BOARD’S MONITORING IN EMERGING MARKET

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ABSTRACT

The role of monitoring Board of Commissioners is critical in the mechanism of internal corporate governance, especially within inclined family-owned shares of emerging markets. One of such monitoring activities is the supervision of financial statement presentation. The success in monitoring role may be presented by the low earnings management performed by company executives. It is suggested that, the more effective the monitoring role is, the better firm value will be. This study aims to determine the effect of monitoring role of Board of Commissioners on firm value, and to examine whether family control can moderate the effect of monitoring role on firm value. Our population consists of non-financial service companies listed on Indonesia Stock Exchange 2016-2018. We employed purposive sampling and conducted 356 observations. We tested the data using moderated regression analysis. The result shows that monitoring role cannot affect firm value. Likewise, family control cannot moderate the influence of monitoring role on firm value. The result of this study provides evidence that the role of monitoring cannot operate well within companies whose shareholders are dominated by family. The result of the study also proves that internal control in companies from developed countries cannot be applied to companies in emerging market.

Keywords: Monitoring, Firm value, Family ownership, Emerging Market.

INTRODUCTION

Corporate management, or also often called corporate governance, provides a series of mechanisms that direct and control a company to make its operation runs according to the expectations of its stakeholders. A company management is inseparable from the role of Board of Commissioners, especially in a capital market of developing countries (emerging markets) such as Indonesia. When external governance is less effective and legal protection for investors is weak, an internal control mechanism, such as the Board of Commissioners, becomes even more important to avoid conflict of interest among its stakeholders (Young, Peng, Ahlstrom, Bruton, & Jiang, 2008).

The Board of Commissioners assumes various roles in a company, including supervision/monitoring of management behavior. Effectiveness of the role of the Board can be ascertained if it prioritizes the process of taking objective decisions and monitoring the company closely (Bergh & Baelden, 2005). In this case, the Board’s independence is important. One of the tasks in the role of monitoring is to provide an assessment on the quality of information reported. The effectiveness of monitoring is reflected by a superior quality of earnings reported by the company management. It is expected that when the monitoring role becomes more effective, the company performance will improve.

The relationship between implementation of the Board’s role with its performance depends on the conditions and characteristics of the company. Most public companies in Indonesia are owned by controlling shareholders or having a structure of pyramid ownership. In accordance with La-Porta, Lopez-De-Silanes, and Shleifer (1999) which identify companies from four continents, the result explains that the most common ownership mechanism in developing countries is the pyramid ownership structure. Likewise, the study conducted by Claessens, Djankov, and Lang (2000) which analyzes companies from East Asia found that pyramid ownership was highest in Indonesia (67%). Most controlling shareholders of public companies in Indonesia (56%, 57%) are families (Darmadi, 2013; B. Siregar, 2008) and institutions. These companies are holding companies but the management is dominated by families (Sudarma, 2004).

Companies whose share are dominantly owned by families tend to have issues with corporate governance and agency (Morck & Yeung, 2003). Families who are directly involved in managing a company (as CEO or Board of Commissioners) possess good business understanding and information regarding the company condition (Anderson & Reeb, 2003). This condition may prevent an opportunistic behavior that a management might do, because the owner has the ability to control management actions. Furthermore, family management carries a long-term investment horizon to maintain its reputation and to ensure the company sustainability to the next generation (Schulze, Lubatkin, & Dino, 2003).

On the other hand, family management may result in nepotism when selecting family members to occupy strategic positions in the company. Family member generally plays an important role, both in the management team and on the Board of Commissioners. Even more so if the majority shareholder is the founding family, hence the family ensures a significant voting right. Such condition creates a great possibility for asymmetric information between the founding family shareholder and other shareholders. Family members who occupy management positions will seek to manage the financial statement for the sake of certain interests. This makes transfer of welfare to family members easier. Therefore, family-owned business is often less productive and less efficient than corporate business. In addition, the process of monitoring the Board becomes ineffective since problems are often resolved through family consensus (Young et al., 2008).

