

THE RELATIONSHIP OF DEMOGRAPHIC AND CHARACTERISTIC OF DIRECTORS ON ACCOUNTING AND MARKET PERFORMANCE

- ^{1.} *Mudasetia, Department of Accountancy, STIE WidyaWiwaha, Yogyakarta, Indonesia. Hadri Kusuma, Department of Accountancy, Universitas Islam Indonesia. Zaenal Arifin, Department of Management, Universitas Islam Indonesia.*
- ^{2.} *Muhammad Fakhri Husein, Department of Shariah Economics, Universitas Islam Negeri SunanKalijaga, Yogyakarta, Indonesia*

ABSTRACT : This study aims to examine the relationship of demographic diversity of directors and characteristics of directors on accounting performance and market performance in the Indonesian Stock Exchange (IDX). Data were collected by purposive sampling of 90 manufacturing companies listed on the IDX during 2012-2016. Data were analyzed statistically by using smartPLS application. Findings of this study indicate that the age of directors has positive effect on accounting performance and market performance, size of the board of directors has a positive effect on accounting performance, gender has a positive effect on market performance, number of directors and foreign directors has positive effect on market performance.

INDEX TERMS: demographic diversity, characteristics of directors, accounting performance, market performance

I. INTRODUCTION

Studies related to demographic diversity of directors and characteristics of directors towards performance were considered as interesting by researchers. The study of demographic diversity of directors, characteristics of directors that related to performance has been carried out [1], [2]. Similar studies found in western countries [3], [4] but only a few empirical studies discuss it in developing countries [5]–[8]. It is recommended for doing more researches on the relationship amongs gender of directors and the company's reputation [9]. Foreign directors also carry a variety of opinions and perspectives in terms of language, religion, family, education and professional experience [6]. Nationality from various countries can increase innovation will have an impact on company's performance [10]. Capability, partnership, and information sharing do not have a significant effect on performance, but must be mediated by conflict resolution in order to have a positive and significant impact. This finding implies that managers should pay more attention to conflict resolution [11]. Data were collected use questionnaire and analyzed use PLS. Results of the study are relationships between partnership and performance is not significant but partnership to performance have to be fully mediated by capability. While capability to performance is positive and significant [12]. Distributive justice has a positive effect on job satisfaction. Procedural justice and interactional justice have no effect on job satisfaction. Job satisfaction has a positive effect on work performance. This research implies that managers should pay more attention to distributive justice to increase job satisfaction and work performance [13]. Misbehavior in organization consisted of intrapersonal, interpersonal, production, and political misbehavior. All of them had influence on losses, both on financial and social. It will be necessary to intervene into both sides. Based on case study, data was collected by interviewing 20 staff at a service company in Indonesia and analyzed use QDA, followed the step of data reduction, data display and data verification. Findings are described into 1 theme is production misbehavior [5].

Managing conflicts was still need to be explored in term of causes, processes and results. The case study was conducted in qualitative approach to obtain the holistic and meaning of organizational and managerial process. Data were collected use interview to 3 managers and analyzed for data reduction, data display and data verification. Findings are classified into 3 themes, causes of conflicts, processes of managing conflicts, and results of conflicts [14]. The service management was studied use case study method by collecting interview to 4 managers that were represented for 4 service companies. Data were analyzed using QDA for data reduction, data display and data verification. Findings were classified into 3 themes are partnership, capabilities and performance [15] This study intends to verify the role of directors in the company in charge and collegially responsible in managing the company. Each member of the board of directors can implement and make decisions

according to the division of duties and authority. However, the performance of duties that conducted by each member of the board of directors remains a shared responsibility. The position of each member of the board including the president director has an equal position over others. In carrying out the functions, it is mainly influenced by the demographic diversity of directors, characteristics of directors and company's performance. How are the relationship between demographic diversity of directors and characteristics of directors towards accounting performance and market performance in Indonesia. How the demographics diversity of directors and the characteristics of directors influence the accounting performance and market performance?

