

The impact of Busy Directors on Firm Performance in Manufacturing Companies on the Indonesia Stock Exchange

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ABSTRACT

Board of directors and commissioners are elected to conduct the management and supervision of the company. The most problematic issue in corporate governance around the world is the number of directors and commissioner positions allowed in a company. This paper examines how busy directors can influence the firm's performance by focusing on and contributing to the board of commissioners to be researched as busy directors and family ownership as moderation variable. This paper used 133 listed companies on the Indonesia Stock Exchange (IDX) as a sample with 4 years observation period from 2014 to 2017. By using panel data analysis, we find that the busy directors do not correlate with the firm's performance as measured by ROA. Furthermore family ownership as moderated variable reacts positively with firm performance. Furthermore, this paper also shows that busy directors reinforce the family ownership influence of the firm's performance.

Keywords—busy directors, family ownership, firm performance

1. INTRODUCTION

Performance measurement or assessment of the company is an important factor in seeing the company's activities. To achieve good corporate governance, firms or companies should practice governance systems in business activities to fit the strategies and objectives expected by the company. Corporate governance system is defined as a system that devises how the responsibility and separation of functions in several important actors in the company such as shareholders, directors, and commissioners. The corporate governance is governed by the composition of the board in the company which is a one-tier system and two-tier system. Board of directors and commissioners are elected to conduct the management and supervision of the company. The most problematic issue in corporate governance around the world is the number of directors and commissioner positions allowed in a company. (Fama & Jensen, 1983) shows the effect of multiple directorships on the firm's performance can signal a better reputation, quality and skill.

(Core, Holthausen, & Larcker, 1999) found that the boards of directors of commissioners were able to provide adequate supervision of each company when having a position on three or more companies, and found that the board of director or commissioner will receive higher compensation. (Mendez, Pathan, & Garcia, 2017) explain that busy directors who also hold positions on the other companies can produce lower performance based on financial information issued by the company. At this time, the company in Indonesia is dominated by family ownership. Family ownership is usually managed by the family members which will lead to a slight agency conflict (Fama and Jensen, 1983). In this paper, we have

different approach to knowing how busy directors can impact the firm's performance by focusing on and contributing to the election of the board of commissioners that will be researched as busy directors. This paper used listed companies on the Indonesia Stock Exchange (IDX) as a sample with 4 years observation period from 2014 to 2017.

2. LITERATURE REVIEW

2.1. Firm Performance

Performance means the achievement or outcome of a particular task. (Taouab & Issor, 2019) suggests that the firm performance as an achievement or results obtained by management, economics, and marketing in providing competitiveness, efficiency, and effectiveness to the company. Firm performance measured by using financial ratios of return on assets.

2.2. Corporate Structure

The corporate governance structure is governed by the composition of the board in the company which is a one-tier system and two-tier system. Listed companies on the Indonesian Stock Exchange (IDX) generally use two-tier system. Based on Financial Services Authority regulation No. 33/2014, board of commissioner is tasked to supervise the company and board of directors is to organize the company.

2.2.1 The Influence of Busy Directors on Firm Performance

(Fama and Jensen, 1983) shows the effect of multiple directorships on the firm's performance can signal a better reputation, quality and skill. Beasley, 1996) find that directors or commissioners who have a position in another company has a small possibility of committing fraud to the company. (Field, Lowry, & Mkrtchyan, 2013) found that the more experience of the busy directors, they will play an important role for the newly developed companies (young firms) to advise on the control and oversight functions of a company.

2.3. The Influence of Family Ownership on Firm Performance

(Anderson & Reeb, 2003, Villalonga & Amit, 2006) shows that companies with high family ownership provide better performance such as the value of Tobin's q or ROA in the company compared to a non-family companies and also family ownership can diminish the conflicts of interest within the company. (Eugster & Isakov, 2019) conducted research by looking at family ownership in Switzerland and found that the family ownership provide high stock returns compared to non-family companies and produce better performance ranging between 2,98% and 7,1% per year depending on existing risks. (Chen, Harford, & Li, 2005) said that because the family is a majority shareholder in the company, it will make the family ownership has fewer agencies problem because the owner or family members monitor the company directly and there is less fraud or manipulation in the financial statements.

2.3.1 Independent Commissioner in Firm Performance

Robin & Amran, 2016) said that the independent commissioner giving a positive influence to the firm performance. (Bhagat & Bolton, 2008) states that the more independent commissioner in a company will provide good performance for the company.

2.3.2 Tenure in Firm Performance

(Kamardin, Latif, Mohd, & Adam, 2014) find that board with older age and long tenure have a high probability of attending meetings. It shows that the directors or commissioners who have a high experience when performing their tasks will be able to assist in the process of managing the company effectively.

2.3.3 Firm Size in Firm Performance

(Ferris, Liao, & Tamm, 2018) shows that with increasing complexity in business, boards in large companies are expected to attend more meetings that will effect the management and performance of the company.

2.3.4 Firm Age in Firm Performance

(Coad, Segarra, & Teruel, 2013) states that the company that will experience an increase in earnings, exist in a long-established or mature company.

2.3.5 Leverage in Firm Performance

(Evgeny, 2015) shows that leverage have negative influence on firm performance.

3. METHODOLOGY

This paper used secondary data consisting of 133 manufacturing companies listed on the Indonesia Stock Exchange from 2014 to 2017 as sample of the research. The data on this paper were obtained through the Indonesia Stock Exchange (IDX) website by looking at the financial and annual reports of each companies, Eikon Thomson Reuters, and other sites. This paper uses panel data analysis and has the variable definition:

FP (Dependent Variable): Firm Performance as measured by ROA or net income divided by total assets.

