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Commissioner board characteristics, ownership concentration, and corporate performance

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Abstract

This study analyzes the effect of board characteristics as a corporate governance mechanism on corporate performance with ownership concentration as a moderating variable. We conduct this study because there are still rarely studies that examine the effect of board characteristics on corporate performance by adding ownership concentration as a moderating variable. This study uses a sample of manufacturing companies listed on the Indonesia Stock Exchange (IDX) for the 2013-2017 period with 350 observations. In this study, the characteristics of the board are proxied by the proportion of independent commissioners and the board commissioners' size. Corporate performance is proxied by return on assets (ROA). By using multiple linear regression analysis, we found that the proportion of independent commissioners and the board commissioners' size have a significant positive effect on ROA. Other results of this study indicate that the concentration of ownership significantly weakens the positive effect of the proportion of independent commissioners and the board commissioners' size on corporate performance.

Abstrak

Penelitian ini menganalisis pengaruh karakteristik dewan terhadap kinerja perusahaan dengan konsentrasi kepemilikan sebagai variabel moderasi. Kami melakukan penelitian ini karena masih sangat jarang penelitian yang mengkaji tentang pengaruh karakteristik dewan terhadap kinerja perusahaan dengan menambahkan variabel konsentrasi kepemilikan sebagai variabel moderasi. Penelitian ini menggunakan sampel perusahaan manufaktur di Indonesia untuk periode 2013-2017 dengan 350 pengamatan. Dalam penelitian ini, karakteristik dewan diproksi dengan proporsi komisaris independen dan ukuran dewan komisaris. Kinerja perusahaan diproksi dengan return on assets (ROA). Dengan menggunakan analisis regresi linear berganda, kami menemukan bahwa proporsi komisaris independen dan ukuran dewan komisaris mempunyai pengaruh positif signifikan terhadap kinerja perusahaan. Hasil lain dari penelitian ini menunjukkan bahwa konsentrasi kepemilikan secara signifikan memperlemah pengaruh positif proporsi komisaris independen dan ukuran dewan komisaris terhadap kinerja perusahaan.

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1. Introduction

The issue of corporate governance in Indonesia has been a concern since the economic crisis that struck Indonesia in 1998. As one of the implementations of IMF Letter of Intent, the government formed the National Committee on Corporate Governance Policy (KNKCG) in 1999 through Decree of the Coordinating Minister for the Economy Number: KEP/31 /M.EKUIIN/08/1999. KNKCG has the vision to encourage and improve the effectiveness of the application of good governance in Indonesia to build a culture that has good governance in both the public and corporate sectors.

(<http://www.knkg-indonesia.org>).

Corporate governance is considered a system of checks and balances to reduce abuse by executives and reduce conflicts of interest between management and owners (Thi et al., 2017). Indonesia adopted a two-tier board system consisting of a board of directors that ran business operations and a board of commissioners as supervisors of the company (Amran, 2017). In this system, agency conflict is handled by the board of commissioners by using its supervisory function as an important element in corporate governance (Lefort & Urzúa, 2008). Singh, Tabassum, Darwish, & Batsakis (2017) state that more boards of commissioners would improve accuracy and increase the effectiveness of supervision to the board of directors. A large board of commissioners also provides various suggestions and input to the board of directors so it will improve company performance. Based on the annual report of the manufacturing firms in Indonesia for the 2013-2017 period, there is a trend of increasing the size of the board of commissioners during 2013-2017 with an average value of the size of the board of commissioners in 2013 from 3.51 members in one company, in 2014 amounted to 3.60 members in one company, in 2015 there were 3.62 members in one company, in 2016 there were 3.83 members in one company and in 2017 there were 3.89 members in one company.

Financial Services Authority Regulation (POJK) Number 33 / POJK.04 / 2014 states that the board of commissioners consists of at least 2 members of the board of commissioners, consisting of president commissioners and independent commissioners. Of the total number of commissioners in a company, the number of independent commissioners is at least 30 percent. Independent commissioners are the board of commissioners who do not own shares in the company and are not affiliated with directors, shareholders, and other board members either directly or indirectly and free from anything that can influence their actions in acting independently.