The negative impact of family involvement that prioritizes family interests raises allegations of mismanagement that endanger company performance. Findings of the above studies lead to our interest in family control as an interesting object of research to examine, especially in in developing country capital markets such as Indonesia wherein its ownership structure is concentrated. Thus this study aims to investigate: (1) if there is an influence of the Board’s monitoring role on firm value; (2) if family control weakens the influence of the Board’s monitoring role towards the firm value.
LITERATURE REVIEW

The Agency Theory
The Agency theory (Jensen and Meckling, 1976) relates to working relationship between a party who gives authority (principal) and a party who receives the authority (agent). A principal delegate’s authority and responsibility in decision making to an agent, but often the principal and the agent have conflicting interests and cause risks to the company.

Some mechanisms that can reduce differences in interests, commonly referred to as agency conflicts include managing the ownership structure (Agrawal & Knoeber, 1996; Chin, Vox, & Casey, 2004; Jensen & Meckling, 1976), dividend payments and the use of private debts (Chin et al., 2004), as well as optimizing the role of the board of commissioners (Agrawal & Knoeber, 1996; Chin et al., 2004; Fama & Jensen, 1983). The board of director is an important aspect in the structure of the company, which is a liaison between the parties providing capital (shareholders) and those who use capital (management) to create value. However, management is often opportunistic in order to maximize personal well-being.

Differences in interests driven by opportunistic nature of management require supervision from Board of Commissioners as the party appointed to focus on the interests of shareholders. This condition requires the role of monitoring and control from the Board of Commissioners, so the management will not behave only for the sake of personal welfare and harm the company. This theory establishes the notion that the primary role of the Board is to monitor executive behavior and performance.

The Role of Monitoring the Board of Commissioners
Company Board of Commissioners (corporate board) carries the capability to create or at least certify all important decisions relating to investment policy, management compensation policy and management of the Board. Various roles of the Board can be found in countries such as (US, UK, Ireland, Canada and Australia) with governance that adheres to the one-tier system1.

Indonesia adopts the two-tier system of corporate governance model, which is also adopted in Germany, the Netherlands, Austria and Finland. Under the two-tier governance system, two separate bodies operate independently: the board of directors and the supervisory board. The supervisory board assumes the role in providing regular advice and supervising the board of management in managing a company, as well as being involved in important fundamental policies for the company (Jungmann, 2006). The two-tier governance system separates the functions of company supervision and management, hence there are two parties supporting corporate governance, namely the supervisory board commonly known as the Board of Commissioners and management board commonly known as the Board of Directors. The Board of Commissioners assumes various roles both that connect the organization with outside organization, and monitor the organization and coordinate stakeholders’ interests. In accordance with Law No. 40 of 2007 concerning Limited Liability Companies, the Board of Commissioners is a corporate organ with the task to conduct supervision in general and/or specifically in accordance with the articles of association.

Firm Value
Firm value (enterprise value) is investor’s interpretation or perception regarding the level of success of a company which is reflected in the stock price (Brigham & Houston, 2009). A firm value provides an indicator to assess company’s performance. A firm value can be measured reliably through the price of outstanding stocks. The higher the stock price is, the higher the firm value will be according to the perception of shareholders or potential investors (Ohlson, 1995). According to Weston and Copeland (2008), measuring firm value may be done using several ratios, including Price Earning Ratio (PER), Price to Book Value (PBV), and Tobin’s Q. PER is the ratio between company stock price and earnings per share; PBV ratio is the market price per share divided by the book value per share, and Tobin’s Q, developed by Professor James Tobin, is calculated by comparing the ratio of company’s market value to its equity book value (Weston & Copeland, 2008).

Family Control
Definition of company can be categorized to family-owned company based on structure of ownership, on how it is managed, or a combination of both aspects (Sacristán-Navarro, Gómez-Ansón, & Cabeza García, 2011). Business terminology divides family-owned company into 2 types (Ahmar, 2013), namely: Family-Owned Enterprises (FOE) and Family Based Enterprises (FBE). FOE is family-owned company whose shares owned by family, but management of the company is resumed by professional executives of outside the family. FBE is a company owned and managed by founding family members. In the latter type, family members usually occupy important positions in the company.

