

THE ROLE OF THE INDEPENDENT COMMISSIONER IN MODERATING CEO POWER ON COMPANY PERFORMANCE

Yolanda Pratami¹⁾, Loveana Syaifora^{*2)}, Agustin Basriani³⁾ Mai yuliza⁴⁾

Universitas Islam Riau¹ STIE Persada Bunda^{2,3} STIE Pasaman

¹yolandapratami3@eco.uir.ac.id, ^{*2}loveana.syaifora@gmail.com,

³agustin.basriani@gmail.com, ⁴mai.yuliza@gmail.com

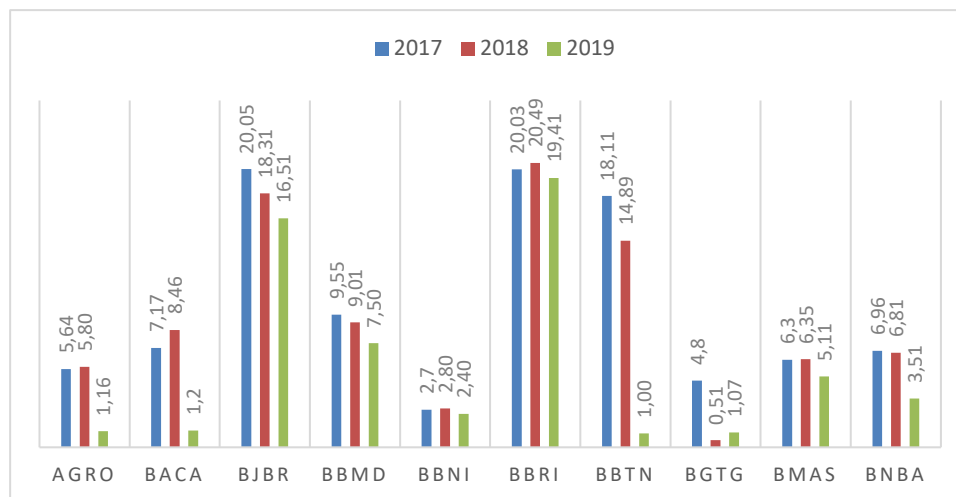
Abstract: *Business competition between companies requires companies to be able to survive by improving company performance. However, this has not been noticed by several banking companies listed on the Indonesia Stock Exchange which shows that the dominant company's performance has decreased from 2017 to 2019. The increase in company performance is inseparable from the ownership structure owned by parties with an interest in the company such as CEO power. and the role of independent commissioners. The purpose of this study was to obtain empirical evidence that CEO power has an effect on company performance and independent commissioners can moderate the relationship between CEO power and company performance. This study uses quantitative methods with multiple regression analysis while the population of this study are all banking companies listed on the Indonesia Stock Exchange from 2017 to 2019. The results of this study indicate that CEO Power has no effect on financial performance. Furthermore, independent commissioners do not have a moderating effect on the relationship between CEO Power and company performance*

Keywords: *Company Performance, CEO Power, Commissioner*

1. Introduction

Company performance is a description of the condition of a company that shows the financial condition and operational conditions of the company (William and Riki, 2017). The performance of banking companies in the first half of 2018 has not been optimal. According to Anton Gunawan, Chief Economist of Bank Mandiri, a number of banks still recorded performance that was below expectations because indicators of profit realization, credit, bank deposits and reserves were not yet optimal, for example Bank Panin which recorded a decline in indicators such as net profit, profit before tax and funds. negative third party (DPK) (businessinsight.kontan.co.id, September 2018).

The decline in company performance can also be seen in the initial data processing carried out on several banking companies listed on the Indonesia Stock Exchange in 2017, 2018 and 2019.



Source: Processed Data, 2021

Figure 1. Performance Chart of Companies listed on the IDX

The picture above shows that the company's performance in general fluctuated from 2017 to 2019. The figure shows that of the 10 companies sampled in 2017 to 2019, there are 4 companies that always experience a decline in company performance from previous years. For example, the performance of the BJBR company in 2017 the ROE value was 20.05% then decreased to 18.31% in 2018 and decreased again to 16.51% in 2019.

Increased company performance is inseparable from the ownership structure owned by parties with an interest in the company such as CEO power and the role of independent commissioners. CEO power describes the CEO's potential for leveraged ownership or a position to pursue his own goals (Noval, 2015). The role of the independent commissioner is to carry out the supervisory function of the company's operations (Helmi et al, 2015).

