I J A B E R, Vol. 14, No. 11, (2016): 8005-8020

HUMAN CAPITAL, BOARD MONITORING AND CORPORATE PERFORMANCE

Makaryanawati[*], Made Sudarma[**], Erwin Saraswati[**] and Abdul Ghofar[**]

Abstract: *Board of commissioner is one of internal control mechanism of corporate governance of which role is to monitor and give recommendations to management in order to increase firm value. The purpose of the study is to describe effect of monitoring role in increasing corporate performance, and effect of human capital on effectiveness of monitoring role. The population is manufacturing companies listed in Indonesian Stock Exchange; using purposive sampling there 790 companies as the sample. The analysis revealed that one of the indicators of human capital, that is level of education, is a good indicator to explain human capital. The hypothesis testing shows that monitoring role has significant influence on corporate performance and human capital has influence on monitoring role. However, family control cannot strenghthen the effect of monitoring role on corporate performance. The study uses human capital attribute as variable that affect monitoring role of commissioner board. Human capital is involved since the Indonesian public company is dominated by family members and generally, one's capability is not taken into account in commissioner board recruitment.*

Keywords: *Human Capital, Monitoring Role, Commissioner Board, Firm Performance*

1. INTRODUCTION

The largest motivation of a corporation is to maximize shareholder income by increasing firm value. There are various efforts taken in order to achieve welfare and benefits, one of which is by implementing an effective method of running a corporation. Corporate management, or corporate governance as it is frequently called, may increase corporate performance (Bhagat & Bolton, 2008), increase effectiveness of monitoring (Andres & Vallelado, 2008), as well as encourage sustainable competitive advantage, especially within the era that puts information and knowledge as the emphasis.

Corporate management is inseparable from the role of board of commissioner. Various roles board of commissioner have may be one of the indicators to evaluate how effective the board is as an effective board of commissioner will contribute and affect corporate performance (Lawler, Benson, Finegold, & Conger, 2002).

* State University of Malang, *E-mail: makaryanawati@gmail.com*
** Brawijaya University

Effective board of commissioner can be achieved by having independent board which is frequently associated with outside director. A complex, large-sized, high-leveraged company, which is diversified, requires recommendation from outside director. As a consequence, the increase in the number of outside directors will increase corporate value (Coles, Daniel, & Naveen, 2008). Independent board of commissioner results in effective monitoring role (Chou, Chung, & Yin, 2013), increase efficacy of board of commissioner to supervise management and reduce conflict of interest between management (insider) and shareholder (Q. Liang, Xu, & Jiraporn, 2013), so that agency problem can be eliminated[2].

On the other hand, in company that requires specific knowledge, such as research and development-intensive company, inside director will increase corporate value (Coles *et al.,* 2008), as compared to outside director that will reduce the corporate value (Agrawal & Knoeber, 1996), and worsen intellectual capital (Al-Musalli & Ismail, 2012). The different hypothesis is caused by the fact that outside director requires specific information and knowledge (Pfeffer & Salancik, 1978) about corporate activities in order to evaluate and validate long-term strategy of a company. However, such specific information belongs to inside director.

The correlation between role of board of commissioner and performance falls upon the condition and characteristics of a company. The composition and role of board of commissioner may work effectively for a company, but they also may cause failure in another company. Therefore, some adjustment between board of commissioner and resources is needed. The contingency theory contributes in the relationship between role of board of commissioner and corporate performance, for example complexity of a company (Coles *et al.,* 2008), control of a company by family or non-family (Lam & Lee, 2008), and level of family generations that runs a company (Arosa, Iturralde, & Maseda, 2010).

Most public companies in Indonesian belong to controlling shareholders or have pyramid-like ownership structure. It is in line with La-Porta, Lopez-De-Silanes, and Shleifer (1999) who identify that the most frequent structure of ownership in developing countries is the pyramid ownership structure. Furthermore, Claessens, Djankov, and Lang (2000) reveal that Indonesia has the most cases of pyramid ownersip (67%). Controlling shareholders in the Indonesian public companies (56%) are owned by family (Siregar, 2008) and institutional shareholders who consists of holding companies; yet, most of the time, family or kinship runs one company (Sudarma, 2004).

