The Independent Commissioner As A Good Corporate Governance Mechanism To Increase Corporate Performance

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Abstract **This study aims to determine the effect of independent commissioner in the composition of the board of commissioner on corporate performance that measured by return on assets. The research object are Islamic banks that listed on the Indonesia Stock Exchange (BEI).**
In examining the effect of the composition of the independent commissioner to the ROA, the author uses panel data regression test, the process using EViews7 program. We use panel data regression because the data is a cross section and also time series.
Panel data regression test results indicate that there is a negative and significant impact on the composition of the board of commissioners to the ROA, indicated by coefficient β: - 3.8692 and 0.0000 probabilities. The results of the test can be concluded that the more independent board in the board of commissioners in the company, it will decrease ROA. theseconditions reinforces the opinion that the implementation of the Good Corporate Governance in Indonesia is not maximized.
Keyword : Good corporate governance, Independent commissioner, and Return on asset

I. INTRODUCTION

Good Corporate Governance (GCG) becomes an important issue in the world of economy, every government or private organizations both seek to apply the concept of GCG to obtain maximum performance. The phenomenon of bad GCG implementation in Indonesia enterprise, becomes a problem, that until now still continue in searching an appropriate solution. Recent data of GCG assessment, conducted by the ASEAN Capital Markets Forum (ACMF) 2013/2014 shows that Indonesia ranks still in the bottom two, with a score of 54.55, while the highest rated is Thailand with a score of 75.39.

In the previous studies conducted in non-financial companies listed on the Stock Exchange, the authors found the presence of independent commissioner have a negative impact on the performance of the company. Daniri (2005) states that the commissioner's role in Indonesia is still not maximal. No maximum role of commissioners caused by an affiliated party with the majority shareholder in the company , which enables the majority shareholder to expropriate the minority shareholders.

Based on the phenomenon above is felt necessary to find solutions to maximize the role of the commissioners in order to not only act in the interests of the parties with specific course. If seen from Indonesian companies GCG ranked, that released by the Indonesian Institute for Corporate Directorship (IICD) in 2013, ranking 1-20 is dominated by the Bank, this shows GCG implementation in banking tend to be better, because of that in this study the author will conduct research related to the influence of corporate governance mechanism with sub variable independent commissioners composition to the company performance measured by ROA, by taking the object of research is the Islamic Bank listed on the Stock Exchange.

Research Problem Formulation

Based on the research background , the research formulation problem is "Is there a positive and significant influence, the composition independent commissioners as GCG mechanism to the corporate performance? "

II. THEORETICAL REVIEW

2.1.1. Agency theory

Agency theory explains the conflicts that arise as a result of the separation between the management t and the ownership . Such conflicts can be classified into the conflict between the shareholders (owners) with the management and conflicts between majority and minority shareholders or between majority stockholder and other shareholders

Agency theory became one of the important theories in economics that was introduced by Alchian and Demsetz (1972) and then developed by Jensen and Meckling (1976). The managing company originally discovered by adam smith in the 18th century to explain later in more depth by Ross (1973), and for the first time more specific

$$\mathbf{ROA} = \frac{\textbf{Laba setelah Pajak}}{\textbf{Total Asset}} \textbf{ X 100 \%}$$

explanation made by Jensen and Meckling (1976), which defines the agency relationship as a contract, wherein one or more (principal) hire another person (the agent) to perform some services for their interests, by delegating some decision-making authority to the agents.

2.1.2 Good Corporate Governance

The essence of corporate governance is improving corporate performance through supervision or monitoring the performance of management, and the accountability of management to other stakeholders, based on the framework of rules and regulations (Gunarsih, 2003). It is thus clear that the GCG through mechanisms, is to serve as a means of control in the company.

According Lukviarman (2002) corporate governance system is very complex and integrated so we need a control mechanism. The corporate governance mechanism is designed to reduce the company's management expropiation that arise because of moral hazard, errors in decision making in order to achieve company goals. GCG mechanism consisting of internal and external mechanisms, both mechanisms in its application can not stand alone, but these mechanisms reinforce each other. Figure 1 below illustrates the corporate governance framework consisting of internal and external side.

