits between stockholders and controllers (Lecomte & Ooi, 2013).

Moreover, Dahya and McConnell (2007) state that a mutual purpose of several theories of CG is to establish an association between the diverse features of BODs and firm performance. The board efficacy may differ according to the board size (BS), board independence (BI) or even CEO duality. Agency theory proposed that boards ought to be dominated by outside the firm directors to augment the independence of the board from the management (Fitri et al., 2019). Researchers have noted the importance of BI for improving the value of the firm (Song et al., 2017). In addition to this, Arayssi, Dah, and Jizi (2016) recommend increasing gender diversity on the board because the presence of women on boards improves the quality of environmental, social and governance (ESG) disclosures and thus increases the firm’s value. However, Herrera-Cano and Gonzalez-Perez (2019) argued that the board members and executives must be characterized by unique skills which they continue to develop because these specific skills will always be matched with the potential desires of the corporation.

When it comes to BS, some researchers believe that a larger BS will include beneficial diversity because different intellectuals will be brought to the board and this will enhance the quality of the board decisions made (Horak & Cui, 2017). On the other hand, Fidanoski, Simeonovski, and Mateska (2014) believed that smaller BS is better to avoid conflicts in coordination. Allegrini and Greco (2013) claim that larger BS significantly increases corporate voluntary disclosure. According to Khlif and Souissi (2010), disclosure of information is necessary for CG because it shows the power that a manager has in decision making as well as how this power is allocated among the shareholders and the manager. Nevertheless, the results of Tobin’s Q model were significant with ownership of largest three shareholders dimension including size of BOD (Buallay et al., 2017).

Moreover, the main matters of ownership are the distribution of the equity and the shares held by various members such as the BOD, top management and the CEO (Gordini & Rancati, 2017). When the ownership structure is highly diffused, there is no mechanism for any owner to closely monitor the management. This situation is unlikely to happen, as this person would bear all the costs of monitoring while the remaining shareholders would enjoy the benefits. Hence, having strategic shareholders may avoid agency problems (Shyu, 2013). Lappalainen and Niskanen (2012) found that having major investors of 5-25 per cent ownership causes negative effects for US firms. Ownership concentration may be an internal governance tool that will reduce managerial speculation as managers and BOD are probably considerate of the interests of shareholders having larger number of shares.

Zeitun and Saleh (2015) concluded that companies operating in countries with well-structured and advanced financial systems, powerful legal systems and efficacious regulation, achieve high financial leverage. Therefore, this shows that the level of leverage depends on the level of trust and stability provided in the countries of operation. Particularly, having strong connections with bank administrators, regardless of the financial viability of loans, will raise the leverage's average particularly during corruption periods in developing countries (Al-Ghamdi & Rhodes, 2015). Next to the leverage variable, firm's size has its significant effects on the profitability level of the firm (Buallay et al., 2017). For example, a holding company surely has larger finance than any smaller firms, because it has access to more financing sources, either by taking loans from banks or selling shares to stockholders. ESG disclosures became a crucial aspect considering the future of all businesses (Allegrini & Greco, 2013). Jizi (2017) recommend continuous development of ESG disclosures in terms of quality and frequency, because this will boost the firms' level of transparency and accountability toward their stakeholders and communities. In addition, the workforce score was found to be affected by a motivating environment in the workplace which inspired employees to increase productivity, profitability and reliance on managers. The relationship between CG and performance may not be direct as some variables may moderate the association. When corruption is acceptable, the concentration moves to corrupt officials who accept bribery. However, Haque (2015) argues that CG is a vital feature which determines the corruption level. In addition, corruption results in greater inequality that generates lower levels of trust (Rothstein & Uslaner, 2005).

