

Board Characteristics and Firm Performance: Evidence from Indonesia

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ARTICLE INFO

Keywords:
board of commissioners size,
ex-government officer commissioner,
family commissioner,
family director,
independent commissioner

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ABSTRACT

This research examines the effect of board characteristics (comprising in different sized proportions: family commissioners, family directors, independent commissioners, ex-government officer commissioners, and board of commissioners size) to firm performance. Using fixed-effects data panel regression, this research investigates 293 firms listed on the Indonesian Stock Exchange during 2008-2012. Firm performance is proxied by market measure (Tobin's Q) and accounting measure (ROA). The findings of this research suggest that the proportion of family commissioners and family directors have positive impact only to Tobin's Q value, while the proportion of independent directors can increase both Tobin's Q and ROA. On the other hand, this research finds that the proportion of ex-government officers in the board gives no impact to firm performance. This research also finds that the board size has U-shaped non-linear relationship with firm performance as proxied by Tobin's Q and ROA.

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INTRODUCTION

Corporate governance issue has been an interesting topic for the last decade especially for researchers. This weak corporate governance has been cited as one of the causes of East Asian financial crisis in 1997-1998 (Mitton, 2002). Weak law enforcement and weak protection for minority shareholders in Asian countries also stimulate how the agency problem increases during crisis. The managers or the majority shareholders who

control the firm's assets are able to shift the assets for personal use or invest in unprofitable projects, and in the end expropriating the minority shareholders' wealth (Johnson, Boone, Breach, & Friedman, 2000; Lemmon & Lins, 2003). As a central functional institution in the internal governance of the company, the presence of the board of directors and board of commissioners are important because of their role in giving strategic direction (board of directors) and providing the key

monitoring function (board of commissioners) in dealing with the agency problems of the company (Lefort & Urzúa, 2008).

In Indonesia, it is common that family members serve as directors or commissioners. The absence of clear separation between ownership and management, may cause the company to run in accordance with the interest of the controlling shareholder, and not in the company's real interest. In addition, the board of commissioners who are supposed to monitor, control, and advise, may not be able to act independently. A sizeable proportion of family members in the board of commissioners is proven to have a negative impact towards corporate transparency (Saiful, Phua, & Haron, 2012).

The extent of control from the controlling shareholder can be neutralized by the presence of an independent monitoring board (independent commissioner). Independent commissioners are expected to protect minority shareholders from wealth expropriation by majority shareholders. The interests of minority shareholders are best protected when they have "power" in facing the ones in control of the company, through independent commissioners (Anderson & Reeb, 2004). Prabowo and Simpson (2011) in their research in Indonesia found that the presence of independent commissioners has an insignificant relationship to the firm's performance. On the other hand, independent commissioners have positive impact to corporate transparency (Saiful *et al.*, 2012) and financial reporting quality (Rusmin, 2011). However, the definition of independent commissioner in the said researches simply follow the definition of 'independent' according to the Indonesian Stock Exchange regulations, that is an individual without any affiliation with management, other directors, controlling owners, and who does not serve as a commissioner in any other affiliated company (Prabowo & Simpson, 2011). Whereas, in fact many independent commissioners who satisfy that criteria, have been

employed or serving and holding positions in the company for many years thereby decreasing their level of independency.

In Indonesia, it is also common to find ex-government officers serving in the board of commissioners. With their experience in the government, an ex-government officer is considered reputable to serve as a commissioner of the company. Schaeede (1995) stated that 'the Old Boys' or a nickname for ex-government officers who serve as the board of directors in Japan, are able to smoothen the information flow between government and business, impact the formulation of corporate strategies in accordance to government regulations, and impact the formulation of public policies so that they effectively represent firm's and the private sector's interest. Unfortunately, research that examines ex-government officers existence and their relationship towards the firm's performance can barely be found in Indonesia.

Other board characteristics such as board size is also important as it relates to firm performance and prior research show varying results. Several studies in big public companies showed a negative relationship between board size and firm performance. This is true in US (Yermack, 1996), Europe (Bennedsen, Kongsted, & Nielsen, 2008; Eisenberg, Sundgren, & Wells, 1998), and Asia (Mak & Kusnadi, 2005). Yet, studies on public companies in Indonesia showed that board size positively impact corporate transparency (Saiful *et al.*, 2012) and the quality of earnings (Rusmin, 2011).

A number of research has examined the board characteristics which will maximize firm value. However, the results are inconclusive and dependent on each company's specific condition. This research aims to understand the impact of certain composition (controlling shareholders, independent commissioners, and ex-government officer) of the board of commissioners to firm performance and the relationship between board

of commissioners size and firm performance in Indonesia, which has two-tier board system.

Literature Review and Hypothesis Development

The board of directors and board of commissioners are the central institution in the internal governance of the company (Lefort & Urzúa, 2008). In the context of one-tier board system, the board of directors consist of executive directors who are in charge of the operational running of the company and the non-executive directors who run the monitoring function and are not involved in the company operations. In Indonesia, based on UU No. 40 of 2007 about limited company, the executive director's role is run by the board of directors, while the non-executive directors role/function is held by the board of commissioners (two-tier board system). The board of commissioners generally represent the shareholders of the company.