II. LITERATURE REVIEW

Gender of directors is related to accounting performance and market performance. Female leaders score higher than men in various leadership dimensions [16]. Female gender will improve company performance [17]. Women gender has a significant positive effect on company's performance [18]. Representation of women gender in companies on organizational performance has major implications in the future career development of women [3]. Women's repetition in top management can enrich information and social diversity that provide management with benefits, enriches management behavior and motivates women in middle management [19]. H1: Gender of directors has a positive effect on accounting performance. And H2: Gender of directors has a positive effect on market performance. Age of directors is related to accounting performance and market performance. Young managers are more likely to take risky strategies, and companies with young managers will experience higher growth if compared to companies with older managers [20]. This is understandable because older managers tend to avoid risk [21] and may reach a point in life where financial security and career security are very important [20], while young managers tend to have a higher ability to processing new ideas, lower willingness to accept the status quo, and less interest in career stability. H3: The age of directors has a positive effect on accounting performance. And H4: The age of directors has a positive effect on market performance. Ethnic of directors is related to accounting and market performance. The diversity of citizenship and culture within directors allows the emergence of cross-cultural communication problems and interpersonal conflict [22]. On the other hand, the ethnic presence in the team is expected to provide a competitive advantage for companies, namely in the form of an international network, commitment to the rights of shareholders, and avoid managerial strengthening [4]. H5: Ethnic of directors has a positive effect on accounting performance. And H6: Ethnic of directors has a positive effect on market performance.

Tenure of directors related to accounting and market performance. Average tenure of board members has a significant positive effect on ROA while on PBV is concluded as positive but insignificant [23]. Linear regression period for board members has a significant positive effect on ROA, but the negative effect is insignificant for Tobin Q [24]. Similarly, a significant positive effect on ROA and ROE, but board members who have long and new tenure have a balanced position in its relation to the level of company performance. Because the bias is still a positive or negative influence in term of office of a board member with the company's performance. H7: A longer term of directors has a positive effect on accounting performance. And H8: A longer term of directors has a positive effect on market performance. Size or number of directors related to accounting performance and market performance. The relationship between corporate governance and company performance shows that board size significantly influences performance in relation to company EPS and ROE [25]. The large size of directors can improve company's performance because more board members could increase quality and frequency of supervision of management activities and these results reduce managerial miscommunications and improve company's performance [26]. The firm size is positively related to Tobin's Q and ROA [2] and [3]. The firm size is positively related to ROA but negatively related to Tobin's Q [27]. We predict that firm size has a positive relationship with financial performance. H9: The number of directors has a positive effect on accounting performance. And H10: The number of directors has a positive effect on market performance.

Foreign Directors is related to accounting performance and market performance. Research in developing countries regarding the relationship between heterogeneity of board members / foreign management and financial performance is very rare, so far most have only come from developed countries [8]. Research by [28] also show the positive impact of the presence of foreign board members on the financial performance of Korean companies. The advantage of foreign director in a company is to produce competitive advantage and international relations [4]. H11: Foreign directors has a positive effect on accounting performance. And H12: Foreign directors has a positive effect on market performance.

III. METHODS

This research used a quantitative approach. The population of this study is companies that classified into manufacturing industry and were listed on the Indonesia Stock Exchange (IDX). Purposive sampling deployed to obtain a representative sample in accordance with specified criteria. Company's annual report 2012-2016 can be accessed through IDX's official website as well as the company's website and Indonesian Capital Market Directory (ICMD). The relationship amongs variables developed use smartPLS[29].

The measurement of research variables in detailed in table 1 as follows.

Table 1. Measurement of Variables

Variables	Measurement	Reference
Gender	Proportion of women in the board of directors	Miller & Triana (2009); Carter <i>et al.</i> (2007); Darmadi (2011); Bohren & Strom
Age	Averages of Age	Bilimoria & Piderit (1994); Bonn, et al. (2004); Ararat, et al. (2010).
Etnik	Dummy Variable Chinese or not	Carter (2003); Kusumastuti et al. (2007).
Tenure	Average length of works	Bilimoria & Piderit (1994)
Size	Total Directors	Carter et al. (2003); Goodstrein et al. (1994); Dalton et al. (1999).
Foreign	Dummy Variable. Foreign Director or Not	Randoy et al. (2006).
Accounting Performance	Return on Equity	Brigham & Ehrhardt 2010); Rose dkk (2013),
Market Performance	$Tobin's Q = \frac{MVE + DEBT}{TA}$	Klapper & Love (2002); Black, et.al. (2003); Darmawati, et al. (2005).
Leverage	Debt to Equity Ratio (DER)	Ararat et al. (2010).

IV. RESULTS AND DISCUSSION

Descriptive statistics were obtained for the dependent and independent variables. Based on Table 2 Numerical Variables and Table 3 Categorical Variables, all related descriptive statistics can be seen for each variable.