Family-owned business is often associated with ownership originating from parties with relationships, either because of blood relation or marital relation. However, family governance defines family with a broader definition. Familial relationships, such as close friend or professional adviser hired based on good relations, also fall under familial category (Angus, 2005). Family involvement in management or ownership of the company leads to the family having flexibility in controlling the company.

HYPOTHESIS DEVELOPMENT

The perspective of agency theory is based on the emergence of agency problem. As an implication of separation between ownership and management in a company, a characteristic of today Modern Corporation, it creates an impact on the need of monitoring. A company management is expected to act in the interests of its stakeholders; hence an independent party is required to monitor the management behavior. Thus shareholders appoint the Board of Commissioners to occupy this position. The Board

1One-tier system is a corporate governance model that combines the role of supervision and management of the company carried out by the board of directors, consisting of executive directors and non-executive directors. Whereas the two-tier system is a corporate governance model that separates the supervisory role carried out by the supervisory board and the management role performed by the management board.
is expected to be able to carry out an effective monitoring role, in order to create better governance and subsequently create value for the shareholders (Andres & Vallelado, 2008).

The influence of monitoring role on firm value is still inconclusive. Board of Commissioners that acts as supervisors cannot influence company performance (Filatotchev, Lien, & Piesse, 2005). Likewise, a study by Brick and Chidambaran (2010) found the evidence that there was no relationship between the monitoring role of the Board and company's performance as measured by ROA. However, when the company's performance is measured by market ratios, the monitoring role may increase the value of Tobins Q.

One of the specific tasks of monitoring is related to supervising the process of preparing financial statement (Abdullah & Nasir, 2004). The Board of Commissioners must be independent of management to guarantee the fairness of the financial statements presented by the company management. An independent Board of Commissioners may lower the possibility of management fraud leading to low levels of accrual earning management (Klein, 2002). High discretionary accrual signifies that the profit is presented with true and fair view, reflecting the role of monitoring works effectively and ultimately increases the firm value. Based on the above description, the research hypothesis is formulated as follows:

**H1: Monitoring role of Board of Commissioners has positive influence on firm value.**

Studies on the influence of the role of Board of Commissioners on firm value provide varying results. This is attributable to the influence of contingency variables. Contingency perspective assumes that a certain method or technique is not always appropriate to all companies in every condition (Otley, 1980). Therefore, the role of Board of Commissioners in influencing firm value is highly dependent on contextual factors or the company condition. Previous researches, among others, provided evidence that family control/company whose shares are dominantly owned by family is one of contextual factors that contribute to influencing the difference in the influence of the role of the board of commissioners towards the performance (Chen & Hsu, 2009; Lam & Lee, 2006).

Habbers Hon and Williams (1999) concluded several studies on performance in family-owned company. Family-owned company produces a profit margin larger, faster growth rate, more stable earnings, and lower dividend rate. In addition, it provides better returns to investors, lower transaction cost, more efficient informal decision making, and lower monitoring and control cost. Decision making in family-owned business tends to be centralized among the top family members, which results in reduced costs and increased flexibility within the company. The above conclusions provide evidence that the family-owned company has a competitive advantage in improving company performance, so that it becomes a form of business organization that is widely used so far.

But other research using public companies controlled by family provides conflicting evidence. Appointment of incompetent family members to strategic positions in company, and limiting leadership exercise to non-family executives (Tsao, Chen, Lin, & Hyde, 2009) indicates that the family-owned company does not regard professionalism in hiring board of commissioners or company management. In addition, ownership structure dominated by family members has an impact on the lack of independence of the board of commissioners.

The large proportion of independent commissioners is related to the low/reduced level of earnings management in large companies, but not in small companies/family companies (Benkel, Mather, & Ramsay, 2006; Jaggi & Leung, 2007; Jaggi, Leung, & Gul, 2009). This indicates that large companies have a Board of Commissioners with superior experience and expertise, and have strong incentives to better monitor, so as to prevent earnings management. While in small companies that are usually dominated by families, the presence of family members on the Board of Commissioners or management team will weaken the effectiveness of monitoring and tend to report high levels of discretionary accruals. Based on the description above, the research hypothesis can be formulated as follows:

**H2: Family control weakens the influence of the monitoring board's role on the firm value.**

Based on the description and hypothesis development above, then further research can be illustrated as follows.