Prior studies regarding corporate governance examined the structure and efficiency of different corporate governance mechanisms and organizational performance with regard to, ownership concentration, board size and composition, ownership structure, CEO duality and audit committee. The findings of most of the studies indicate that board and ownership structure are major determinants of performance in a firm (Afande et al., 2015; Lappalainen & Niskanen, 2012). More specifically, Abor and Biekpe (2007) found significantly positive influence of board size, board structure, managerial skills level, CEO duality, internal ownership, family ownership and external ownership on SMEs‟ profitability. Similarly, Afrifa and Tauringana (2015) reported a prominent association of corporate governance mechanisms (board size, CEOs age and tenure, and directors remuneration) with business performance. Therefore, it is concluded that corporate governance considerably influences performance of SMEs by infusing good governance practices.

Data sources

This study collected its sample from Indonesia by considering various classes of SMEs. This study was longitudinal in nature and secondary sources of data are used for corporate governance and the profitability of Indonesian SMEs. The research aims to test the association of corporate governance mechanisms and SMEs' profitability. The study covers all 40 SMEs within a period of seven years, 2011 – 2017. The data for this study is obtained from the annual reports of the SMEs prepared in accordance with Statement of Accounting Standard (SAS).

Description and measurement of variables

This part of the study describes the data type, performance variables for corporate governance mechanism and variables affecting performance.

Profitability

Profitability, dependent variable of the study, defined as the profitability of the Indonesian SMEs included in sample. Profitability employed in this study is based on return on assets (ROA) as computed in the Thomson Reuters database (Narwal & Jindal, 2015). ROA are used by many scholars as a degree of company's profitability including Said et al. (2008) and Al-Mwalla (2012). ROA is adopted in this study as a proxy for profitability because it indicates the efficiency of the management and shows how owners/managers utilise the firm's assets to generate earnings. ROA is considered as profits before interest and tax to total assets.

Family Ownership

Family-owned firms are those where more two or more than two family members are associated with that particular business and major part of the ownership is controlled by family members. According to Setiawan et al. (2016), a family owned firm is managed by an individual and later on it will be inherited and managed by the children of the owner upon the retirement or death of owner. Family ownership variable is measured based on percentage of ownership of the firm, usually above 50% by family or family group. However, due to lack of available data on ownership in this study, firms are considered as family-owned when they have two or more shareholders having the same surname and at least one family shareholder is also a director (Abor & Biekpe, 2007). The ownership is determined from the corporate information in the annual report of the firm.

Board Size

As far as the board size is concerned, literature shows a questionable relation of board size with firms' performance. Generally, it is perceived that large board size is more effective for performance of the firms because of extra knowledge of making better choices and difficult for CEOs to control. One group of researchers claimed that larger board size is not much efficient in decision making and firm has to bear high managerial expenses, weak governance practices, and will be easy for CEO to control. Researchers having the view that larger board size proposed to be unsuccessful in decisions and firm will have to face extra managerial cost (Al-Manaseer et al., 2012; Pathan et al., 2007). In contrary, other researchers determined that where firms have large board size, they will have more diversity in the form of education, background, experience and resources (Haniffa & Hudaib, 2006). Furthermore, they will have effective monitoring, (Adams & Mehran, 2012; Fattouh et al., 2008), shareholders protection (Ali, 2018), and better relations with external firms (Belkhir, 2009). For the measurement of Board Size, we are considering total number of directors included in the board. (Gill et al., 2011) defined Board size as the number of total directors included in the board of a certain firm.

Gender Diversity

Resource-dependence theory explained the firm in the context of external capability of the firm for attraction, utilization, and generation of resources (Kılıç & Kuzey, 2016). A Board of directors are a major part of assets because they carry more diversity in the form of education, background, experience, contacts and professionalism (Usman et al., 2019). In previous studies, women and subgroups are not considered so keenly in the literature of corporate governance. Since 1990s, some researchers considered the unnoticed area with the increased number of female directors serving in the firms (Farrell & Hersch, 2005). Advocates of gender diversity argue that women have more ability to bring innovative ideas for business and have better communication skills that are necessary for board meetings (Abbott et al., 2012; Adams & Mehran, 2012). In contrast, Shrader et al. (1997) analysed 200 American highly capitalized businesses during the period from 1992-1993 and found insignificant association of women directors and economic performance. Female representation on boards is one of the attributes of board diversity andis defined as the quantity of women serving in the board during the period of study. The variable is measured as a proportion of women directors to the total number of board members (Lückerath-Rovers, 2013).