The board of commissioners have two main functions: (1) monitoring function, that can be related to agency theory; (2) providing resources function, that can be related to resource dependence theory. According to the agency theory, the board of commissioners hold the responsibility to monitor the management in the name of shareholders to avoid conflict of interest between principal and its agent (Hillman & Dalziel, 2003; Lefort & Urzúa, 2008). Whereas according to resource dependence theory, the board of commissioners' role is to enhance the company's reputation, build external relations, and provide advice and consultation to management (Zahra & Pearce II, 1989).

Most Indonesian companies have concentrated ownership and they are controlled by an individual or group of family members (Achmad, 2008; Husnan, 2001). According to the agency theory, controlling shareholders or their representatives join the company's management with the intention to avoid agency costs that emerge from the different interests of owners and managers. Agency problems can be minimized if the principal

and agent are on the same side (Villalonga & Amit, 2006), that is in the hands of family members. While from the perspective of stewardship theory, a family director is considered to be able to monitor managers better and be a good asset protector, because the family's wealth is related to company assets (Anderson & Reeb, 2003).

On the other hand, controlling shareholders' presence in management will increase the gap between voting rights and cash flow rights making it possible for the controlling shareholders to expropriate minority shareholders' wealth (La Porta *et al.*, 1999). The separation between ownership and control can reduce firm value as another agency problem appears, that is between majority and minority shareholders (Claessens *et al.*, 2000; Lins, 2003). Hidayat and Loe (2011) found that the agency problem between majority and minority shareholders can trigger more critical problems for the company, as compared to the one caused by agency problems between owner and manager.

H1: *The proportion of controlling shareholders in the management (board of directors) has negative impact on firm performance.*

If the controlling shareholder does not have the opportunity to be involved in the company management, they will take control as the commissioners of the company to monitor the management's work (Husnan, 2001). The presence of controlling shareholders or his family members in the board of commissioners has positive relationship with firm performance, because of their intention to preserve their family reputation, wealth, and long-term firm performance (Wang, 2006).

Nevertheless, the presence of controlling shareholder or his family in the board of commissioners can also negatively impact corporate transparency, because family members tend to prevent management giving out too much information to the public and thus maintain the

advantage of keeping the information within the family (Saiful *et al.*, 2012). Prabowo and Simpson (2011) found that family members' involvement in the board of commissioners has a negative effect to firm performance since family members are a group of people with the same interest and can deter the effectiveness of internal control system.

H2: *The proportion of controlling shareholders in the board of commissioners has negative impact on firm performance.*

To have a more independent view, the board of commissioners need an independent party that is not related to the controlling shareholder, that is the independent commissioner. According to the agency theory, an independent commissioner hold the responsibility to monitor insiders or the controlling shareholders, while according to the stewardship theory, an independent commissioner can provide valuable advice and counsel to the company (Anderson & Reeb, 2004).

Chugh *et al.*, (2011) in the study in India stated that the high proportion of independent commissioners indicated excessive board autonomy and can reduce firm profitability. Aligned with this finding, Koerniadi and Tourani-Rad (2012) in their study in New Zealand revealed an argument that this negative effect may be caused by the stewardship theory, which shows that managers and non-independent directors are the ones that are loyal to the company and are good stewards of firm assets. Literature review indicates the presence of independent commissioners can impact both positively and negatively to firm performance, so we suggest the following hypothesis:

H3: *The proportion of independent commissioners has impact to firm performance.*

Ex-government officers who join the company's board of commissioners are expected to help in smoothing out the information flow between government and business, impact how corporate

strategies are aligned with government regulations, and impact the formulation of public policies that can represent firms' interest (Schaede, 1995). Though, the politically connected firm generally has lower accounting performance than a firm without political connection (Boubakri *et al.*, 2008; Faccio, 2010). The involvement of ex-government officers in the board of commissioners can distract the company from profitability objectives to pursue political goals (Boubakri *et al.*, 2008), as external investors view the politically connected board as having low professionalism because of their irrelevant professional background (Fan *et al.*, 2007). Furthermore, a politically connected firm will devote less time and care managing quality disclosure due to the protection the politically connected firm enjoy, once the connection is established (Chaney *et al.*, 2011).

H4: *The proportion of ex-government officer in the board of commissioners has negative impact to firm performance.*

The monitoring and advisory role of the board of commissioners can explain how the board of commissioners' size affect firm performance (Coles, Daniel, & Naveen, 2008). Regarding the monitoring role, smaller boards are more effective at monitoring management (Coles *et al.*, 2008). This result aligns with prior studies that find board size has negative relationship with firm performance (Bennedsen *et al.*, 2008; Eisenberg *et al.*, 1998; Mak & Kusnadi, 2005; Ujunwa, 2012; Yermack, 1996). More complex coordination, communication, and decision making problems emerge with the increase in the number of board of commissioner members (Yermack, 1996).