**METHOD, DATA AND ANALYSIS**

**Population, Sample and Research Data**

The research population in the study is all non-financial service companies listed in the Indonesia Stock Exchange (BEI) within the period of 2016-2018. The study specifies to only selecting financial service companies in order to avoid biased results caused by differences in corporate characteristics. We only observe the 2016-2018 period because we want to have the most updated data, so the result will be relevant in decision making.

The study determined the sample using purposive sampling method, i.e. selecting the sample based on certain criteria. The criteria served to determine the basis for research sample are namely (1) all obtainable company annual report 2016-2018; (2) these reports included data of their shareholder composition and important financial data. Based on the two criteria, we conducted 336 observations. The data used in this study is summary of financial data, summary of financial statements and annual report 2016-2018. This study uses archival method in data acquisition, which comes from the Indonesian Capital Market Directory (ICMD), company website, and IDX website. Our study required data about family ownership and accounting.
Definition of Conceptual and Operational Variable

The role of monitoring by the Board of Commissioners

The independent variable in this study is monitoring role of Board of Commissioners. Monitoring includes monitoring fairness of financial statements presentation. Failure of Board of Commissioners in overseeing financial statements presentation may be shown by management indication in the engineering of earnings. Management action in regulating earnings figures is understood as earnings management. The higher earnings management conducted by the management is, the role of Board of Commissioners in overseeing management actions becomes less or ineffective. Conversely, if earnings management in a company is low or earnings management does not occur, it can be said that the role of Board of Commissioners in overseeing management is effective. Thus, it can be concluded that monitoring role of Board of Commissioners is inversely proportional to the power of earnings management by corporate executives. The study of Kim, Mauldin, and Patro (2014) uses earnings management measured by calculating discretionary accruals as a proxy for the effectiveness of monitoring role. The study used performance matched discretionary accruals (Kothari, Leone, & Wasley 2005) which is a development from a modified Jones model, taking into account the financial performance (lag ROA). The model of Kothari et al. (2005) is often used by certain researchers (Jaggi et al., 2009; Kim et al., 2014). The rationale for using this model is that it has better explanatory power, more appropriate in predicting accrual earnings management and more appropriate for various conditions of a company’s life cycle.

The following equations are employed to calculate the discretionary accruals.

1. Calculate total accruals, i.e.:  
   \[ TA_i = N\text{L}_i - CFO_i \]  
   Description:  
   \[ TA_i \]: Total accrual of company i in year t.  
   \[ N\text{L}_i \]: Net income before extraordinary accounts and operations that were stopped by company i in year t.  
   \[ CFO_i \]: Operating cash flow for company i in year t.

2. Determine the coefficient of total accrual regression  
   \[ TA_i/A_{i-1} = \alpha(1/A_{i-1}) + \beta_1((\Delta\text{REV}_i - \Delta\text{REC}_i)/A_{i-1}) + \beta_2(PPE_i/A_{i-1}) + \beta_3(\text{ROA}_i-1/A_{i-1}) + \epsilon_i \]  
   Description:  
   \[ TA_i \]: Total company accrual i in year t.  
   \[ A_{i-1} \]: Total assets for company i at the end of year t-1.  
   \[ \Delta\text{REV}_i \]: Changes in net sales for company i in year t.  
   \[ \Delta\text{REC}_i \]: Change in the company’s net trade receivables i in year t.  
   \[ PPE_i \]: Property, plant and equipment for company i in year t.  
   \[ \text{ROA}_i \]: Return on Assets of company i at the end of year t-1  
   \[ \epsilon_i \]: error term for company i in year t.