Control Variables

Besides the dependent and the independent variables shown in the research model, few control variables are incorporated into the study that are likely to interrupt the association of corporate governance with SMEs profitability. Therefore, control variables are included in the study for controlling their influence on the relationship of SMEs profitability with corporate governance. For example, size of a firm can influence the relationship of corporate governance and profitability of the firm because firm size can be a determinant of business profitability. This study adopts the few control variables as utilised in the studies of García-Teruel and Martinez-Solano (2007) and Baños-Caballero et al. (2012).

Firm Size

Firm size is evaluated by taking the natural log of total assets. According to Njeru et al. (2012), firm size considered one of the significant determinants of SMEs growth and profitability. This is because small firms face more difficulty to cover informational irregularities with creditors and other providers of the capital compared to large firms that relegate the former to the use of internally generated funds for growth and to increase profitability (Sup Cho, 2016). Hence, SMEs should focus on optimising their size in order to maximise their potential to increase firm's value and enhance profitability.

Sales Growth

A firm's sales growth could also influence its working capital management by affecting its trade credit (granted and received) and its level of investment in inventories (Baños-Caballero et al., 2012). An empirical study by Kieschnick et al. (2006) has documented that forecasted sales increase has positive impact on firm's working capital and concludes that a firm can build up investment in inventories when expecting a boost on the future sales. However, high growth opportunities might result in the use of extra trade credit as a financing source of growth and granting additional credit to customers with the purpose of increasing sales in the period of low demand. Hence, sales growth may have an influence on the relationship of working capital and firm's profitability.

Leverage

Leverage is the extent to which a firm is financed by debt. A firm can choose to finance its investment operations through debt financing but this has some implications as pointed out by Magpayo (2011). First, when using debt financing, shareholders control the firm with limited investment. Secondly, creditors usually examine the equity financing to provide a margin of safety. If the proportion of the shareholders financing is small, it means the risk of the business is mainly tolerated by the creditors. Further, if the firm earns more from investment financed by the debts, then it pays high interest premium. Hence, the firm's fund requirement should be generated through operations internally. On this basis, control is applied on the variable, leverage. Leverage is represented by "LEVERAGE" and measured by the proportion of total debts to total assets. Prior studies on the association between leverage and profitability of the firm reported a negative relationship. As a firm's financial debt increases, there will be a decrease in the firm's operating profit.

Empirical methodology

This study examines the relationship of SME corporate governance mechanisms on their performance in the Indonesian context. The researcher used a panel data model to examine the relationship because of the advantages of this model which allow for more observations and the capacity for time series data capture as well as cross sectional characteristics. The data of 50 SMEs for the period of 2013 to 2017 was used for the examination of influence of intrinsic corporate governance on the profitability of SMEs in Indonesia. The fixed and random effects model was used in this study.

Model Estimation and Specification

The paper intended to investigate the impact of intrinsic corporate governance on the profitability of SMEs in Indonesia. Hence, the basic specification of the model as follows:

$ROA_{i,t} = \beta0 + \beta1\ (FO)_{i,t} + \beta2\ (BS)_{i,t} + \beta3(GD)_{i,t} + \beta4\ (\text{Control Variables})_{i,t} + \varepsilon_{i,t}$

Where;

ROA: Return on Assets

FO: Family Ownership

BS: Board Size

GD: Gender Diversity

$\beta0$: Common intercept

ε_{it}: Stochastic error term of firm i at time t

Results and Discussions

Descriptive Analysis

Table 1 below tabulates the descriptive statistics for all the variables of the study presenting the mean, standard deviation, minimum and maximum values. Calculations are based on balance sheet/book value and income statement value for three control variables: firm size, sales growth and leverage. The three corporate governance mechanisms; family ownership, board size and women on board are obtained from the corporate information. Similarly, the measure of profitability is calculated based on the income statement value. The measure of the SMEs profitability is ROA.