CEOs will engage in self-interested actions at the expense of shareholders' interests when they have the opportunity (Jensen and Meckling, 1976). Meanwhile, independent commissioners are thought to help protect shareholders from CEO selfish actions by monitoring CEO behavior and offering them incentives to act in the interests of shareholders. Therefore, the composition of a company's independent commissioners is expected to improve the company's performance (Helmi et al, 2015).

There is a research gap in several studies on company performance conducted by Helmi, et al (2015) which states that CEO power has an effect on company performance. In contrast, Noval (2015) states that CEO power has no effect on company performance. Then, Hardikasari (2011) explains that the size of the board of commissioners has a significant positive effect on company performance. Meanwhile, Noval (2015) states that independent commissioners have no moderating effect on the CEO's relationship with company performance.

The problems to be studied are: (1) Does CEO power affect the company's performance?; (2) Can independent commissioners moderate the relationship between CEO power and company performance?. The objectives of this research are: (1) to improve the company's performance by taking into account the condition of the company, both from the side of CEO power and the role of independent commissioners; and (2) obtain empirical evidence related to the effect of CEO power on company performance and the role of independent commissioners as moderating

between CEO power and company performance. The urgency of this research is companies need to pay attention CEO power and the role of independent commissioners (KI). Good company performance is reflected in the information in the form of financial reports and annual reports that are produced. These reports are very useful for investors to determine investment decisions in the company.

Agency Theory

The Agency theory was first proposed by Jensen and Meckling (1976). In agency theory, the principal is the party who gives the mandate to the other party. Agents are parties who are mandated to carry out all activities on behalf of the principals in their capacity as decision makers (Jensen and Meckling, 1976). Agency theory explains that the relationship between owners and managers is difficult to create because of conflicting interests. Management has an interest in obtaining welfare while shareholders have an interest in the wealth invested in the company.

Company performance

Company performance is a description of the financial condition of a company which is analyzed with financial analysis tools, so that it can be known about the good and bad financial condition of a company that reflects work performance in a certain period (Noval, 2015). To measure the company's performance, the ROE (return on equity) formula can be used (Oktaviana, 2016). The return on equity formula is:

$$\text{Return on Equity} = \frac{\text{Net Profit}}{\text{Shareholders' Equity}}$$

CEO Power

The CEO (Chief Executive Officer) is the highest position in a company and has the task of leading a company and is responsible for the stability of the company (Helmi et al, 2015). CEO Power is the capacity of a CEO to exert their abilities (Noval, 2015). According to Combset. et al (2007) in Noval (2015), CEO power can be measured using variables that take into account the share ownership of the CEO in the company. The CEO ownership is calculated by the percentage of shares owned by the CEO in the company.

$$\text{CEO Power} = \frac{\text{number of CEO shares}}{\text{total number of share}} \times 100\%$$

Role of Independent Commissioner

Independent commissioners are members of the board of commissioners who are not employees or people who deal directly with the organization, and do not represent shareholders (Noval, 2015). The role of the independent commissioner is to carry out the supervisory function of the company's operations by the management. The composition of independent commissioners can make an effective contribution to the results of the process of preparing quality financial reports (Helmi et al, 2015). With the supervision of an independent commissioner, it will influence managers to commit fraud in presenting financial reports by managers. Independent commissioners are measured using the percentage of independent commissioners to the total number of commissioners (Helmi et al, 2015).

$$\text{The role of KI (Independent Commissioner)} = \frac{\text{total KI}}{\text{total number of commissioners}} \times 100\%$$

Previous Researchers

Noval (2015) researched manufacturing companies listed on the Indonesia Stock Exchange in 2009-2011. The analytical technique used in this research is multiple regression analysis. The results showed that CEO Power had no significant effect on company performance. Furthermore, this shows that the role of independent commissioners does not have a moderating effect on the relationship between CEO Power and company performance. Furthermore, Helmi, et al (2015) conducted research on companies listed on the Sharia Securities List (DES). This study uses regression analysis with individual parameter significant test (t-test). The results showed that the CEO has an influence on the company's performance. The role of the independent board of commissioners has a moderating effect on the relationship between CEO Power and company performance.

2. Research Method

This research is a quantitative research. The population used in this study are banking companies listed on the Indonesia Stock Exchange (IDX) in 2017 to 2019 totaling 43 companies. The selection of this research year is to be able to describe the latest state of the variables used in the study. The method of sampling in this study using purposive sampling method. Multiple linear regression data analysis. The data is processed using SPSS software.