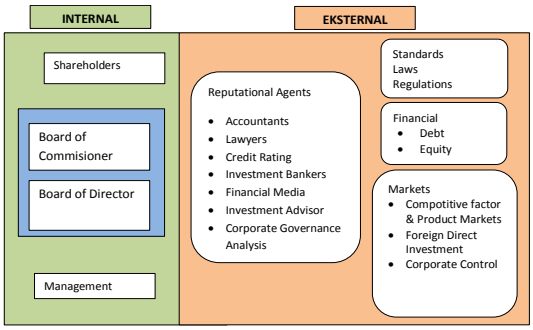

Fig 1. Good Corporate Governance Mechanism (Luviarman, 2002)

2.1.3. Profitability

Profitability ratio is a financial ratio that measures a company's ability to generate profits. In this study, profitability ratios used return on assets (ROA). ROA calculating formula is :

2.2. Paradigm Research and Hypothesis

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Based on the theoretical framework so the research paradigm can be described as follows:

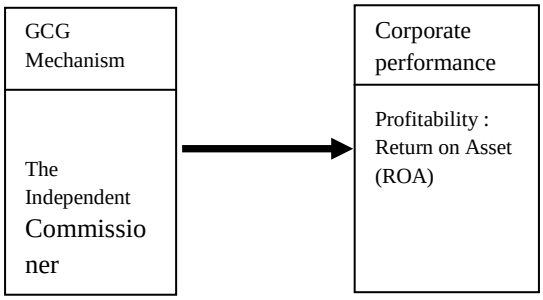

Fig.2.Reseach Paradigm

The research hypothesis in this study are:
Hypothesis: GCG mechanism that is independent board composition impact positively on the performance of the company.

III, METHODOLOGY

Because the data used in this research is time series data and cross section, then the test is made with analysis panel data regression. EViews7 program is used by the author to help the processing of the data.

IV. FINDINGS

4.1. Descriptive Analysis

In 2011 the average of independent commissioner composition in the composition of the board of commissioners in the company is 54%, while in 2012 the average is decreased to 52%, but increased agin in 2013 to 63%, based on the average of the independent commissioners composition in the Islamic bank is above 50% and already meets the standards prescribed by Bank Indonesia at least 1 independent commissioner in the composition of the board of commissioner of the company, with enough composition, the independent commissioner should be able to protect the rights of minority shareholders

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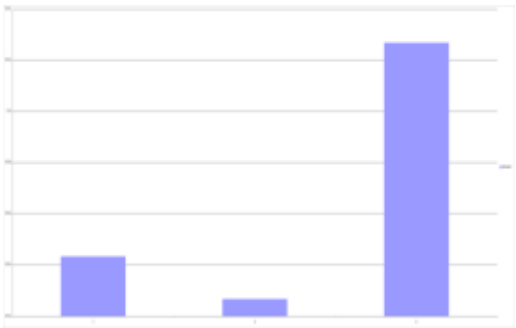

Fig.3. The Average of Independent Commissioner Composition in Company

Meanwhile in the same year in 2011 until 2013 visible movement of the ROA chart as opposed to the composition of the board of independent commissioners, when the composition of the board of independent commissioner down in 2012 the average of ROA company have increased, while when the composition of the independent commissioner increase in the epidemic in 2013 ROA precisely decline, this indicate of the existence of an independent commissioner actually have a negative impact on the company, to measure how big the impact, will be undertaken panel data regression analysis.

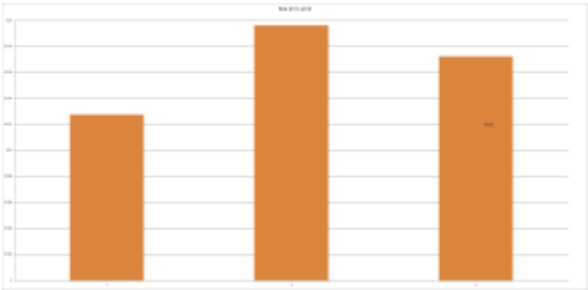

Fig. 4 . The Average of ROA

Commissioner to Company Performance

.Based on the results obtained regression testing regression function as follows:

$$Y = 0.6295 + (-3.8692)X$$

From the regression function above, can explain that if (X): The independent commissioner composition "0", the ROA would be worth0.6295, but if the composition of the independent commissioner increased 1 then ROA will decrease of -3.8692. Prob of 0.0000 is below the value of 0.05 indicates negative impact of independent commissioner composition is very significant.