An independent commissioner gives an objective assessment because an independent commissioner does not have shares in the company so he does not have an interest in it. Therefore, an independent commissioner can control management and be fair to the rights of shareholders. In other words, if the company has an independent commissioner, the company has implemented good corporate governance. Independent commissioners are an important factor in companies in Indonesia, as evidenced by the phenomenon from 2013 to 2017 based on the annual report of the manufacturing companies in Indonesia for 2013-2017 period, the number of independent commissioners every year is always above the average required by the Financial Services Authority Regulation, which is at least the number of independent commissioners in public companies is 30 percent of the total board of commissioners. The number of independent commissioners in 2013 - 2017 in manufacturing companies in Indonesia experienced an increasing trend with an average value of the proportion of independent commissioners in 2013 of 36.65 percent, in 2014 amounting to 37.61 percent, in 2015 amounting to 39.47 percent, in 2016 amounting to 40.22 percent, and in 2017 39.24 percent. Amran (2017) found that a large number of independent commissioners had a positive significant effect on company performance in Indonesia because the larger number of independent commissioners provides problem-solving, more

strategies, and critical judgment. With the role of the independent commissioner in overseeing the controlling shareholders and management of the company, investor confidence will be even greater for the company.

Agency conflicts that occur in Indonesia are different from those that occur in countries in America and Europe. Agency conflicts that occur in America and Europe occur between owners and managers (Type I), while agency conflicts in Indonesia occur between minority shareholders and controlling shareholders (Type II). This is due to differences in ownership structures, Indonesia and other Asian countries have concentrated ownership structures, while countries in America and Europe have scattered ownership structures (Villalonga et al., 2006). In 2017 there were 92.21 percent of manufacturing companies including companies with concentrated ownership, with an average ownership concentration of 61.70 percent.

Unpaid dividends and profits transferred to other controlled companies are ways used by controlling shareholders to enrich themselves and this is a conflict between minority shareholders and controlling shareholders (Stijin et al., 1999). Haryono, Fitriyani, & Fatima (2017) state that controlling and minority shareholder conflicts can occur when controlling shareholders can influence the company's operating policies through the management they choose, and often company policies are based on the interests of the controlling shareholders so that it can harm the minority shareholders. The majority of companies in Indonesia have concentrated ownership structures or their ownership tends to be owned by families so that families as controlling owners can drive corporate decisions (Setiawan, Aryani, & Yuniarti, 2019). Family as the controlling shareholder, causing any policy taken by the company to be based on family interests, this will have an impact on detriment for minority shareholders and also, they can reduce the company's value by diverting company resources for their personal ben-

efits, especially if the legal protection system for shareholders in this country is weak (Li et al., 2015).

Research on the board characteristics including the proportion of independent commissioners and the size of the board of commissioners on company performance has been widely carried out, such as research conducted by Singh et al. (2017), Detthamrong, Chancharat, & Vithessonthi (2017) and Vu, Phan, & Le (2018), but in those studies only used the variable proportion of independent commissioners and board size as an independent variable without adding a moderating variable. Meanwhile, research about ownership concentration has also been widely studied as research by Altaf & Shah (2018); Gaur, Bathula, & Singh (2015); and Stijin et al. (1999), but those research only examined the direct influence of ownership concentration on corporate performance, and there were no one studies about the moderating effect of ownership concentration on the effect of board characteristics on corporate performance. Therefore, the issue of the moderating effect of ownership concentration on the effect of board characteristics on corporate performance is rarely examined, so this research fills gaps where there are still very few studies examining the role of board characteristics in increasing corporate performance on different ownership concentration.

2. Hypotheses Development

Independent commissioner is one of several corporate governance mechanisms that have an impact on corporate performance. The interests of shareholders are protected by an independent commissioner by monitoring top management and providing advice in the design and implementation of company strategy so that it can improve company performance (Li et al., 2015)

Independent and objective members of the board of commissioners in carrying out the oversight function of company management can reduce agency conflicts between managers and owners.

Personal interests of managers can be prevented by the independence of the board because of strict supervision to minimize errors in the presentation of financial statements (Kay et al., 2016). Therefore, the greater proportion of independent commissioners on the board commissioners, the independence of the board of commissioners in carrying out the supervisory function will be more effective because the independent commissioners will be more objective in supervising and giving advice to the company management. Therefore, the greater the proportion of independent commissioners in a company, the better the company's performance.