3. Results and Discussion

3.1. Results

Descriptive Statistics Results

Descriptive statistical analysis was carried out in order to provide an overview of the variables used in the study. Descriptive analysis is used in this study to provide an overview or description of the research variables, namely Company Performance, CEO Power and the Role of Independent Commissioners. The following table 1 presents the results of descriptive statistics on Company Performance

Table 1. Results of Company Performance Descriptive Statistics

Descriptive Statistics					
	N	Minimum	Maximum	mean	Std. Deviation
Company performance	90	-89.03	32.89	121.70	1668,747
Valid N (listwise)	90				

Source: Processed Data, 2021

The results of the descriptive statistical test in table 1 show that the minimum company performance is -89.03 obtained from the company PT Bank Artos Indonesia Tbk in 2019 and the maximum company performance is 32.89, namely the company PT Bank Harda Internasional Tbk in 2018. This means that of the 30 companies studied in In the last 3 years, the company PT Bank Artos Indonesia Tbk in 2019 showed poor company performance while the company PT Bank Harda Internasional Tbk in 2018 showed the best company performance. The average performance of the companies studied was 121.70. The standard deviation is 1668,747 which indicates that 1668,747 the data varies from the average.

Table 2. Results of CEO Power's Descriptive Statistics

	Descriptive Statistics				
	N	Minimu m	Maximu m	mean	Std. Deviation
CEO Power	90	0	7333	175.52	869,653
Valid N (listwise)	90				

Source: Processed Data, 2021

The results of the descriptive statistical test in table 2 show that the minimum CEO Power is 0 obtained from several companies and the maximum CEO Power is 0.7333, namely the Bank Negara Indonesia Tbk company in 2019. This means that of the 30 companies studied in the last 3 years, most company CEOs do not owns company shares while the CEO of Bank Negara Indonesia Tbk in 2019 has large shareholdings. The average CEO Power studied was 175.52. The standard deviation is 869,653 which indicates that 869,653 the data varies from the average.

Table 3. Results of Descriptive Statistics on the Role of Independent Commissioners

	Descriptive Statistics				
	N	Minimu m	Maximu m	mean	Std. Deviation
Independent Commissioner	90	25	666667	118948.88	249929,631
Valid N (listwise)	90				

Source: Processed Data, 2021

The results of the descriptive statistical test in table 3 show that the minimum role of independent commissioners is 25.00 obtained from Bank Danamon Indonesia Tbk in 2019 and the maximum role of independent commissioners is 66.6667 obtained from several companies. This means that of the 30 companies studied in the last 3 years, Bank Danamon Indonesia Tbk in 2019 had more independent commissioners than other companies. The average performance of the companies studied was 118948.88. The standard deviation is 249929.631 which indicates that 249929.631 data varies from the average.

Classic Assumption Test Results

Normality Test Results

The results of the normality test using the Kolmogorov-Smirnov test obtained a significance value of $0.000 < 0.05$. This means that the regression model does not meet the assumption of normality. Therefore, the outlier data is removed, and the results can be seen in the sig value. in the Kolmogorov-Smirnov section as shown in table 4 below:

Table 4. Kolmogorov-Smirnov Test . normality test results

One-Sample Kolmogorov-Smirnov Test		
		Unstandardized Residual
N		43
Normal Parameters ^{a,b}	mean	.0000000
	Std. Deviation	4.04782403
Most Extreme Differences	Absolute	.077
	Positive	.077
	negative	-.073
Test Statistics		.077
asympt. Sig. (2-tailed)		.200 ^{c,d}
a. Test distribution is Normal.		

Source: Processed Data, 2021

Based on table 4 above, the value of Kolmogorov-Smirnov for company performance is 0.077 and significant at $0.200 > 0.05$. Which means that the residual data are normally distributed.