There is a tendency that companies where most of the stocks belong to one family have corporate governance and agency problem since such companies puts an enormous attention on one family, while neglecting the rights of other shareholders (Morck & Yeung, 2003). As a result, family-owned company board of director is less independent and dominated by family members (Anderson &

Reeb, 2003). When shareholders select commissioner board, they tend to select their own family members or people they are adjacent to. Based on the agency theory, it is assumed that board of commissioner has the required specific knowledge and competence to carry out its responsibility as internal control mechanism. As a consequence, there is gap between the responsibility board of commissioner are expected to do and their knowledge and experience (Kor & Sundaramurthy, 2009).

Family-controlled Indonesian public companies do not take their board of commissioner members' intelligence into account. It is in accordance to a study conducted by Darmadi (2013) that Indonesian family-controlled companies are relatively small in size and does not really pay attention on the capability of board of commissioner during recruitment of the board members. Most of public companies in Indonesia belong to one family and they tend to select their own colleagues as commissioner board. Thus, it is quint essential to find out the effectiveness of board of commissioner that can be evaluated based on human capital one company has.

The study attempts at identifying board of commissioner attribute, that is human capital element, describing capability, knowledge, skills and experience of board of commissionerin one company which can carry out their roles and give contributions to the company. The majority of studies related to role of board of commissioner support the agency theory (Abels & Martelli, 2013; Bhagat & Bolton, 2008), resource dependency theory (Sanders & Carpenter, 1998) and some studies support stewardship theory (Donaldson & Davis, 1991; Q. Liang *et al.,* 2013). The goal of the study is to confirm the agency theory as the basis of monitoring role that becomes one of the most crucial elements to decrease agency problem.

Elaboration of contingency in carrying out the role of board of commissioner to increase performance also becomes the focus of the study. Corporate performance either increases or decreases because of role of board of commissioner and relies on condition and characteristics of a company so that the study will confirm the contingency theory. Several novelties in the study are, firstly, in the use of board of commissioner's attributes that explore human capital as resource strenghthening competitive advantage of a company. Secondly, the study explores contingency variable in the form of family control in detail to describe the influence of board of commissioner in increasing performance. The consideration is that most of the companies listed in Indonesian Stock Exchange is controlled by family (Siregar, 2008; Sudarma, 2004).

The study gives evidence that the higher composition of independent board of commissioner a company has, the more effective monitoring role is and then the higher corporate value will be. Exploration towards human capital attribute shows that level of education is important component to increase board of commissioner capability so that higher level of education enables board of commissioner to run their responsibility well. However, the study could not give evidence that family control strengthen the effect of monitoring role to corporate performance.

2. THEORETICAL BACKGROUND

2.1. Human Capital and Monitoring Role of Board of commissioner

Resource-based view theory (RBV) perceives organization or company as unique entity surrounded by different types of resources and capabilities (Barney, 1991). The unique resource, more particularly intangible resource, a company has is valuable, rare, inimitable and nonsubstituable so that unique resource one company has is different from one another company has. The distinction results in competitive advantage and different outcome, as the consequence.

Related to effective role board of commissioner in increasing corporate performance, intangible resource attached to each member of board of commissioner should be taken into account. One of the resources is human capital. Human capital refers to a group of knowledge or individual skills that is specifically developed through investment in education, training and sharing experience. Not only is human capital obtained from formal education, but it also is gained from practice and experience at work (Davidsson & Honig, 2003).

Human capital will influence board of commissioner activity when experience and skills influence cognition and decision one makes (Johnson, Schnatterly, & Hill, 2013). Similar finding is revealed in a study by Khanna, Jones, and Boivie (2014) that describes the more qualified human capital is the better performance a company has in the following year. The underlying argument is increasing human capital in board of commissioner will increase capability of a company to monitor activities of corporate management.