H_1 : the proportion of independent commissioners has a positive effect on corporate performance.

One of the countries with concentrated ownership is Indonesia (Stijin et al., 1999). The structure of concentrated ownership can lead to the risk of exploitation of share ownership. Expropriation is a process of exercising control to maximize one's own welfare with the distribution of wealth from other parties (Porta et al., 2000).

Farida & Kusumumaningtyas (2017) states that a concentrated ownership structure, especially in Indonesia, will further weaken the effectiveness of monitoring from an independent commissioners board because, at the time of the election, the board of commissioners chosen by the controlling shareholder is intended only to be consulted but not given responsibility for monitoring managerial activities. Besides, controlling shareholders will limit the monitoring of the independent commissioners. Same with Liu et al. (2015) suggests that the board tends to be less effective with the presence of a single controlling shareholder. Therefore, the concentration of ownership can weakens the positive effect of the proportion of independent commissioners on corporate performance.

H_2 : ownership concentration weakens the positive effect of the proportion of independent commissioners on corporate performance.

Gaur et al. (2015) state that companies that have a larger board size with professional members will be more able to get resources and helpful advice than companies with smaller board sizes. Same with Singh et al. (2017) found that the greater of the board of commissioners size could increase the effectiveness of oversight because it would increase accuracy. Boards with diverse experience and knowledge may have more careful learning and decision-making processes, resulting in better company performance (Detthamrong et al., 2017). Besides, the suggestions and input provided are increasingly numerous and varied. Based on this statement, the increasing board of commissioners size in a company can cause effective supervision so that it will increase corporate performance. Therefore, the greater the board of commissioners' size in a company, the higher the corporate performance.

H_3 : the board of commissioners' size has a positive effect on corporate performance.

The high concentration of ownership in companies causes controlling shareholders to directly influence decision making so that their interests can be maximized. Therefore, the independence of the board of commissioners in monitoring the board of directors can be compromised because of their closeness and loyalty to the controlling shareholders who appoint or reappoint them on the company board (Farida & Kusumumaningtyas, 2017). So, the function of the board of commissioners is no longer effective in overseeing management and decreasing company performance. Therefore, ownership concentration can weakens the positive effect of the board of commissioners' size on corporate performance.

H_4 : ownership concentration weakens the positive effect of the board of commissioners' size on corporate performance.

3. Method, Data, and Analysis

This study uses secondary data types, namely data obtained from other parties, and has been pub-

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lished to the public. Secondary data for this study is data published on the Indonesian Stock Exchange, which is an annual report of manufacturing companies with a research period of 2013-2017. The financial statements were obtained from the site www.idx.co.id. Refer to Li et al. (2015) the method of data analysis in this study uses the multiple linear regression analysis to test the effect of the proportion of independent commissioners on corporate performance and to test the effect of the board of commissioners size on corporate performance. We use the moderated regression analysis to test the moderation effect of ownership concentration on the effect of the proportion of independent commissioners on corporate performance and to test the moderation effect of ownership concentration on the effect of the board of commissioners' size on corporate performance (Li et al., 2015). To run the multiple linear regression analysis and the moderated analysis, we use the STATA program.

The independent variables in this study consisted of the proportion of independent commissioners (*KOMIND*) and board of commissioners' size (*BOARD*). The proportion of independent commissioners is the number of independent commissioners over the number of commissioners in the company. Refer to (Liu et al., 2015) we use the natural logarithm of the number of commissioners in the company for the board of commissioners size. The moderation variable in this study is the ownership concentration (*OWNCONS*). The concentration of ownership is a shareholding above 20 percent to a total of outstanding shares. If the sample firms have a shareholding above 20 percent, the value of ownership concentration is the total of shareholding above 20 percent divided by total outstanding shares. But, if the sample firms have a shareholding below 20 percent, the value of ownership concentration is 0,00 (its calculation is 0 percent divided by outstanding shares). Therefore, the minimum value of ownership concentration in this research is 0,00. The measurement of ownership concentration in this research refers to Al-saidi & Al-shammari