3. Determine non-discretionary accruals  
   \[ N\text{DA}_i = \alpha (1/A_{i-1}) + \beta_1 ((\Delta\text{REV}_i - \Delta\text{REC}_i)/A_{i-1}) + \beta_2 (PPE_i/A_{i-1}) + \beta_3 (\text{ROA}_i-1/A_{i-1}) + \epsilon_i \]  
   Description:  
   \[ N\text{DA}_i \]: Non-discretionary accrual of company i in year t.

4. Determine discretionary accruals  
   \[ \text{DA}_i = TA_i/A_{i-1} - N\text{DA}_i \]  
   Description:  
   \[ \text{DA}_i \]: Company discretionary accrual i in year t.

The Firm Value

The dependent variable is firm value proxied by Tobin’s Q as employed by Brick and Chidambaran, 2010; Jermias & Gani, 2013; Lefort & Urzua, 2008. Tobin’s Q emphasizes the assessment of future earnings expected by a company and is considered as a forward-looking indicator that reflects the current plan and strategy (Kiel & Nicholson, 2003). Tobin’s Q is the ratio of a company’s market value to replacement cost assets. Tobin’s Q calculation uses an alternative formula of Chung and Pruitt (1994); Villalonga and Amit (2006) as follows:

\[ \text{Tobin’s } Q = \frac{\text{Market Value of Common Stock} + \text{Book Value of Preferred Stock} + \text{Book Value of Long Term Debt}}{\text{Book Value of Total Assets}} \]

Family Control

The moderating variable in this study is family control, measured by ownership-based calculation, namely the percentage of shares owned by founding family members and/or by large-number individual shareholders (Filatotchev et al., 2005; Liang, Wang, & Cui, 2014). Definition of family member refers to established criteria, namely a nuclear family member and/or extended family (family status by reason of legal relations, e.g. marriage). Family member is identified by their names (common first or second surname), which indicates blood relationship or marriage relationship.

Processing and Analyzing the Data

In line with the objectives of the study, data analysis used in this study is moderated regression analysis. Before conducted the testing using moderated regression analysis, in order to meet the requirement, classical assumption testing was first performed. Classical assumption testing consists of normality, multicollinearity, autocorrelation, and heteroscedasticity. The moderating variable testing is done by using two regressions as follows:

\[ \text{FV} = a + b_1 \text{MON} + \epsilon \]  \[ \text{FV} = a + b_1 \text{MON} + b_2 \text{FCO} + b_3 \text{MON}*\text{FCO} + \epsilon \]
RESULT AND DISCUSSION

The descriptive statistic of each research variable is presented in Table 1. Monitoring variables which are proxies with an absolute discretionary accrual value have a minimum value of 0.00113 and a maximum value of 20.94069. This indicates that all companies used in research samples carried out earnings management. The family control variable which is proxied by the percentage amount of family ownership shows a minimum value of 0 and a maximum value of 100. Thus, the data shows that there are companies whose shares are not owned by the family at all, and there are companies that are 100% family owned. While the average family ownership in the sample companies is 31.0468%. Descriptive statistics for firm value variables which are proxied by Tobin’s Q produce a minimum value of 0.0139, a maximum value of 128.0144 and an average of 1.749596. The data indicates that on average, the companies had received positive values from investors, which has resulted in Tobin’s Q values of more than 1.

Table 1: Descriptive Statistics

<table>
<thead>
<tr>
<th>Variable</th>
<th>N</th>
<th>Minimum</th>
<th>Maximum</th>
<th>Mean</th>
<th>Std. Deviation</th>
</tr>
</thead>
<tbody>
<tr>
<td>MON</td>
<td>356</td>
<td>.00113</td>
<td>20.94069</td>
<td>2.254485</td>
<td>1.49272561</td>
</tr>
<tr>
<td>FCO</td>
<td>356</td>
<td>.00</td>
<td>100.00</td>
<td>31.0468</td>
<td>31.76306</td>
</tr>
<tr>
<td>FV</td>
<td>356</td>
<td>.0139</td>
<td>128.0144</td>
<td>1.749596</td>
<td>7.1504455</td>
</tr>
</tbody>
</table>

The results of moderated regression analysis test show that monitoring role does not influence firm value. This is indicated from the significance value of 0.661 > 0.05 (see table 2). This shows that family control variable cannot moderate the influence of monitoring role on firm value. The following table 2 describes the results of moderated regression analysis test. The coefficient of determination (see appendix) is $R^2$ in the first equation of 0.01; while in the second equation is 0.03. It shows that the presence of moderating variables increases the ability of independent variables to influence dependent variables.