On the other hand, from the advisory role perspective, larger boards offer better advice to management (Coles *et al.*, 2008). This argument is supported by a study from Chugh *et al.* (2011) that suggest larger board size will create more opportunity and resources to the firm, increasing firm performance. Based on this contrasting

Table 1. Sample Selection

Description	Number of Observation
All nonfinancial companies listed in IDX (2008-2012)	1,628
Unavailable annual report	(288)
Negative or no data for Tobin's Q	(16)
Negative income tax expense or negative income before tax, so that no data for effective tax rate to calculate ROA	(272)
Incomplete data for control variable (growth opp. and beta)	(185)
Number of observation for all samples	867

results, we suggest there is a nonlinear relationship between the board of commissioners size and firm performance:

H5: *Larger board size positively affects firm performance, but too large board size negatively affects firm performance.*

METHODS

Data population on this research is all listed companies in the Indonesian Stock Exchange. We limit the sample to companies which have audited financial statements and annual reports for a 5 year research period (2008-2012) and have information on the board of commissioners and directors' profile, excluding companies in the financial industry because the financial industry has different characteristics (Darmadi, 2011) and the large possibility that financial companies are regulated, limiting the board of commissioners and directors' role (Yermack, 1996). Sampling method is judgmental sampling, with elimination of incomplete data. Table 1 shows the description of the sample.

We used the board of commissioners and board of directors' profiles, which include complete name, working experience and history, and the board size. Identification for independent variables' data was done manually, by looking into the board of commissioners and board of directors' profile in the annual report published by the company, while variable control data were obtained from S&P CapitalIQ.

Panel data regression was used to test the hypothesis, because we combined cross-section data (companies) and time-series data (years). According to Hausman test, the most appropriate model to use is fixed-effects panel data regression.

Model 1

$$Q_{it} = \beta_{0it} + \beta_1 FAMBOC_{it} + \beta_2 FAMBOD_{it} + \beta_3 INDCOM_{it} + \beta_4 EXGOV OFF_{it} + \beta_5 BSIZE_{it} + \beta_6 BSIZE2_{it} + \beta_7 SIZE_{it} + \beta_8 DEBT_{it} + \beta_9 AGE_{it} + \beta_{10} GROW_{it} + \beta_{11} RISK_{it} + \epsilon_{it}$$

Model 2

$$ROA_{it} = \beta_{0it} + \beta_1 FAMBOC_{it} + \beta_2 FAMBOD_{it} + \beta_3 INDCOM_{it} + \beta_4 EXGOV OFF_{it} + \beta_5 BSIZE_{it} + \beta_6 BSIZE2_{it} + \beta_7 SIZE_{it} + \beta_8 DEBT_{it} + \beta_9 AGE_{it} + \beta_{10} GROW_{it} + \beta_{11} RISK_{it} + \epsilon_{it}$$

Where:

- Q = market value of equity divided by book value of equity
- ROA = net income added by after-tax interest expense, divided by total equity plus interest-bearing debt
- FAMBOC = the proportion of controlling shareholders and their family in the board of commissioners, divided by the total number of members in the board of commissioners
- FAMBOD = the proportion of controlling shareholders and their family in the board of directors, divided by

	the total number of members in the board of directors
INDCOM	= the proportion of independent commissioners, divided by the total number of members in the board of commissioners
EXGOVOFF	= the proportion of ex-government officer in the board of commissioners, divided by the total number of members in the board of commissioners
BSIZE	= total board of commissioners members
BSIZE2	= quadratic value of board size
SIZE	= natural logarithm of firm's total assets
DEBT	= total liabilities divided by total assets
AGE	= natural logarithm of firm age, counted from the year the firm was established
GROW	= average of revenue growth for the last 3 years
RISK	= return beta for the last 2 years
β_i	= variable coefficients
m	= composite error

Board Characteristics Variable

The proportion of controlling shareholders in the board of commissioners and board of directors is determined by the proportion of board members that have family relationship (Saiful *et al.*, 2012). This research will be searching for common surnames in board members to identify family relationship (Tabalujan, 2002), except when there is strong evidence that someone is connected either vertically or horizontally to the family. The strong evidence referred to written statement of board profile in the annual report, prospectus, or news (printed and online).

The definition for independent commissioners in this research follow the formal requirement to be an independent commissioner as stated in Kep-339/BEJ/07-2001 section C.2 modified

in Kep-305/BEJ/07-2004, that is, an individual without any affiliation with management, other directors, controlling owners, and who does not serve as a commissioner in any other affiliated firm (INDCOM). The rules must be obeyed by all companies listed in Indonesia Stock Exchange and they have to state the fact in the company's annual report. For sensitivity analysis, this research add the definition from Anggraini (2013), that an independent commissioner should serve a maximum of 9 years and is not a former employee or management of the company (INDCOM2). This research will also adjust independent commissioners who are former employees of the company in the same group (INDCOM3).

The proportion of ex-government officers in the board of commissioners can be counted by dividing the number of ex-government officers in the board of commissioners by the total number of members in the board of commissioners (EXGOVOFF). A board member can be categorized as a ex-government officer if he has served as a central government officer (minister, house of representative), local government officer (governor), in the military forces (national army), or as a government organization head. This follows the definition from previous researches (Fan *et al.*, 2007; Goldman *et al.*, 2009; Lester *et al.*, 2008), adjusted to the condition in Indonesia. In addition, this research will also see the effect of the proportion of current government officers only (GOVOFF) and the proportion of ex-government officers and current government officers combined (ALLGOVOFF), to firm performance.

Following prior research (Mak & Kusnadi, 2005; Rusmin, 2011; Saiful *et al.*, 2012; Yermack, 1996), the board of commissioners size is determined from the total number of members in the board of commissioners. Table 2 show the description for all variables used in the research.