Table 2. Numerical Variables

Variables	Mean	SD	Min	Max	Median
Gender	0.14	0.17	0	0.67	0
Age	51.44	5.93	28.33	72	51.48
Tenure	9.24	6.04	1	30.67	7.67
Size	4.96	2.11	2	14	5
Leverage	0.51	0.47	0	5.06	0.5
ROE	10.27	13.87	-78.43	90.84	8.91
Tobin's Q	2.61	9.63	0.06	121.76	0.99

Table 3. Categorical Variables

Information	Ethnicity of Directors		Foreign Directors	
	Freq	%	Freq	%
There is (1)	170	38%	181	40%
none (0)	280	62%	269	60%
Total	450	100%	450	100%

The measure of goodness of a model can be seen from the R-square that indicates how much the variation of the dependent variable can be explained by the independent variable. R-squared results for Accounting Performance (ROE) is 0.030 which means that 3.00 percent of the variation of the Accounting Performance variable can be explained by the model and R-squared for Market Performance (Tobin's Q) valued as 0.091 which means that 9.10 percent of the variation of the Market Performance variable can be explained by the model. The result of the Goodness of Fit calculation was 0.2284. The greater the value of GoF, the better the model.

<p>Regression Equation for Accounting Performance (ROE): $ROE = -0.44 \text{ Gender} + 0.116 \text{ Age} - 0.008 \text{ Ethnic} - 0.079 \text{ Tenure} + 0.073 \text{ Size} - 0.063 \text{ Foreign}$.</p> <p>Regression Equation for Market Performance (Tobin's Q): $TOBIN's Q = -0.076 \text{ Gender} + 0.093 \text{ Age} - 0.054 \text{ Ethnic} - 0.062 \text{ Tenure} + 0.078 \text{ Size} + 0.091 \text{ Foreign} - 0.032 \text{ Leverage} + 0.157 \text{ ROE}$.</p>

Table 4 Inner Model Evaluation described the relationship between variables and its significance value.
 Table 4. Inner Model Evaluation

Hypothesis	Relationship	Coef	P	Decision
1	Gender to Accounting Performance	-0.043977	0.046*	Not Supported
2	Gender to Market Performance	0.076357	0.001***	Supported
3	Age to Accounting Performance	0.111552	0.000***	Supported
4	Age to Market Performance	0.093306	0.000***	Supported
5	Ethnicity to Accounting Performance	-0.00768	0.315	Not Supported
6	Ethnicity to Market Performance	-0.054114	0.045**	Not Supported
7	Tenure to Accounting Performance	-0.079373	0.003***	Not Supported
8	Tenure to Market Performance	-0.061661	0.001***	Not Supported
9	Size to Accounting Performance	0.072553	0.006***	Supported
10	Size to Market Performance	0.077605	0.000***	Supported
11	Foreign to Accounting Performance	-0.062677	0.027**	Not Supported
12	Foreign to Market Performance	0.090628	0.000***	Supported

Hypothesis testing 1. Gender directors negatively affect accounting performance. The most companies in Indonesia are owned by families so that it has the potential to elect women members of the board of directors

based on family relations [8]. Gender variables can increase or inhibit strategic change, depending on company performance and the strength of female directors [30]. The presence of women and the proportion of women in the board of directors has a negative influence on company performance [8]. Hypothesis testing 2. Gender directors positively affect market performance. This result support [30] that stated women directors impacted market performance. Female directors have a significant positive effect on company performance [18]. Female directors have major implications in future career development [3] and [19].

Gender of directors negatively affect accounting performance. Most companies in Indonesia are owned by families so that the potential to elect women board members is based on family relations. This results in suboptimal women in the board members because they are not capable and able to lead the company. But gender directors have a positive effect on market performance. These results show the representation of women in top management can enrich information and social diversity that benefits management, enrich management behavior and motivate women directors. Hypothesis testing 3. The age of directors has a positive effect on accounting performance. Based on data from Turkish companies [6] found that age has a significant effect on ROE, but not Tobin's Q. Older board chairmen had a significant impact on several performance measures, namely ROA, cumulative returns, and abnormal returns. Older executives tend to have rich experiences and practices, which accumulates into various skill-based competencies [31].

Hypothesis testing 4. The age of directors has a positive effect on market performance. It was found a positive relationship between age heterogeneity and market performance [32]. Young directors were superior in improving market performance [8]. Young board members are more likely to carry out risky strategies [20], in contrast to older board members who tend to refuse. Age of the directors has a positive effect on both accounting performance and market performance. The more you age, the wiser you are. When viewed from a person's adult stage that is associated with performance, then someone who is in the middle adulthood group (middle) is a time when people achieve and maintain satisfaction in their careers, they tend to focus on work rather than moving from one company to another. This shows that age can affect a person's performance in the company which can then affect the value of the company.