Autocorrelation Test Results

The results of the autocorrelation test are shown in table 5 below:

Table 5. Auto Correlation Test Results

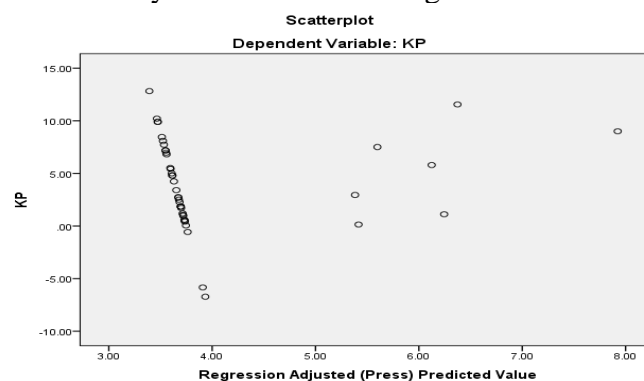
Model Summary ^b					
Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Durbin-Watson
1	.279 ^a	.078	.007	4.18519	2.189
a. Predictors: (Constant), CPKI, KI, CP					
b. Dependent Variable: KP					

Source: Processed Data, 2021

Based on the results in table 5, the Durbin Watson value is 2.189. For the number of data as many as 43 and the independent variable 1, the dL value is 1.415 and dU is 1.609. Thus, it is known that $1 - dU < dU < DW = 0.609 < 1.415 < 2.189$. This means that there is an autocorrelation in the regression model.

Heteroscedasticity Test Results

The results of the heteroscedasticity test are shown in Figure 2 below:



Source: Processed Data, 2021

Figure 2. Heteroscedasticity Test Results

Based on the results of the heteroscedasticity test in Figure 2, it can be seen that the scatterplot graph shows that the data forms a certain pattern and does not spread randomly so that it can be interpreted that the regression model is heteroscedasticity.

Hypothesis Testing Results

Simple Linear Regression Analysis

Hypothesis testing in this study was carried out using a simple regression analysis model, this model was tested through a partial test (t-statistical test) and a coefficient of determination test. The t statistic test basically shows how far the influence of one independent variable individually in explaining the variation of the dependent variable (Ghozali, 2013:98). If the value of profitability t is less than 0.05, then H_1 is accepted and H_0 is rejected and vice versa. Table 6 below shows the results of the t statistical test.

Table 6. Hypothesis Test Results

Coefficients ^a					
Model	Unstandardized Coefficients		Standardized Coefficients		Sig.
	B	Std. Error	Beta	t	
1 (Constant)	3,647	.672		5.424	.000
CP	436,611	246,502	.267	1,771	.084

a. Dependent Variable: KP

Source: Processed Data, 2021

Moderate Regression Analysis (MRA)

In this study, Moderate Regression Analysis (MRA) uses the absolute difference value test which is better in its application because previous expectations are related to the combination of the independent variable, the moderating variable and the effect on the dependent variable.

Table 7. Moderate Regression Analysis Test Results

Coefficients ^a					
Model		Unstandardized Coefficients		Standardized Coefficients	Sig.
		B	Std. Error	Beta	
1	(Constant)	5.310	3.593		.147
	CP	565,413	500.352	.345	.265
	KI	-.029	.062	-.076	.638
	CP_KI	-1.410	6.481	-.066	.829

a. Dependent Variable: KP

Source: Processed Data, 2021

Based on the table above, it produces the following regression model:

$$Y = \alpha + \beta_1 CP + \beta_2 KI + \beta_3 CP_KI + e$$

Information :

KP : Company performance

CP : *CEO Power*

KI : Independent Commissioner

3.2. Discussion

First Hypothesis Testing

The first hypothesis to be tested is the effect of CEO Power on firm value. From the results of the regression analysis in table 6 shows that the value of Sig. (0.084) > 0.05. Thus H_1 is rejected, meaning that the CEO Power variable has no effect on company performance.

The results of this study contradict agency theory, namely there is a conflict of interest between the board of commissioners (principals) representing the owner of the company and the management. The principal as the owner will supervise the agent so that the company is managed properly. In addition, so that the interests of the owners can be achieved. According to Noval (2015), the share ownership structure of CEOs in Indonesia is still very small and dominated by families. In addition, most of the shareholders concurrently hold positions as CEO's on the grounds that having one member of the shareholders who also serves as CEO will make it easier to control management performance.

Based on the phenomenon that occurred in 30 banking companies listed on the IDX from 2017 to 2019 related to management's share ownership as an indicator of CEO Power, data shows that CEO's of companies that own shares only amount to 8 companies, while the remaining 22 companies have CEO's who do not hold concurrent positions. as a shareholder. This reflects that CEO ownership in banking companies tends to be very low, so it can be said that CEO Power has not been able to become a mechanism in improving company performance

This study is in accordance with research conducted by Noval (2015), which stated that CEO Power has no significant effect on company performance. Whereas, Helmi, et al (2015) stated that CEO power has an effect on company performance.