RESULTS AND DISCUSSION

Table 3 shows descriptive analysis from all variables

Table 2. Description of the Research Variables

Variable		Measurement
Tobin's Q	Q	Market value of equity divided by book value of equity
Return on Assets	ROA	Net income added by after-tax interest expense, divided by total equity plus interest-bearing debt
The proportion of controlling shareholder in the board of commissioners	FAMBOC	Total number of controlling shareholders and their family in the board of commissioners, divided by the total number of members in the board of commissioners
The proportion of controlling shareholder in the board of directors	FAMBOD	Total number of controlling shareholders and their family in the board of directors, divided by the total number of members in the board of directors
The proportion of independent commissioners 1	INDCOM	Total number of independent commissioners, divided by the total number of members in the board of commissioners
The proportion of independent commissioners 2	INDCOM2	The proportion of independent commissioners 1, excluded those who already serve for more than 9 years and former employees or management of the company, divided by the total number of members in the board of commissioners
The proportion of independent commissioners 3	INDCOM3	The proportion of independent commissioners 2, excluded those who are former employees from the company group, divided by the total number of members in the board of commissioners
The proportion of ex-government officer in the board of commissioners	EXGOVOFF	Total number of ex-government officer in the board of commissioners, divided by the total number of members in the board of commissioners
The proportion of current government officer in the board of commissioners	GOVOFF	Total number of current government officer in the board of commissioners, divided by the total number of members in the board of commissioners
The proportion of ex- and current government officer in the board of commissioners	ALLGOVOFF	Total number of ex- and current government officer in the board of commissioners, divided by the total number of members in the board of commissioners
Board of commissioners size	BSIZE	Total number of members in the of board of commissioners
Quadratic value of board of commissioners size	BSIZE2	Quadratic value of board of commissioners size
Firm size	SIZE	Natural logarithm of firm's total assets
Debt	DEBT	Total liabilities divided by total assets
Firm age	AGE	Natural logarithm of firm age, counted from the year the firm was established
Growth opportunity	GROW	Average of revenue growth for the last 3 years
Firm risk	RISK	Return beta for the last 2 years

in the research. There are 867 observations in this study, from 293 firm samples.

According to table 4, the proportion of family in the board of directors (FAMBOD) give positive impact to investor's expectation to profitability and growth in the future. This is shown from the positive coefficient of Tobin's Q, yet the proportion of family in the board of directors have no impact to ROA or company profitability for the period. This result agree with Anderson and Reeb (2003),

Barontini and Caprio (2006), and also Villalonga and Amit (2006) that found a family CEO give positive impact to Tobin's Q.

This result can be associated with the agency theory and stewardship theory that happened in the company. Based on the agency theory, family in management can minimize conflict of interest between owner as the principal and management as the agent, because principal and agent are on the same side, that is with the family. While

Table 3. Descriptive Statistics

Variabel	Mean	Std. Dev	Min	Max
Performance Variable				
Q	1.920355	2.229151	0.0012	16.87853
ROA	0.084926	0.091479	-0.46486	0.574011
Board Characteristics Variable				
FAMBOC	0.187032	0.213716	0	1
FAMBOD	0.166458	0.212123	0	0.8
INDCOM	0.405223	0.110145	0	1
INDCOM2	0.3094	0.17486	0	1
INDCOM3	0.290131	0.175295	0	1
EXGOVOFF	0.147699	0.194812	0	0.75
GOVOFF	0.032214	0.122354	0	0.833333
ALLGOVOFF	0.179913	0.245871	0	1
BSIZE	4.585928	1.923583	2	21
Firm Characteristics Variable				
Firm size (total assets)	7,092,854	1.54E+07	3,332.543	182,274,000
SIZE	14.5165	1.692544	8.111491	19.02102
DEBT	0.477748	0.238037	0.005021	2.678553
GROW	0.250319	0.539369	-0.55113	4,025657
RISK	0.424137	0.381063	-1.73109	1.4091
Firm age	33.88581	22.42652	2	195
AGE	3.364408	0.560374	0.693147	5.273

according to the stewardship theory, family is considered to be loyal in serving and controlling the company, because the family's wealth is connected to company's assets. Family also has more information than nonfamily, so the family director is deemed to be able to make more effective decisions.

Not only that family director will give positive impact to firm value, but this research also suggests that the proportion of family in the board of commissioners (FAMBOC) will give positive effect to Tobin's Q but no impact to ROA. Using the theory explained before, the presence of family in the board of commissioners can create alignment

Table 4. Coefficient and Significance Level of the Main Regression Model using Fixed-effects

	Tobin's Q	ROA
FAMBOC	1.416033* (0.064)	0.0112174 (0.756)
FAMBOD	1.547783* (0.084)	-0.0144371 (0.733)
INDCOM	1.48383* (0.097)	0.1317124*** (0.002)
EXGOVOFF	0.652534 (0.351)	-0.032799 (0.323)
BSIZE	-0.6309247** (0.014)	-0.0214162* (0.078)
BSIZE2	0.0475846** (0.019)	0.001945** (0.044)
SIZE	0.1639448 (0.402)	0.0246405*** (0.008)
DEBT	-0.183792 (0.717)	-0.1593406*** (0.000)
GROW	0.1959301 (0.124)	0.0175671*** (0.004)
RISK	0.0646326 (0.731)	0.0147264* (0.099)
AGE	4.261599*** (0.000)	-0.0131339 (0.774)
_cons	-14.28934*** (0.000)	-0.1612031 (0.227)
R ²	0.0917	0.1096
F	5.17***	6.30***
Total observation	867	867
Total group	293	293

*** Significant at .01 ** Significant at .05 * Significant at .1

effect. The family commissioners are expected to be able to enhance the role in controlling directors, which is one of their main responsibilities. Wang (2006) stated that family have certain interests to the company due to their family reputation and long-term business continuity. Therefore, the family can be an effective guards for the company's assets.