Table 1. The following is a table of test results panel data regression. This regression testing results reinforced that the presence of independent commissioner is not maximized to minimize the agency conflict in Indonesia, namely the conflict between majority and minority shareholders.

Table.1. Panel Regression Result

pendent Variable: KOMISARIS

Method: Panel EGLS (Cross-section weights)

Date: 05/24/15 Time: 17:42

Sample: 2011 2013

Periods included: 3

Cross-sections included: 9

Total panel (balanced) observations: 27

Linear estimation after one-step weighting matrix
White cross-section standard errors & covariance (d.f. corrected)

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	0.629542	0.000724	869.3316	.0000
ROA	-3.869298	0.081771	-47.31871	.0000

Effects Specification

Cross-section fixed (dummy variables)

Weighted Statistics

R-squared	0.965708	Mean dependent var	.541616
Adjusted R-squared	0.947554	S.D. dependent var	.300576
S.E. of regression	0.165490	Sum squared resid	.465579
F-statistic	53.19386	Durbin-Watson stat	.037243
Prob(F-statistic)	0.000000		

These results also reinforce the results of writer previous studies in which independent commissioner give negative effect on the performance of the company significanly. In addition, the results of this study reinforce the model that found b y writer in 2013. in that model, explained that the affiliated parties with the majority shareholders included commissioners likely do expropriation

Figure 5. Explain that the affiliated group is the majority shareholder or family the founders of the company as the majority shareholder with management, the majority shareholder also has an affiliated relationship with commissioners including independent commissioners. These conditions allow the affiliated parties to do expropriation for public shareholders or the other stakeholders.

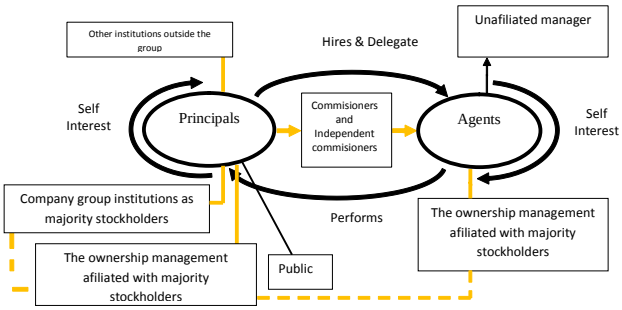

Fig. 5. The Indonesian Agency Problem Model

According to the observations Muhammad Arief Effendi, in practice at various companies in Indonesia, apparently there is a tendency commissioners often intervene to directors in carrying out their duties. On the other hand notch directors usually too strong, even there are some Directors of public companies are reluctant to share authority, and does not provide enough information to the commissioners, especially independent directors.

Liveliness Board also depends on the environment created by the company concerned. In Indonesia, often members of the Board of Commissioners did not perform his duties as superintendent of the Board of Directors so that the Board of Commissioners deemed useful and its existence is only regarded as an additional burden for companies.

Share ownership concentrated in one group or one family, may be one cause of the weak position of BOC, since the appointment of the position of member of the Board of Commissioners granted as appreciation alone or by family or close acquaintances.

In Indonesia, a former government official, or who are still active, usually appointed as a member of the Board of commisioners of a company in order to have access to the relevant government agencies. In this respect the integrity and ability of the BOC often becomes less important. In turn, the independence of the Board of Commissioners to be very doubtful because of a relationship, especially with shareholders majority conjunction with the Board of Directors along with a lack of integrity and the ability of the BOC (Herwidayatmo, 2000 in FCGI).

Regulators either BI or OJK, to be able to resolve these issues, it is necessary to make strict rules in the selection process of independent commissioners. Bank Indonesia (BI) or the Financial Services Authority need to ensure that independent commissioner not affiliated party with the majority shareholder, if necessary appointment of independent commissioner is not done by shareholders but done by an independent agency.

5. CONCLUSION

GCG implementation on Islamic banking in Indonesia is not maximized, this is evidenced by the results of the regression test that showed a significant and negative impact the composition of independent commissioners on ROA . To overcome this problem BI and the OJK needs to make the process of the appointment of an independent commissioner selectively and independently, in order to obtain independent comissioner truly independent.

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