(2015). The dependent variable in this study is corporate performance. Refer to Setiawan & Agustin (2018) corporate performance in this research is proxied by *ROA*. *ROA* is net income to total assets. The control variables in this study consist of corporate size (*FSIZE*), corporate age (*FAGE*), and managerial ownership (*MANOWN*). Corporate size is measured by the natural logarithm of total assets (Setiawan & Rachmansyah, 2019). Large companies have better performance than smaller companies because large companies have market power, economies of scale, and market experience. Corporate age is measured by the natural logarithm of the company's age. The longer a company is established, the better the company's performance because over time, the company learns to get good and more efficient and has a competitive advantage in its business and encourages organizational success and prosperity (Arrow, 1962). Managerial ownership is measured by the number of managerial shares divided by outstanding shares. If managers own firm shares, they will be more careful in making decisions because every action or decision taken will have an impact on his welfare as a shareholder of the company so that it will improve company performance. The analysis model in this research is as follows:

$$ROA_{i,t} = \beta_0 + \beta_1 KOMIND_{i,t} + \beta_4 FSIZE_{i,t} + \beta_5 FAGE_{i,t} + \beta_6 MANOWN_{i,t} + e_{i,t} \quad (1)$$

$$ROA_{i,t} = \beta_0 + \beta_1 KOMIND_{i,t} + \beta_2 OWNCONS_{i,t} + \beta_3 KOMIND \times OWNCONS_{i,t} + \beta_4 FSIZE_{i,t} + \beta_5 FAGE_{i,t} + \beta_6 MAN_OWN_{i,t} + e_{i,t} \quad (2)$$

$$ROA_{i,t} = \beta_0 + \beta_7 BOARD_{i,t} + \beta_4 FSIZE_{i,t} + \beta_5 FAGE_{i,t} + \beta_6 MANOWN_{i,t} + e_{i,t} \quad (3)$$

$$ROA_{i,t} = \beta_0 + \beta_7 BOARD_{i,t} + \beta_2 OWNCONS_{i,t} + \beta_8 BOARD \times OWNCONS_{i,t} + \beta_4 FSIZE_{i,t} + \beta_5 FAGE_{i,t} + \beta_6 MANOWN_{i,t} + e_{i,t} \quad (4)$$

We use model 1 to test the effect of the proportion of independent commissioners on corporate performance, model 2 is used to test the moderation effect of ownership concentration on the proportion of independent commissioners on corporate performance. We use model 3 to test the effect of the board of commissioners size on corporate performance, model 4 is used to test the moderation effect of ownership concentration on the board of commissioners size on corporate performance.

This research has fulfilled the classical assumption test. The value of Shapiro Wilk >0.05 so it means that the residuals of the regression are normally distributed. The results of testing on all models show that the tolerance values of all independent variables >0.1 and the VIF value of all independent variables <10 in models which means that the model regression in this research did not occur multicollinearity. Heteroscedasticity test results showed a probability value of $\chi^2 > 0.05$ so it can be concluded that there was no heteroscedasticity.

4. Results

Descriptive statistics are used to see the maximum, minimum, and average values of the variables used in this study. Table 1 shows that the average ROA of a company is 0.0539 and the smallest value of ROA in sample companies is -0.2099 and the biggest value of ROA in sample companies is 0.3002. The average proportion of independent commission-

ers (KOMIND) is 0.3858 and the smallest value of KOMIND is 0.3000, the biggest value of KOMIND is 1.0000. The board of commissioners size variable (BOARD) shows the biggest value is 2.3979 with the biggest real number of board size is 11. The minimum value of board size is 0.6931 with the real number is 2. the average BOARD is 1.2617 with the real number of average is 4. The ownership concentration variable (OWNCONS) The smallest value of ownership concentration is 0.0000, indicating that no ownership is concentrated in certain shareholders in one company and the biggest value is 0.9631. The average ownership concentration is 0.5787. Company size variable (FSIZE) the average company size is 28.0970 with the real number is IDR 5,560,222,660,748, the smallest value of company size is 24.9025 with the real number of company size is IDR 65,314,178,204. The biggest value of company size is 32.9970 with a real number is IDR 213,994,000,000,000. The company age variable (FAGE) has the smallest value of 1.3863, the biggest value of 4.4543, and an average of 3,5049. The managerial ownership variable (MANOWN) shows the large proportion of shares owned by company management in the company. The smallest value of managerial ownership is 0.0000, indicating that there are companies that do not have share capital from management. While the biggest value of 0.7391 indicates that the highest level of managerial ownership in manufacturing companies is 73.91 percent. The average managerial ownership is 0.3811.