From table 4, it also can be seen that the proportion of independent commissioners (INDCOM) affect firm performance (Tobin's Q and ROA) with the positive direction. This result is in line with the result from Ameer *et al.* (2010), Ibrahim and Samad (2011), and Khan and Awan (2012).

The positive effect of independent commissioners variable to firm performance Tobin's Q and ROA can be explained through agency theory reasoning. Firstly, independent commissioners are considered as an independent party that has no vested interest in the company, so they can protect the interest of minority shareholders. Secondly, independent commissioners are also considered to be able to mitigate agency problems that happen because of the majority shareholders' intention to expropriate minority shareholder's wealth. Thirdly, trust from the investors and well-run corporate governance in the company will create good profitability for the company.

Some adjustments are made for the definition of independent commissioners. If the independent commissioners' definition exclude those who have served the company for more than 9 years or have previously worked in the company (INDCOM2), the result is shown in table 5, presented with the regression result before adjustment.

After adjustment on the independent commissioner definition to INDCOM2, the result shows positive impact with a higher significance level to Tobin's Q than to INDCOM. This result indicates that after serving for more than 9 years or having had previously served as an employee or management

of the company, independent commissioners fail to become an independent party. While to ROA, adjusted independent commissioners variable make insignificant results, which means that adjusted independent commissioners variable have no relationship with the firm's accounting performance.

The next adjustment to the independent commissioner definition is excluding independent commissioners sample who have previously served as employees or management of the company in the same holding (INDCOM3). The result from regressing INDCOM3 variable to firm performance variable turns out to be insignificant. This outcome indicates that the independent commissioners sample who have previously served as employees or management of the company in the same holding are possibly the factor that previously positively influenced the regression result of INDCOM2.

To confirm it, we regressed the proportion of independent commissioners who had served for more than 9 years and was employed in the company (INDCOM21) and the proportion of independent commissioners who were employees of the company in the same group (INDCOM32). The result is presented in table 6.

It turns out that INDCOM32 variable has the most significant positive effect to both Tobin's Q and ROA. It is probably because previous employees from the same holding company are quite independent but at the same time possess enough knowledge about the company so that they can monitor directors better. This can be researched further in the future.

As presented in table 4, we also regressed the proportion of ex-government officers in the board of commissioners to firm performance. The result showed an insignificant result to both Tobin's Q and ROA. This result indicates that the proportion of ex-government officers in the

Table 5. Coefficient and Significance Level of the Regression Model of Independent Commissioner Proportion to Firm Performance (1)

	Tobin's Q			ROA		
FAMBOC	1.41603*	1.61370**	1.37224*	0.01122	0.014006	0.00250
	(0.064)	(0.036)	(0.075)	(0.756)	(0.703)	(0.946)
FAMBOD	1.54778*	1.45860*	1.39430	-0.01444	-0.02661	-0.03202
	(0.084)	(0.100)	(0.119)	(0.733)	(0.531)	(0.453)
INDCOM	1.48383*	-	-	0.13171***	-	-
	(0.097)			(0.002)		
INDCOM2	-	1.05698**	-	-	0.03183	-
		(0.029)			(0.170)	
INDCOM3	-	-	0.05107	-	-	-0.01968
			(0.914)			(0.381)
EXGOVOFF	0.65253	0.61028	0.76856	-0.03280	-0.02697	-0.02006
	(0.351)	(0.382)	(0.272)	(0.323)	(0.420)	(0.547)
BSIZE	-0.63092**	-0.64418**	-0.63930**	-0.02142*	-0.02228*	-0.02196*
	(0.014)	(0.012)	(0.013)	(0.078)	(0.069)	(0.073)
BSIZE2	0.04758**	0.04826**	-0.00115**	0.00194**	0.00196**	0.00191**
	(0.019)	(0.017)	(0.02)	(0.044)	(0.044)	(0.050)
SIZE	0.16394	0.14749	0.13972	0.02464***	0.02273**	0.02254**
	(0.402)	(0.449)	(0.475)	(0.008)	(0.015)	(0.016)
DEBT	-0.18379	-0.14071	-0.14777	-0.15934***	-0.15589***	-0.15579***
	(0.717)	(0.781)	(0.771)	(0.000)	(0.000)	(0.000)
GROW	0.19593	0.16732	0.17591	0.01757***	0.01555***	0.01595***
	(0.124)	(0.186)	(0.166)	(0.004)	(0.010)	(0.009)
RISK	0.06463	0.08896	0.08156	0.01473*	0.01641*	0.01592*
	(0.731)	(0.635)	(0.665)	(0.099)	(0.067)	(0.077)
AGE	4.26160***	4.56604***	4.24740***	-0.01313	-0.00588	-0.02315
	(0.000)	(0.000)	(0.000)	(0.774)	(0.900)	(0.621)
_cons	-14.2893***	-14.7961***	-13.2653***	-0.16120	-0.11188	-0.03366
	(0.000)	(0.000)	(0.000)	(0.227)	(0.408)	(0.803)
R ²	0.0917	0.0949	0.0872	0.1096	0.0973	0.0955
F	5.17***	5.37***	4.89***	6.30***	5.51***	5.40***
Total observation	867	867	867	867	867	867
Total group	293	293	293	293	293	293