Hypothesis testing 5. Ethnic has no effect on accounting performance. It shows that ethnic directors of Chinese descent do not affect accounting performance. Hypothesis testing 6. Ethnic has no effect on market performance. It shows that although the existence of ethnic directors of Chinese descent has increased, it does not affect market performance. So that the existence of directors of Chinese descent and non-Chinese descent makes no difference in improving market performance. This evidence is consistent with the results of [32] did not find a significant relationship. These results are contradicted with previous [4] showing Tobin's Q is significantly higher for companies that have Anglo-American citizens on its board. Ethnic of directors has no effect on accounting performance. The existence of Chinese and non-Chinese directors makes no difference in improving accounting performance. While on market performance has a negative effect. Companies in Indonesia have characteristics that are not different from companies in Asia in general, namely family owned or controlled companies.

Hypothesis testing 7. Tenure or the length of service of directors has a negative effect on accounting performance. A long term of service for a board member can provide greater experience, competence and commitment to a director, because with a long tenure, directors have more knowledge about the company and the business environment [33]. However, in general, directors with long tenure can maintain the status quo regarding organizational practices and policies to match the expectations of company leaders, and have loyalty to company executives. This study also identifies that investors in investing their capital into the company pay attention to the length or absence of the company's directors' tenure. Hypothesis testing 8. Tenure or the length of service of directors has a negative effect on market performance. When a leader achieves success in a company, they tend to maintain ways to achieve that success [20]. The average tenure of board members had a significant positive effect on ROA, while the PBV is positive but not significant [23].

Tenure of directors has a negative effect on accounting performance and market performance. this identifies that investors in investing their capital that do not consider on working periods that are getting longer, because it can actually reduce market performance. Leaders who achieve success in a company, they tend to maintain ways to achieve success. In Indonesia, the policy regarding the maximumtenure, in terms of office period of a commissioner and board of directors does not yet have a yearly limit.

Hypothesis testing 9. Effect of directors' size on accounting performance. Evidently the size of the directors has a positive effect on accounting performance, gaining significant empirical support. The test results proved the number of directors has a positive effect on accounting performance. So, this hypothesis is supported by strong empirical evidence. The large size of directors can improve accounting performance because more board members increase the quality and frequency of oversight on management activities [25] and [26]. Hypothesis testing 10. Effect of directors' size on market performance. Evidently the size of the directors has a positive effect on market performance, gaining significant empirical support. The test results prove that the number of directors had a positive effect on market performance. So this hypothesis is supported by strong empirical evidence. This means that large directors can improve market performance because more board members increase the quality and frequency of oversight of management activities [34].

Size or numbers of directors has a positive effect and foreign directors have a direct negative effect on accounting performance. While the number of directors and foreign directors has a positive effect towards market performance. Hypothesis testing 11. Foreign directors have a no effect on accounting performance. Foreign directors negatively affect accounting performance. The results of the study are in line with [8]. The role of foreign directors in the company cannot show the characteristics of foreign board members who can bring different experiences, opinions and diverse perspectives to the company to be able to obtain or access company resources in an effort to improve company performance. Hypothesis testing 12. Foreign directors have a positive effect on accounting performance. Results according to [6] found a negative relationship between nationality of board members and Tobin Q in and a negative relationship between ROA and nationality of board members. Foreign directors have no effect on accounting performance. This shows that domestic and foreign directors have capabilities that are not much different, so it is concluded that local workers are able to compete with foreign workers. diversity of citizens and culture in the board of directors allows for problems arising between intercultural communication and conflicts between individuals, which in turn will affect the performance of a company.

V. CONCLUSION

Gender of directors has a negative effect on accounting performance, age of directors has a positive effect on accounting performance, ethnic of directors has no effect on accounting performance and tenure has a negative effect on accounting performance. While Gender and age of directors have a positive effect on the market performance. Theoretical Implication. These results are in accordance with the study of [32] that did not find a significant relationship. These results are contradicted to [4], [28], and [6]. The size of directors has a positive effect on accounting performance and market performance, but foreign directors negatively affect accounting performance. While foreign directors negatively affect accounting. But foreign directors have a positive effect on the market. Thus the size of the directors gain significant empirical support. Practical Implication. The influence of demographic diversity of directors and characteristics of directors in particular, the composition of the board of directors can serve as a signal to investors about the robustness of existing governance mechanisms and the quality of the company. Companies that will increasingly face the impact of diversity on the board when looking for the right directors. The selection process often includes consideration of diversity in functional backgrounds and work experience. This study shows that there may also be strategic business reasons for considering gender, demographic diversity and foreign board decisions. Suggestion for future business research. Future studies can be reviewed into relation to other variables that might have a more significant effect such as education of directors and functional background of directors. Longer period of observation and additional data or other sources could also be considered for future research.

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