Table 1. Descriptive statistics

Variables	N	Minimum	Maximum	Mean	Std. Deviation
ROA	350	-0.2099	0.3002	0.0539	0.0716
KOMIND	350	0.3000	1.0000	0.3858	0.0943
BOARD	350	2	11	4	1.5603
BOARD (ln)	350	0.6931	2.3979	1.2617	0.3630
OWNCONS	350	0.0000	0.9631	0.5787	0.2433
FAGE	350	1.3863	4.4543	3.5049	0.4055
FSIZE (total assets in millions rupiah)	350	65,314	213,994,000	5,560,223	15,227,306
FSIZE (ln)	350	24.9025	32.9970	28.0970	1.4691
MANOWN	350	0.0000	0.7391	0.3811	0.0862
Valid N (listwise)	350				

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Based on Table 2, in model 1 it shows that *KOMIND* independent variable positively affects corporate performance at a significance level of 10 percent so that H_0 is rejected H_1 is accepted. Therefore, it can be concluded that the proportion of independent commissioners has a positive and significant effect on corporate performance. In model 2 it shows that the *KOMIND*OWNCONS* interaction variable negatively affect corporate performance at a significance level of 1 percent so that H_0 is rejected H_2 is accepted. As such, it can be concluded that the concentration of ownership significantly weakens the positive effect of the proportion of independent commissioners on corporate performance. In model 3 shows that the independent variable *BOARD* positively affect corporate performance at a significance level of 10 percent so that H_0 is rejected H_3 is accepted. Therefore, it can be concluded that the board of commissioners size has a positive and significant effect on corporate performance. Model 4 shows that *BOARD*OWNCONS* interaction variable negatively affects corporate performance at a significance level of 5 percent so that H_0 is re-

jected H_4 is accepted. Therefore, it can be concluded that the concentration of ownership significantly weakens the positive effect of the board of commissioners' size on corporate performance.

Robustness test

Table 3 shows the maximum likelihood regression result for factor return on assets. We used maximum likelihood regression as a robustness test to re-examine the variable that might influence corporate performance. The maximum likelihood regression produces the same result as the ordinary least square; all four models produce consistent results.

5. Discussion

The proportion of independent commissioners on corporate performance

The results of this research are in line with previous research by Gaur et al. (2015) and Liu et

Table 2. Result of linear regression analysis using ordinary least square

Variable	Model 1	Model 2	Model 3	Model 4
<i>Constant</i>	- 0.350 (-4.567)	-0.452 (-5.298)	-0.244 (-2.782)	-0.314 (-3.336)
<i>KOMIND</i>	0.073* (1.863)	0.247*** (3.385)		
<i>BOARD</i>			0.024* (1.771)	0.093*** (3.076)
<i>OWNCONS</i>		0.149*** (2.692)		0.137** (2.306)
<i>KOMINDxOWNCONS</i>		-0.390*** (-2.830)		
<i>BOARDxOWNCONS</i>				-0.113** (-2.528)
<i>FSIZE</i>	0.009*** (3.575)	0.010*** (3.933)	0.006* (1.829)	0.006* (1.765)
<i>FAGE</i>	0.033*** (3.572)	0.035*** (3.857)	0.028*** (3.016)	0.026*** (2.793)
<i>MANOWN</i>	0.114*** (2.645)	0.133*** (2.942)	0.109** (2.548)	0.122*** (2.719)
<i>N</i>	350	350	350	350
<i>R-Squared</i>	0.092	0.113	0.091	0.108

***, **, * significance at the level of 1 percent, 5 percent, 10 percent; (); t-statistic value

al. (2015), which found that the proportion of independent commissioners positively significantly affect corporate performance. This shows that a large proportion of independent commissioners in a company will enhance the performance of the corporate. This positive relationship occurs because the independent commissioners provide more effective monitoring and better advice to management, which will improve the quality of information reported and improve company performance (Leung, Richardson, & Jaggi, 2014). Besides, company managers are supervised and given advice by independent commissioners more objectively, and independent commissioners work to protect the rights of all stakeholders to reduce agency problems that occur and increase corporate performance.