*** Significant at .01 ** Significant at .05 * Significant at .1

Table 6. Coefficient and Significance Level of the Regression Model of Independent Commissioner Proportion to Firm Performance (2)

	Tobin's Q				ROA			
FAMBOC	1.48874*	1.53786**	1.37224*	1.70131**	0.00496	0.01570	0.00250	0.01836
	(0.053)	(0.041)	(0.075)	(0.025)	(0.893)	(0.660)	(0.946)	(0.61)
FAMBOD	1.36063	0.95683	1.39430	1.05190	-0.02851	-0.05144	-0.03202	-0.03979
	(0.126)	(0.277)	(0.119)	(0.237)	(0.502)	(0.219)	(0.453)	(0.346)
INDCOM21	-0.62807	-	-	0.17026	0.00726	-	-	0.08295*
	(0.200)			(0.856)	(0.756)			(0.064)
INDCOM32	-	4.53413***	-	5.11891***	-	0.23918***	-	0.29927***
		(0.000)		(0.000)		(0.000)		(0.000)
INDCOM3	-	-	0.05107	0.87864	-	-	-0.01968	0.08561*
			(0.914)	(0.353)			(0.381)	(0.057)
EXGOVOFF	0.72788	0.52887	0.76856	0.42131	-0.02151	-0.03496	-0.02006	-0.04077
	(0.297)	(0.442)	(0.272)	(0.543)	(0.519)	(0.285)	(0.547)	(0.215)
BSIZE	-0.64540**	-0.62459**	-0.63930**	-0.62815**	-0.02205*	-0.02137*	-0.02196*	-0.02102*
	(0.012)	(0.014)	(0.013)	(0.013)	(0.072)	(0.075)	(0.073)	(0.08)
BSIZE2	0.04785**	0.04564**	-0.00115**	0.046340**	0.00193**	0.00184*	0.00191**	0.00186*
	(0.019)	(0.023)	(0.02)	(0.021)	(0.048)	(0.054)	(0.050)	(0.051)
SIZE	0.13418	0.18266	0.13972	0.18778	0.02257**	0.02476***	0.02254**	0.02589***
	(0.492)	(0.342)	(0.475)	(0.33)	(0.016)	(0.007)	(0.016)	(0.005)
DEBT	-0.12772	-0.05441	-0.14777	-0.06039	-0.15630***	-0.15119***	-0.15579***	-0.15375***
	(0.801)	(0.913)	(0.771)	(0.904)	(0.000)	(0.000)	(0.000)	(0.000)
GROW	0.16261	0.16767	0.17591	0.16450	0.01598***	0.01537***	0.01595***	0.01649***
	(0.201)	(0.179)	(0.166)	(0.19)	(0.009)	(0.010)	(0.009)	(0.006)
RISK	0.09257	0.05694	0.08156	0.06203	0.01604*	0.01491*	0.01592*	0.01415
	(0.622)	(0.758)	(0.665)	(0.738)	(0.075)	(0.090)	(0.077)	(0.108)
AGE	4.41541***	4.03530***	4.24740***	4.27753***	-0.01819	-0.02625	-0.02315	-0.02248
	(0.000)	(0.000)	(0.000)	(0.000)	(0.697)	(0.562)	(0.621)	(0.624)
_cons	-13.6774***	-13.2243***	-13.2653***	-14.4261***	-0.05779	-0.06536	-0.03366	-0.13077
	(0.000)	(0.000)	(0.000)	(0.000)	(0.662)	(0.610)	(0.803)	(0.331)
R ²	0.0899	0.1184	0.0872	0.1220	0.0944	0.1320	0.0955	0.1379
F	5.05***	6.87***	4.89***	6.00***	5.34***	7.78***	5.40***	6.90***
Total observation	867	867	867	867	867	867	867	867
Total group	293	293	293	293	293	293	293	293

*** Significant at .01 ** Significant at .05 * Significant at .1

board of commissioners has no impact to firm performance.

The possible reason behind the lacked relationship between the proportion of ex-government officers in the board of commissioners and firm performance is because a balanced positive and negative effect that offset each other. The positive effect is ex-government officer who serves in the board of commissioners can be a good mediator between the company as the business runner and government as the regulator and policy maker. This positive effect can balance the negative effect that comes from the existence of ex-government officer, that the experience of ex-government officer is less relevant with the need for professional people in the company.