Monitoring towards managerial performance requires specific knowledge and experience in particular industry. It is in accordance to a study conducted by Kor and Sundaramurthy (2009) that shows position and length of work in an industry (as human capital proxy) affects growth of sales. It supports argumentation that various knowledge, experience in an industry and length of work determine role of board of commissioner to evaluate, give information and influence corporate management (Kor & Sundaramurthy, 2009).

Therefore, the first hypothesis of the study is formulated as follow:

H1: Human capital has positive effect on the monitoring role of board of commissioner.

2.2. Monitoring Role of Board of Commissioner and Corporate Performance

The agency theory perspective that is derived from agency problem as the implication of separated role between shareholder and management signals the need for monitoring. It is expected that board of commissioner runs its monitoring and advising roles effectively in order to establish good governance and, eventually, create value for shareholders (Andres & Vallelado, 2008). Independent board of commissioner is frequently reflected by outside director in a company.

Studies of which focus is board of commissioner composition provide evidence that outside director improves corporate performance. Outside director enables better supervision towards management and eliminate conflict of interest among stakeholders (Andres & Vallelado, 2008; Q. Liang *et al.,* 2013). In line with the result, Jermias and Gani (2013)'s study shows that non independent board of commissioner (CEO duality and board dependence) worsens corporate performance and such condition can be eliminated by increasing role of board capital. The implication of the study is that company needs to pay attention to quality of an individual who sits in board of commissioner as well as the importance of independence director in monitoring.

A study conducted by Lefort and Urzua (2008) using public companies that have high concentration of ownership as the setting simultaneously proves that increasing proportion of independent director significantly improves Tobins Q score. Partial testing between professional director and outside director shows slightly different result. Outside director is the only one that affects corporate value while professional director can improve corporate governance if the company potentially has agency conflict and when it is in need of finance.

On the other hand, another study shows that independent board of commissioner decreases performance of the on-going and following years (Bhagat & Bolton, 2008). It happens because of assumption that independent board of commissioner is no more than requirement in stock market. Board of commissioner does not run their function as they should. Better understanding towards business inside director has causes monitoring role to run effectively since independent director is unable to carry out monitoring role all by himself or herself (Drymiotes, 2007).

Therefore, the second hypothesis of the study is formulated as follow:

H2: The monitoring role of board of commissioner has positive effect on corporate performance.

2.3. Family Control in Influence of Commissioner Board's Monitoring Role to Corporate Performance

Studies related to the role of board of commissioner to corporate performance show different findings. It is due to the influence of contingency variables. Contingency perspective has an assumption that particular method cannot be applied effectively in all companies under all conditions (Otley, 1980). Therefore, the role of board of commissioner in influencing corporate performance heavily depends upon contextual factors or condition of the company. Previous studies give evidence that family control or company of which majority of stocks belongs to one family as one of the contextual factors has contribution in different effect board of commissioner has towards performance (Chen & Hsu, 2009; Lam & Lee, 2008).

Habbershon and Williams (1999) conclude that studies related to performance show that family-owned company has higher profit margin, more stable profit, lower level of dividen. Decision-making in family-owned companies tends to be decentralized among top family members that results in decreasing cost and increasing flexibility in a company. It means family-owned company has competitive advantage so that it becomes the prefereable type of business organization currently.

However, other studies of which the setting is public company controlled by family show different findings. There are non competent family members sitting in strategic positions in a company and limited leadership opportunity for non-family executive (Tsao, Chen, Lin, & Hyde, 2009). In other words, family involvement in the ownership of a company may worsen corporate performance (Claessens, Djankov, Fan, & Lang, 2002).

Independence is really needed in creating effective monitoring role. Independence is frequently associated with independent board of commissioner in a company. It can increase corporate performance or may not have any influence towards corporate performance depends upon which generation in a family that runs a company (Arosa *et al.*, 2010). The higher number of independent and affiliated board of commissioner is, the better performance company runs by the first generation of a family has. The underlying argumentation is that first generation family does not have adequate knowledge and experience so that the family needs more experienced party to decide strategic move for the company. Other finding is that affiliated and independent board of commissioner does not have any influence towards corporate performance of a company run by the second and further generation. It indicates that the second and further generations have already had adequate skills, knowledge and experience in running a company.