Second Hypothesis Testing

The second hypothesis tested is the effect of the role of independent commissioners as moderating on the relationship between CEO Power and company performance. From the MRA results in table 7 shows that the value of Sig. (0.829) > 0.05. Thus H_2 is rejected, meaning that the role of independent commissioners does not moderate the relationship between CEO Power and company performance.

Referring to the agency problem, namely with the increasing number of members of the board of commissioners, it will make it difficult for internal parties to manage the company such as difficulties in communicating and coordinating the work of each member of the board itself, difficulties in supervising and controlling management actions, and difficulty in making decisions that are useful for the company (Noval, 2105). Rashid et. al. (2010) explained that external commissioners have no influence in improving company performance because most independent commissioners may not have adequate qualifications and expertise from independent

commissioners. Other than that, The existence of control from the executive results in the emergence of obstacles for CEO's with low power so that this may not always benefit shareholders. This shows that the role of independent commissioners in the company has no effect on the CEO's ability to improve company performance.

The results of Noval's research (2015) state that independent commissioners have no moderating effect on CEO Power's relationship with company performance. On the other hand, Hardikasari (2011) explained that the size of the board of commissioners has a significant positive effect on company performance.

Coefficient of Determination Test Results (R^2)

The coefficient of determination (R^2) measures how far the model's ability to explain variations in independent variables is. The value of the coefficient of determination is between zero (0) and one (1) (Ghozali, 2013:97). The results of the coefficient of determination test can be seen in table 8 below.

Table 8. Determination Test Results

Model Summary ^b					
Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Durbin-Watson
1	.279 ^a	.078	.007	4.18519	2.189

a. Predictors: (Constant), CP_KI, KI, CP

b. Dependent Variable: KP

Source: Processed Data, 2020

The results of the coefficient of determination test in table 8 above show the coefficient of determination of 0.007. This means that the percentage of the influence of the CEO Power variable is 0.7%. While the rest is influenced by other variables that are not included in this regression model.

4. Conclusion

The CEO Power does not affect the company's performance, which means that the CEO's share ownership in the company does not affect the level of performance of a company. Furthermore, independent commissioners have no moderating effect on CEO Power's relationship with company performance. The role of independent commissioners in the company has no effect on the CEO's ability to improve company performance.

Suggestion

It is hoped that further research can increase the number of research observations and extend the observation period. In addition, further researchers do not need to use the CEO Power variable to explain the company's performance, but can use other independent variables

Reference

Djohanputro, B. (2008). *Manajemen Keuangan Korporat. PPM. Jakarta.*

- Hardikasari, E., & Pamudji, S. (2011). *Pengaruh Penerapan Corporate Governance Terhadap Kinerja Keuangan Pada Industri Perbankan Yang Terdaftar Di Bursa Efek Indonesia (BEI) Tahun 2006-2008* (Doctoral dissertation, UNDIP: Fakultas Ekonomika dan Bisnis).
- Jensen, M. C., & Meckling, W. H. (1976). Theory of the firm: Managerial behavior, agency costs and ownership structure. *Journal of financial economics*, 3(4), 305-360. Available from: <http://papers.ssrn.com>
- Kontan.co.id. (2018). *Kinerja Bank masih belum Optimal*. <https://businessinsight.kontan.co.id>, (Accessed on October 22, 2020)
- Noval, M. (2015). Pengaruh CEO Power Terhadap Kinerja Perusahaan dengan Peran Komisaris Independen Sebagai Variabel Moderasi. *Jurnal Ilmu Manajemen dan Akuntansi Terapan (JIMAT)*, 6(2), 88-107.
- Oktaviana, H. (2016). Pengaruh struktur modal, ukuran perusahaan dan corporate governance terhadap kinerja perusahaan pada perusahaan manufaktur yang terdaftar di bursa efek indonesia Studi empiris pada perusahaan yang terdaftar di bursa efek indonesia. *Jurnal Bisnis dan Manajemen*, 53(12).
- Rashid, A. (2009, July). Board composition, board leadership structure and firm performance: Evidence from Bangladesh. In *Proceedings of the 2009 AFAANZ Conference*. Accounting & Finance Association of Australia and New Zealand.
- William, J., & Sanjaya, R. (2017). Faktor-Faktor Yang Mempengaruhi Kinerja Perusahaan Pada Perusahaan Yang Terdaftar Di Bursa Efek Indonesia. *Jurnal Bisnis dan Akuntansi*, 19(1a-2), 152-162.