The other possibility is because an ex-government officer has indirect effect to firm performance. According to Fan *et al.* (2007) and Fisman (2001), a politically connected firm has lower stock return. Besides, a politically connected firm has higher debt level (Faccio, 2010; Khwaja & Mian, 2005) and lower earnings and financial reporting quality (Chaney *et al.*, 2011) compared to companies without political connections.

This research defines the government officer as a person who served as an officer in the central government (Ministry, House of Representatives), regional government (governor), military (Indonesia national army), and state-owned organization or company. This is a broad definition so it maybe possible that one state-owned organization may have a different effect with compared to another organization, resulting in an inconclusive result. Other than that, there are some difficulties in identifying a current or ex-government officer due to the lack of information given in the board of commissioners' profile in the company annual report. This makes the process of identifying and analyzing the effect of ex-government officers to the firm's performance difficult to be maximized.

This research also want to know whether the existence of current government officers (GOVOFF) or both current and ex-government officers in the board of commissioners (ALLGOVOFF) has any impact to firm performance.

From table 7, it can be seen the regression result for the proportion of current government officers in the board of commissioners (GOVOFF) and the proportion of both current and ex-government officers in the board of commissioners (ALLGOVOFF) are not giving significant result to Tobin's Q and ROA. It means that variables related to government officer (current or ex-) have no effect to firm performance.

As we can see from table 4, the regression result for the board size variable (BSIZE and BSIZE2) and firm performance gives significant result, to both Tobin's Q and ROA. Thus we can conclude that board size has a quadratic relationship with the firm's market and accounting performance.

Regression result from variable BSIZE and BSIZE2 to Tobin's Q have -0.6309 and 0.0476 coefficients consecutively, while to ROA, coefficients of variable BSIZE and BSIZE2 are -0.0214 and 0,0019 consecutively. The negative coefficient of BSIZE and positive coefficient of BSIZE2 show that BSIZE has quadratic relationship with the performance variable, Tobin's Q and ROA. The minimum point of the quadratic curve is 6.63 for Tobin's Q result and 5.5 for ROA result. This result means that the larger the size of the board, the firm performance decreases until a minimum point, before it bounces back and increases again after the minimum point is reached.

The result does not completely agree with the proposed hypothesis in the earlier section. The proposed hypothesis was that *larger board size positively affects firm performance, but too large board size negatively affects firm performance.* The regression result proves that the relationship between board of commissioners' size and firm

Table 7. Coefficient and Significance Level of the Regression Model of Ex- or Current Government Officer Proportion to Firm Performance

	Tobin's Q			ROA		
FAMBOC	1.41603*	1.41063*	1.4135*	0.01122	0.01134	0.01141
	(0.064)	(0.065)	(0.064)	(0.756)	(0.754)	(0.753)
FAMBOD	1.54778*	1.60282*	1.58671*	-0.01444	-0.01492	-0.01662
	(0.084)	(0.074)	(0.076)	(0.733)	(0.725)	(0.695)
INDCOM	1.48383*	1.58526*	1.55837*	0.13171***	0.13099***	0.12764***
	(0.097)	(0.077)	(0.079)	(0.002)	(0.002)	(0.003)
EXGOVOFF	0.65253	-	-	-0.03280	-	-
	(0.351)			(0.323)		
GOVOFF	-	0.12927	-	-	0.03198	-
		(0.896)			(0.496)	
ALLGOVOFF	-	-	0.63203	-	-	-0.01485
			(0.336)			(0.634)
BSIZE	-0.63092**	-0.61220**	-0.62860**	-0.02142*	-0.02225*	-0.02196*
	(0.014)	(0.017)	(0.014)	(0.078)	(0.067)	(0.071)
BSIZE2	0.04758**	0.04591**	0.04750**	0.00194**	0.00203**	0.00199**
	(0.019)	(0.0241)	(0.019)	(0.044)	(0.035)	(0.039)
SIZE	0.16394	0.20027	0.16453	0.02464***	0.02278**	0.02365**
	(0.402)	(0.296)	(0.399)	(0.008)	(0.012)	(0.011)
DEBT	-0.18379	-0.25367	-0.21583	-0.15934***	-0.15766***	-0.15688***
	(0.717)	(0.616)	(0.668)	(0.000)	(0.000)	(0.000)
GROW	0.19593	0.19823	0.19812	0.01757***	0.01758***	0.01747***
	(0.124)	(0.120)	(0.119)	(0.004)	(0.004)	(0.004)
RISK	0.06463	0.06630	0.06182	0.01473*	0.01447	0.01473*
	(0.731)	(0.724)	(0.742)	(0.099)	(0.105)	(0.099)
AGE	4.26160***	4.25647***	4.30098***	-0.01313	-0.01045	-0.01370
	(0.000)	(0.000)	(0.000)	(0.774)	(0.820)	(0.765)
_cons	-14.2893***	-14.7688***	-14.4764***	-0.16120	-0.14765	-0.14492
	(0.000)	(0.000)	(0.000)	(0.227)	(0.264)	(0.273)
R²	0.0917	0.0903	0.0918	0.1096	0.1088	0.1084
F	5.17***	5.08***	5.17***	6.30***	6.25***	6.22***
Total observation	867	867	867	867	867	867
Total group	293	293	293	293	293	293

*** Significant at .01 ** Significant at .05 * Significant at .1

performance is nonlinear. But, the direction of the curve is the on the contrary, that is when the size of the board gets larger, firm performance decreases until a minimum point, before it increases again into a U-shaped curve. This result follows Coles *et al.* (2008) that showed Tobin's Q and board size has a U-shaped relationship. According to Coles *et al.* (2008), firm performance will be maximized when the size of the board is either very large or very small, due to differences of consultation needs between simple and complex firms. Complex firms in the research are defined according to their diversification level, firm size, and debt levels.