Board of commissioners' size on corporate performance

This study shows the same results as previous research conducted by Singh et al. (2017), Anderson, Mansi, & Reeb (2004) and Abor & Biekpe (2007)

which shows that the board of commissioners' size positively significantly affects corporate performance. Board size plays an important role in the board's ability to oversee and control managers (Anderson et al., 2004). Larger board size is better for company performance because they have a variety of expertise to help make better decisions and CEOs are more difficult to dominate (Abor & Biekpe, 2007). These results indicate that the large board of commissioner size in the company will increase the effectiveness and accuracy of supervision and recommendations made by various commissioners so that it will cause the company's performance to improve.

The moderation effect of ownership concentration on the effect of the proportion of independent commissioners on corporate performance

The concentration of ownership moderates the association between the proportion of independent

Table 3. Result of linear regression analysis using maximum likelihood

Variable	Model 1	Model 2	Model 3	Model 4
<i>Constant</i>	- 0.350 (-4.60)	-0.451 (-5.39)	-0.249 (-2.87)	-0.324 (-3.51)
<i>KOMIND</i>	0.073* (1.88)	0.254*** (3.51)		
<i>BOARD</i>			0.022* (1.67)	0.099*** (3.29)
<i>OWNCONS</i>		0.155*** (2.82)		0.154** (2.60)
<i>KOMINDxOWCONS</i>		-0.406*** (-2.96)		
<i>BOARDxOWNCONS</i>				-0.126** (-2.82)
<i>FSIZE</i>	0.009*** (3.60)	0.009*** (3.93)	0.006* (1.92)	0.006* (1.81)
<i>FAGE</i>	0.032*** (3.60)	0.035*** (3.89)	0.028*** (3.06)	0.026*** (2.80)
<i>MANOWN</i>	0.113*** (2.66)	0.129*** (2.93)	0.109** (2.56)	0.121*** (2.70)

***, **, * significance at the level of 1 percent, 5 percent, 10 percent; (): z-statistic value

commissioners and corporate performance and its significantly negative. This means that a large concentration of ownership in a company will reduce the positive influence of independent commissioners on corporate performance. This occurs because the board of independent commissioners is limited by the controlling shareholder in monitoring managerial activities, and the independent commissioner is chosen by the controlling shareholder only to provide advice to management (Farida & Kusumuningtyas, 2017).

The moderation effect of ownership concentration on the effect of the board of commissioners' size on corporate performance

The concentration of ownership moderates the effect of the board of commissioners' size on company performance and is significantly negative. This means that the positive influence of the board of commissioners' size on performance is weakened by a high concentration of ownership in a company. This happens because the controlling shareholder has voting rights that can threaten the position of the board commissioners in the next election so that it makes the supervision of the board commissioners more relaxed and the controlling shareholder can freely influence the company's decision making directly to maximize its interests (Gaur et al., 2015)

6. Conclusion

This paper provides evidence of the effect of board characteristics on corporate performance using a sample of the manufacturing sector over 5 years between 2013 and 2017. We conduct this study because there are still rarely studies that examine the effect of board characteristics on corporate perfor-

mance by adding ownership concentration as a moderating variable. We document that the board characteristics including the proportion of independent commissioners and the board of commissioners' size have a significant positive effect on corporate performance. However, a high concentration of ownership in a company can weaken the positive effect of the board characteristics on corporate performance. In companies with a high concentration of ownership, the controlling shareholder can choose the board of commissioners who will work following their interests. Based on the results of our study, we suggest that companies with a concentrated ownership structure need another corporate governance mechanism to improve the company's performance besides the board characteristics because the role of the board of commissioners becomes weak when there are controlling shareholders.

Due to limitations in this study, we provide some suggestions for further research. First, this paper is limited to manufacturing companies, so it cannot be generalized to other sectors so that future research can use other sectors such as agriculture, mining, and property. Second, our study only uses the proportion of independent commissioners and the board of commissioners size as a proxy for the board characteristics, so the future study can use other board characteristics of commissioners such as age, gender, and nationality to investigate the influence of board characteristics on corporate performance. Third, this paper is limited to return on assets (ROA) as a proxy of corporate performance, so for further studies can use other measurements of the company performance variables, in addition to using the return on assets (ROA), for example by using the return on equity (ROE) or Tobin's Q, to see the corporate performance from market value.

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