Table 2: Moderated Regression Analysis Test Results

<table>
<thead>
<tr>
<th>Model</th>
<th>Unstandardized Coefficients</th>
<th>Standardized Coefficients</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>B</td>
<td>Std. Error</td>
</tr>
<tr>
<td>(Constant)</td>
<td>1.993</td>
<td>.541</td>
</tr>
<tr>
<td>MON</td>
<td>.014</td>
<td>.256</td>
</tr>
<tr>
<td>MON*FCO</td>
<td>-.005</td>
<td>.016</td>
</tr>
<tr>
<td>FCO</td>
<td>-.040</td>
<td>.091</td>
</tr>
</tbody>
</table>

Findings of this study provide evidence that monitoring role reflected in figures of earnings management in a company cannot influence the firm value. This is likely due to the use of absolute value of discretionary accruals as a measure of earnings management. The absolute value of discretionary accruals makes earnings management figures less variable, hence it is unable to influence the fluctuation of firm value figures. This result is not in accordance with findings of Subramanyam's study (1996) which proved that discretionary accruals had a positive effect on future stock returns. Likewise, the study of Herawaty (2008), by considering the mechanism of corporate governance as a moderating variable, showed that an increase in discretionary accruals added to Tobin’s value Q. Discretionary accruals as an abnormal accrual is a management object in estimating the level of earnings to be reported. Profit is managed by management hence it indicates a good signal to users of financial statements, so as to get a positive response from the market, and further increase firm value.

In addition to the lack of variation in the absolute value of discretionary accruals, the lack of influence of monitoring role on company performance may be attributed by the presence of Board of Commissioners in a public company is mainly because it has to meet regulatory requirements. The regulation requires public company or issuer to have a Board of Commissioners as one of company important organs. Moreover, the monitoring role is often conducted by the founding family or owner of the company and not by the Board of Commissioners (SV Siregar & Main, 2008).

This finding confirms the finding of another study on implementation of corporate governance in Indonesia. It indicates that the practice of corporate governance in Indonesia is still ineffective. Abdullah (2004) as quoted by Nuryanah & Islam (2011) could not find a relationship between an independent Board of Commissioners and company performance. It argued that the use of financial ratios as a proxy for company performance is oriented more towards measuring short-term performance.
Meanwhile, assessing the effectiveness of corporate governance implementation requires an assessment of long-term performance.

Funding of this study do not support findings of previous researches which show that the increasing number of independent commissioners, which reflects the effectiveness of monitoring role, may improve company performance (Chou, Chung, & Yin, 2013) or the existence of an independent Board of Commissioners which was signaled to reflect the effectiveness of monitoring role. An independent Board is a party that does not have any affiliation with the company, so as to increase firm value. The independent Board of Commissioners is said to reduce agency problems between controlling shareholders and minority shareholders. The reduction in agency problems that occur reflects the reduction in agency costs that may arise due to conflicts of interest, so as to increase firm value.

The results of the second hypothesis testing show that family control is not a variable that can weaken the influence of the board of directors’ monitoring role on firm value. In accordance with the results of research by Ferrera (2007) and Maseda (2010) that the existence of an independent Board of Commissioners which was signaled to reflect the effectiveness of monitoring role, could not influence the performance of companies managed by family members of next generation (second generation and so on). Finding showed different results if management of the company was run by founder of the company (first generation), which proved that an addition of independent Board of Commissioners will improve company performance. The underlying argument is family of the first generation or founder of the company pays attention to the supervision carried out by an independent Board of Commissioners and seeks to maximize performance to maintain viability of the company to the next generation. Meanwhile, family members of the next generation did not pay attention to the existence of an independent committee; hence they could not influence company's performance.