BD (Independent Variable): Busy Directors as measured by dummy variable, 1 for commissioner who have two or more other commissioner positions, and 0 for commissioners who have less than two other commissioner positions.

FAMOWN (Control Variable): Family Ownership as measured by the largest percentage of share ownership.

INDCOM (Control Variable): Independent Commissioners are measured using the proportion of independent commissioners

TENURE (Control Variable): Tenure as measured by dummy variable, 1 if the number of tenure is more than 5 years, and 0 if the number of tenure is not more than 5 years.

FIRMSIZE (Control Variable): Firm Size is measured by logarithm of total assets

FIRMAGE (Control Variable): Firm Age is measured by logarithm of firm age

LEVERAGE (Control Variable): Leverage as measured by DER or total liabilities divided by total equity

This paper has the following regression equations:

$$\begin{aligned} \text{FP} = & a + b_1 \text{BD} + b_2 \text{FAMOWN} + b_3 \text{INDCOM} + b_4 \text{TENURE} + \\ & b_5 \text{FIRMSIZE} + b_6 \text{FIRMAGE} + \\ & b_7 \text{LEVERAGE} + e \quad (1) \\ \text{FP} = & a + b_1 \text{BD} + b_2 \text{FAMOWN} + b_3 \text{INDCOM} + \end{aligned}$$

$$b_4 \text{TENURE} + b_5 \text{FIRMSIZE} + b_6 \text{FIRMAGE} + \\ b_7 \text{LEVERAGE} + e \quad (2)$$

This paper also has the following research hypothesis:

Hypothesis 1 & 2:

The existence of busy directors in the company becomes a much more disputed thing, because the board of directors or commissioner who served at more than 1 company will have a negative effect on performance that will be generated by the company. But in other case there is research that suggests busy directors has a positive impact. (Fama & Jensen, 1983; Hilman & Dalziel, 2003) indicates the effect of busy directors on firm performance that the board will give a better reputation, signal, skill and quality, because they more experienced and have more knowledge about the company's industry, provide expanding network to create new partnerships, and able to provide the right decision in solving problems.

According to a survey by PwC, that 60% listed companies in Southeast Asia are consist of family ownership, and consider that one of the priorities of the company is inheriting leadership in the company. In Indonesia it was found that 95% of listed companies in Indonesia were family ownership. (Anderson & Reeb, 2003) suggested that family ownership has better performance compared to other companies. Companies with family ownership are managed by family members which can cause agency conflicts to be small (Fama & Jensen, 1983).

H1: Busy directors has a positive effect on firm performance

H2: Family ownership has a positive effect on firm performance

Hypothesis 3:

More concentrated family ownership in the company, the greater impact of the family in determining decisions regarding the placement of the position of family members as boards of directors and commissioners in the company. (Pandey, Vlithessonthi, & Mansi, 2015) shows that there is no differences in busy directors in family companies or non-family companies. But in a study conducted by (Eulaiwi, Al-Hadi, Taylor, Al-Yahyee, & Evans, 2016) found that family companies maintain control by appointing busy directors to control or supervise the company.

H3: busy directors strengthen the positive effect of family ownership on firm performance.

4. RESULTS

By using panel data analysis to analyse the best models used in this paper, a regression analysis was carried out using 3 models consist of common effect model, fixed effect model,

and random effect models. The following are the results of the regression test with random effect models on each model.

Table 1 Regression Method in Model 1

Variable	ROA
BUSYDIR	0.0138
	(0.4275)
FAMOWN	0.0610*
	(0.0630)
INDCOM	0.0732
	(0.1521)
TENURE	0.0004
	(0.9814)
SIZE	0.0125
	(0.3199)
AGE	0.1060**
	(0.0405)
LEVERAGE	-0.0005
	(0.6781)

Note: ***significance at 1%, **significance at 5%, *significance at 10%

Based on table 1, indicates that busy directors have no effect on firm performance (ROA). It is not accordance with the research (Fama & Jensen, 1983) which shows that the presence of busy directors in the company will give a positive performance to the company because it is related to a better reputation, skills and quality. Family ownership has positive effect on firm performance which means is accordance with the previous research (Anderson & Reeb, 2003), that family ownership has better performance compared to other companies. Firm age which is the control variable has a positive effect on firm performance. Hypothesis 1 rejected because it was not proven in the result of regression model 1, but this shows strong support for hypothesis 2.

Based on table 2, indicates that family ownership has no effect on firm performance and it is not accordance with research conducted by (Anderson & Reeb, 2003) indicates that family ownership has better performance compared to other companies. Moderation variable strengthen the positive influence of family ownership on firm performance. The family companies maintain control by appointing busy directors to control or supervise the company to maintain the company long-term. Firm age which is the control variable has a positive effect on firm performance. This indicates strong support for hypothesis 3.

Table 2 Regression Method in Model 2

Variable	ROA
FAMOWN	0.0155 (0.7024)
FAMOWN*BUSYDIR	0.1116* (0.065)
INDCOM	0.0764 (0.1348)
TENURE	0.0010 (0.9531)
SIZE	0.0111 (0.3753)
AGE	0.1058** (0.0406)
LEVERAGE	-0.0004 (0.7019)

Note: ***significance at 1%, **significance at 5%, *significance at 10%

5. CONCLUSION

In this paper we conclude that Busy directors has no effect on company performance or ROA. While, family ownership has a positive effect on company performance or ROA. The moderating variable busy directors reinforces a positive effect of family ownership on company performance

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