Therefore, the third hypothesis can be formulated as follow:

H3: Family control moderates the influence of the monitoring role of board of commissioner toward a firm performence.

3. METHODOLOGY

3.1. Sample and Data

The population of the study is manufacturing companies listed in Indonesian Stock Exchange (BEI) in 2008-2014. The total numbers of the companies are 1,050 firm-year. Manufacturing company is selected as the setting of the study in order to avoid bias due to different characteristics between companies. Indonesia has just revised the principle and management of company adopted from OECD (Organisation for Economic Co-operation and Development) in October 2006. The principle and regulation are established officially in 2007 and 2008 and as the consequences, the implementation of the principle has just been able to be analyzed in 2008 (Ghofar, 2013).

Purposive sampling is the sampling method with the criteria taken from the annual report of the companies, data about board of commissioner profiles, and financial data available for public. The total samples of the study are 790 companies firm-year.

The study uses archival method where the data are obtained from companies' websites as well as IDX, Osiris and ICMD websites. The required data are the ones related to board of commissioner profiles that involve level of education, working experience and skills members of board of commissioner have. In addition, other types of data needed are accounting and stock ownership data as well as lists of market price of the companies' stocks.

3.2. Operational Variable

3.2.1. Human Capital

Indicators to measure human capital used in the study are knowledge (Felicio, Couto, & Caiado, 2014; Lin & Huang, 2005; Reeb & Zhao, 2013), experience (Felicio *et al.*, 2014; Johnson *et al.*, 2013; Lin & Huang, 2005; Reeb & Zhao, 2013) and skills (Duchin, Matsukaka, & Ozbas, 2010). Knowledge is measured using board of commissioner members' level of education (bachelor, magister, and doctorate). Level of education refers to one's cognitive competence and has positive correlation with performance (Gimeno, Folta, Cooper, & Woo, 1997). To evaluate level of education, Reeb and Zhao (2013)'s study is used as reference. The procedure is giving score for every level of education (bachelor's degree = 1; master's degree = 2; doctoral degree = 3; professor = 4) for each individual. The following step is to calculate mean score for commissioner board's level of education from each company.

Experience is measured by board of commissioner length of work (tenure) in a company (Davidsson & Honig, 2003; Johnson et al., 2013; Kor & Sundaramurthy, 2009; Lin & Huang, 2005). Longer working time indicates higher comprehension about characteristics and internal condition of a company. Tenure is decided by counting the mean of all board of commissioner members' working time in a company.

Skill is measured by board's expertise. Duchin *et al.* (2010) measures commissioner board's skills using three types of qualifications namely academic qualification, corporate qualification and financial qualification. Measurement of skills refer to Duchin *et al.* (2010) and later is modified using study of Ghofar (2013).

Academic qualification shows whether board of commissioneris a professor or academic. Corporate qualification shows whether board of commissioner member also becomes board of commissioner in another company. Financial qualification shows whether or not board of commissioner member has financial certification such as CA, CPA, CPMA, CMA, CF degree or any other degree. The three types of qualifications are measured using dummy variable. Having obtained scores from each qualification, the following step is to add scores from each of the qualifications for all board of commissioner members in a company.

3.2.2. Board of commissioner Monitoring Role

Monitoring is the task and function of board of commissioner to give supervision towards performance of management[3]. Based on the regulation draft of capital market regulator (Indonesia's *Otoritas Jasa Keuangan* or OJK), monitoring function of board of commissioner involves nomination, remuneration, risk monitoring or management monitoring. The board of commissioner monitoring role is proxied using percentage of independent board of commissioner members towards all board of commissioner members in a company.

3.2.3. Family Control

A company is categorized as family-firm based on various criteria namely family ownership, family control (having family members sitting in managerial position in a company) or both (Sacristan-Navarro, Gomez-Anson, & Cabeza-Garcia, 2011). In the study, family control is measured by counting percentage of stock that belongs to a family or individual shareholders with large amount of stocks (Filatotchev, Lien, & Piesse, 2005; X. Liang, Wang, & Cui, 2014). Family member is identified by similar first or second surename indicating blood line or marital relationship.