Table 1: Descriptive Statistics Results *(n=50: t = 5)*

Variables	Mean	Std. Deviation	MAX	MIN
ROA	0.249	0.128	0.011	0.950
FO	0.770	0.420	0.000	1.000
BS	3.675	1.251	2.000	11.00
GD	2.700	2.837	0.000	0.750
FS	15.461	1.215	12.916	23.253
SG	0.392	1.485	-1.000	35.010
Lev	0.110	0.197	-0.100	6.160

FO is Family Ownership; BS is Board Size; GD is Gender Diversity; FS is Firm Size; SG is Sales Growth and Lev is Leverage

Table 2: Correlation Coefficient Matrix

	ROA	FO	BS	GD	FS	SG	Lev
ROA	1						
FO	-0.195**	1					
BS	0.036*	0.053**	1				
GD	0.050**	0.093**	0.246**	1			
FS	-0.074**	0.313**	0.141**	-0.029*	1		
SG	0.093**	0.002*	0.186**	0.056**	0.043*	1	
Lev	0.122**	0.037*	0.137**	0.225**	0.500**	-0.015*	1

** Significant at 1% level and * Significant at 5% level (1-tailed).

Table 2 above presents the results of correlation analysis. The result shows mixed correlation between the variables (positive and negative correlation). The correlation findings show that ROA has significant positive correlation with board size, gender diversity, sales growth and leverage but negatively correlated with family ownership and firm size.

Regression analysis

Table 3: Random Effect Model Estimates

Dependent Variable: ROA
Method: Panel Regression (Cross-section random effects)
Sample: 2013-2017
Periods included: 5
Cross-sections included: 50
Total panel (balanced) observations: 250

Variable	Coefficient	Std. Error	t-Statistic	Prob.
FO	-0.0247	0.0064	-3.710	0.000**
BS	0.0812	0.0361	0.0036	0.024*
GD	0.9369	0.2600	3.600	0.000**
FS	-0.2283	0.0384	-5.930	0.000**
SG	0.0290	0.0035	8.380	0.000**
Lev	0.0649	0.0210	3.090	0.000**
Adjusted R-squared	0.5196			
F-statistics	10.650			
Prob.(F-Stat)	0.000			
Hausman Test	**Chi-Sq.**		**Prob.**	
	4.23		0.28	

** Significant at 1%, * significant at 5% and

The study findings show that family ownership is negatively associated with Indonesian profitability with a β of -0.0247, which means family-owned SMEs are associated with a decrease in a firm's profitability. The negative association between profit and family ownership is contrary to findings by most previous scholars, Abor and Biekpe (2007), Aguiló and Aguiló (2012) and Wilson et al. (2013). Moreover, a strong positive relationship is found between board size and ROA which implies that Indonesian SMEs with large boards report higher profits than those with small boards. The finding is consistent with Abor and Biekpe (2007), Saibaba and Ansari (2012) and Mollah et al. (2012). Similarly, a significantly positive association is reported between GENDER and ROA which signifies that SMEs with women on their boards are associated with increase in profitability.

Conclusion

Based on the research findings, this study concluded that family ownership negatively influences the profitability of Indonesian SMEs. Furthermore, a significantly positive impact is exhibited by both women on boards and board size, on profitability of SMEs. With respect to control variables, sales growth and leverage are found to have a significantly positive impact on the profitability of SMEs. However, firm size exhibits a significantly negative impact on both the ROA. Overall, it is expected that this study will contribute theoretically and practically to the improvement of SME performance and the contribution of the sector to the Indonesian economy at large. The study would contribute to the body of knowledge in the field of corporate governance, particularly with respect to improving SME performance. Further, the study also shows that board size and gender diversity are important factors in corporate governance with respect to Indonesian SMEs. Inclusion of Indonesian SMEs into the proposed Unified Corporate Governance Code will positively lead to improvement of this sector's corporate governance practices. Finally, it is hoped that this study will serve as a base for in-depth studies in the future related to corporate governance in Indonesia.

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