From the description analysis in the earlier section, we can see that the board of commissioners in Indonesia have an average of 4.5 members, with the smallest and largest board size is 2 and 21 respectively. Then, looking back to the data used in this research, it can be seen that firms with a board of commissioners' size above 9 are big scale businesses with total assets of 46.56 billion on average, such as PT Astra International, Tbk., PT Indofood Sukses Makmur, Tbk., PT Indosat, Tbk., and PT Vale Indonesia, Tbk. On the other hand, firms with board of commissioners' size around 2 or 3 (338 firms) are small scale businesses with total assets 1,56 billion on the average.

By looking at these conditions, we can conclude that our research is in line with Coles *et al.* (2008) although we define complexity in terms of firm size only. The increasing number of the board of commissioner members will positively affect performance in complex firms while in simple firms, the increasing number of the board of commissioner members will negatively affect firm performance. High-complexity firms definitely need larger board size to sufficiently fulfill the consultation function to management, and vice versa.

MANAGERIAL IMPLICATIONS

As stated in Lefort and Urzua (2008), both board of directors and board of commissioners play

important role as internal governance of the company. This study emphasized that company should understand the impact of its board composition to the firm performance, whether there should be controlling shareholder and his relatives in order to mitigate agency problem, whether there should be independent parties who do not have previous relationship with the company to provide independent advices in nobody's interest, or whether there should be members from former or current government officer to ease connection with the government. The size of the board can also affect firm performance.

By balancing the proportion of insiders (controlling shareholder and his family) and outsiders (independent commissioners) in the board of commissioners, their positive contribution will be enhanced and both parties will not be able to abuse their power. The proportion of government officer in the board of commissioner is found to have no impact to firm performance, thereby the company should pay more attention to individual competence rather than only to his title. Furthermore, firm complexity such as firm size, diversification level, and debt level, should be taken into consideration when the company want to determine its board size.

CONCLUSION

This research found that the proportion of family members on the board of directors has a positive relationship with the firm's market performance (Tobin's Q). The presence of family members in management minimizes agency problems between the principal and agent, and also plays a role in overseeing the company's assets as they relate to the family fortune. Similarly, the proportion of family members in the board of commissioners also has a positive effect on the value of Tobin's Q. The function of supervision, which is one of the main tasks of the commissioners, can be run effectively by the family as they have related interests in the wealth and good name of the family. However, these two variables have no significant

impact on the performance of accounting firms (ROA).

Significant positive correlation was also found in the proportion of independent commissioners to the value of Tobin's Q and ROA, with higher levels of significance in ROA. The independent commissioner is deemed to protect the interests of the minority shareholders from expropriation of wealth that may be done by the majority shareholders. Furthermore, we found that independent commissioners who have served for less than 9 years and was not a former employee of the company, have a positive association with a higher level of significance to the Tobin's Q. These results indicate that after serving for more than 9 years or were once the company's employees, independent commissioners can no longer be considered as independent parties. Yet, independent commissioners who were former employees in a business group and, have highly significant positive result to Tobin's Q and ROA. This means that they can be considered a fairly independent party yet they have enough knowledge about the company so they are able to supervise competently.

The proportion of ex-government officials in the board of commissioners is found to have no significant relationship with firm performance Tobin's Q and ROA. We suspect the negative effect of the ex-official commissioner who lacked professional experience is neutralized by the positive effect arising from ability to provide access to the regulator.

The result of the study to test the effect of the board of commissioner size on firm performance indicates that the size of the board has a quadratic relationship (U-shaped curve) with Tobin's Q and ROA. When the board size is small, the performance of the company will decrease until it reaches a minimum point, then the performance

of the company scaled back increasing in line with the board after the minimum point. The minimum value of board size is 6.63 on Tobin's Q and 5.5 on ROA. This finding may be due to the different needs of consultation between companies with high and low complexity. Performance of the company will increase with increasing number of board members in companies with high complexity, while the company's performance will decrease with increasing number of board members in companies with low complexity.

This study has several limitations. First, there are limitations in identifying the family members of the controlling shareholder who sit on the board of directors and board of commissioners. By using the last name similarity approach, there is a possibility of family members who do not use the same last name but they are family members of the controlling shareholder, or there are possibly two people with the same last name but they have no family relation. Second, there are also limitations in identifying ex-and current government officials because we rely on the information contained in the profile of the board of commissioners in the company's annual report only. Third, the limited number of samples due to the limited availability of company published annual reports, because we need to use the information regarding the board of commissioner profile in the annual report.

For further research, we suggest that the researcher investigates more about the independent commissioner who is an employee or management of other companies within a business group. It is because this group contributed most to the significant positive results in the relationship between the proportion of independent commissioners and firm performance. In addition, we also suggest defining more categories for government officials to determine the effect of each of these categories on the performance of the company. ■

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