3.2.4. Corporate Performance

Corporate performance refers to outcome company obtains from using any resource it has. Corporate financial performance used in the study is accounting or market performance. Accounting-based performance describes financial condition that focuses on historical data and indicates experience of a company. The proxy is developed as reporting mechanism that represents impact of various factors including time when board of commissioner gives recommendation for management (Kiel & Nicholson, 2003). The accounting proxy uses Return on Asset (ROA), measured by comparing earning before extra ordinary items and discountinued operation and later is divided by book value of assets.

$$ROA = \frac{\text{Earning before Extra Ordinary Items \& Discontinued Operations}}{\text{Book Value of Assets}}$$

Market performance proxy is represented by Tobin's Q, previously used by (Brick and Chidambaran (2010); Jermias & Gani, 2013; Lefort & Urzua, 2008). Tobin's Q emphasizes on future profit evaluation expected by a company and is considered as forward-looking indicator that reflects the current plan and strategy (Kiel & Nicholson, 2003). Tobin's Q is measured by adding market value of common stock, book value of preferred stock and book value of long term debt. The total is divided by book value of total asset. Market value of common stock is measured by multiplication of stock market price at the end of fiscal year (closing price) and the total outstanding of common stock. Tobin's Q is measured using alternative formula proposed by Chung and Pruitt (1994) and Villalonga and Amit (2006). It is as follow:

$$\text{Tobin's Q} = \frac{\textit{Market Value of Common Stock} + \textit{Book Value of Preferred Stock} + \textit{Book Value of Long Term Debt}}{\textit{Book Value of Total Assets}}$$

3.3. Data Processing and Data Analysis

Data processing and data analysis are facilitated by Partial Least Square (PLS). The rationale is that PLS is suitable for the study that uses different scales, ordinal and ratio in one similar model. PLS can be used for confirmation, such as hypothesis testing, and can be used for reflective and formative indicators (Yamin & Kurniawan, 2011, p. hal.13).

Hypothesis testing is conducted to obtain value and influence between the variables used. The study uses 2 (two) latent variables namely human capital (formative) and corporate performance (reflective), as well as 2 (two) manifested variables, monitoring and family control. The study involves outer model and inner model equations. The equation for outer model is described as follow:

$$HC = \lambda_1 \, EDC + \lambda_2 \, EXP + \lambda_3 \, SKL + \delta_1 \quad (1)$$

$$ROA = \lambda_4 \, CP + \delta_2 \quad (2)$$

$$TBQ = \lambda_5 \, CP + \delta_3 \quad (3)$$

The equation for inner model is described as follow:

$$MON = \beta_1 \, HC + \varepsilon_1 \quad (4)$$

$$CP = \beta 2 \, MON + \beta_3 \, FCO + \beta_4 \, MON{*}FCO + \varepsilon_2 \quad (5)$$

Note:

HC = Human Capital

EDC = Education

EXP = Experience

SKL = Skill

MON = Monitoring Role

FCO = Family Control

ROA = Return to Asset

TBQ = Tobin's Q

CP = Corporate Performance

λi = Outer for each formative and reflective variable

βi = Coefficient path of each variable

ε_i = Residual/non significant factors

Inner model and hypothesis tested using PLS are obtained based on path coefficient significance and variance measured for construct antecendent (R^2). It occurs since PLS estimated process does not use covarian matrix as the basis (Lee, Petter, Fayard, & Robinson, 2011). Similar to regression, R^2 describes how much effect of independent variable has towards dependent variable.