The results of this study do not support the study of Kweh, Kuo, Wang, and Liu (2015) which succeeded in demonstrating evidence that a positive influence of independent Board of Commissioners on operating efficiency is reduced or weakened in family-owned companies. The presence of an independent Board of Commissioners in a company can be used as a signal of a success of monitoring role. An independent Board is a party that does not have any affiliation with the company, therefore it is expected to act objectively and not in favor of any particular group. Thus, an independent Board of Commissioners can carry out the role properly and further enhance the firm value. However, the presence of family controls in a company results in the presence of independent board of commissioners is actually decreasing the firm value. Likewise, the view of Adams and Ferreira (2007) by Guner, Malmendier, and Tate (2008) that the presence of a CEO from the founding family (family control) makes the Board of Commissioners reluctant to supervise company management.

The insignificant result of the moderating family control group in relation to the role of monitoring with firm value is likely due to the dominance of the family in the company which gives rise to the nepotism of the company founder in employing the Board of Commissioners or company management. Parents are altruism, which is defined as the inability of parents to discipline their under-performed children, but positioned on a strategic position in the company (Young et al., 2008). This condition is common in countries where traditional culture places a high value on family ties or relationships (Bruton, Ahlstrom, & Wan, 2003).

Descriptive statistics of this study indicate the existence of earnings management in the companies observed. Management Figures profits derived from the value of absolute accrual discretionary not too varied, while firm value is quite varied. This condition causes earnings management figures that represent a monitoring role to be unable to influence the flexibility of changes in firm value. Moreover, when there is family dominance in the ownership structure of the Board of Commissioners can be weakened and unable to influence firm value.

CONCLUSION

The monitoring role reflected with the success of supervising issuer's financial statements does not run effectively. This is shown with indication of earnings management that occurs in all companies used in our research sample. This study provides results that the monitoring role of board of commissioners cannot influence the movement of firm value. Likewise, when a company is controlled by family, the monitoring role of board of commissioners does not run well because it prioritizes family consensus and hence cannot influence the firm value.

The results of this study illustrate that the relationship between internal governance mechanisms to the firm value relevant in developed countries cannot always be applied in emerging markets such as Indonesia, with specific business environment, inadequate protection of investors and weak regulatory framework.

Developing countries with concentrated ownership structure in certain companies or dominated by family, Board of Commissioners and company management consist of family members or founding colleagues. Such condition is rationalizing that monitoring role of Board of Commissioners does not run well. Thus, the Board of Commissioners should focus more on the role of providing advice and important resources the company does not yet have. By focusing more on the advising role, it is expected that the presence of the board of commissioners in the company can improve performance and maintain the company's sustainability.

This study used data of family-owned shares by observing the composition of shareholders (direct ownership) in company annual report. The reports did not provide detailed data on shareholders composition to the ultimate owner. Therefore, future research should trace data of share ownership in stages to the ultimate ownership, so it can be known the controlling shareholders in every company.

REFERENCE


**APPENDIXES**

Appendix 1: Test Results for the Determination Coefficient of Equation 1

<table>
<thead>
<tr>
<th>Mode</th>
<th>R</th>
<th>R Squared</th>
<th>Adjusted R Squared</th>
<th>Std. Error of the Estimate</th>
<th>Change Statistics</th>
<th>Durbin-Watson</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>.023*</td>
<td>.001</td>
<td>-.002</td>
<td>7.1585935</td>
<td>.001</td>
<td>.192</td>
</tr>
</tbody>
</table>

a. Predictors: (Constant), DaAbs
b. Dependent Variable: Q

Appendix 2: Test Results for the Determination Coefficient of Equation 2

<table>
<thead>
<tr>
<th>Mode</th>
<th>R</th>
<th>R Squared</th>
<th>Adjusted R Squared</th>
<th>Std. Error of the Estimate</th>
<th>Change Statistics</th>
<th>Durbin-Watson</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>.052*</td>
<td>.003</td>
<td>-.006</td>
<td>7.1709995</td>
<td>.003</td>
<td>.323</td>
</tr>
</tbody>
</table>

a. Predictors: (Constant), DaAbsFO, DaAbs, FamOwn
b. Dependent Variable: Q

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