4. FINDINGS AND DISCUSSIONS

Statistical descriptive from the variables used in the study is described in Table 4.1 as follow:

Table 4.1
Statistical Description of the Variables

Variabel	*Minimum*	*Maksimum*	*Mean*	*Std Deviation*
Education	0,00	3,00	1,272	0,019
Experience	1,00	33,33	8,243	5,181
Skill	0,33	2,50	1,367	0,014
Ind.Commissioner	0,00	100	0,392	0,120
Family Ownership	0,00	89,45	5,612	14,089
Tobins'Q	0,05	17,31	1,185	1,555
ROA	-67,34	65,63	7,006	12,458

PLS analysis for latent variables human capital and corporate performance is described in Table 4.2 and 4.3 as follow:

Table 4.2
Human Capital Outer Model Variabel

	Original Sample (O)	*Sample Mean (M)*	*Standard Deviation (STDEV)*	*Standard Error (STERR)*	*T Statistics (|O/STERR|)*	*P value*
Education	0.971317	0.776069	0.319461	0.319461	3.040492	0.002***
Experience	0.266516	0.256125	0.37231	0.37231	0.715844	0.474
Skill	0.199258	0.198216	0.329596	0.329596	0.604552	0.545

Note:
*** 1% level of significance

Human capital (HC), the outer model variable, is formative in nature with 3 (three) indicators. The loading factor is obtained based on outer weight that is between 0.199 to 0.971. Loading factor in formative indicator does not have any limitation to be categorized as strong predicate. Contribution of each indicator is explained by significance of outer weight test. The study shows that education is the only significant indicator (0.002<0.01), showing that level of education is a good indicator to explain human capital variable.

Table 4.3
Quality Criteria of Each Variable

	AVE	*Composite Reliability*	*R Square*	*Cronbachs Alpha*
Corporate Performance	0.742284	0.850117	0.048572	0.699354
Human Capital				
Monitoring Role	1	1	0.013289	1
Family Control	1	1		1
MonRolexFamControl	1	1		1

In corporate performance, the indicator is reflective. The indicator that is reflective towards latent variable should have high reliability based on AVE score (>0.50), composite reliability (>0.70) and Cronbach Alpha coefficient (>0.773). Based on the reliability tests, AVE score= 0.742, composite reliability = 0.850 and Cronbach Alpha coefficient = 0.699. These show that consistency of all indicators has high validity and reliability in measuring corporate performance, so that Tobins Q and ROA are involved in full model analysis.

Therefore, the PLS model in the study results in the folowing equations:

$$HC = 0.971\ EDC + 0.267\ EXP + 0.199\ SKL + \delta_1 \tag{1a}$$

$$ROA = 0.748\ CP + \delta_2 \tag{2a}$$

$$TBQ = 0.962\ CP + \delta_3 \tag{3a}$$

On the other hand, the structural equation can explain (1) the effect of human capital on monitoring role and (2) the effect of monitoring role on corporate performance with family control as moderating variable.

Thus, the equations for coefficient path are as follow:

$$MON = 0{,}115\ HC + \varepsilon_1 \tag{4a}$$

$$CP = 0{,}183\ MON - 0{,}135\ FCO + 0{,}031\ MON{*}FCO + \varepsilon_2 \tag{5a}$$

Analysis of the first equation, partial effect of human capital on monitoring role results in coefficient path=0.115 and t=1,808 (p=0,07<0,10). It shows that human capital has effect on monitoring role when the level of significance is 90%; therefore, H1 is accepted statistically. It means that human capital is an important factor to

Table 4.4
Coefficient Path of Each Correlation

	Original Sample (O)	*Sample Mean (M)*	*Koefisien Jalur (β)*	*Standard Error (STERR)*	*TStatistics (|O/STERR|)*	*P Value*
Human Capital -> Monitoring Role	0.115279	0.128844	0.1152	0.063756	1.808139	0.0705*
Monitoring Role -> Corporate Performance	0.183414	0.176978	0.1834	0.071281	2.573129	0.0100***
Family Control -> Corporate Performance	-0.134935	-0.14021	-0.1349	0.023343	5.780599	0.0000***
Role of Control -> Corporate Performance	0.03067	0.037243	0.0306	0.056809	0.539881	0.5893

*** 1% level of significance; ** 5% level of significance; * 10% level of significance

increase monitoring role. Relatively small R^2, 0.013 (1.3%), implies that the contribution of human capital towards monitoring role is very small. That may happen due to relatively huge samples used in the study or many other factors that affect monitoring role.

The study gives evidence that the following indicators, level of education, experience and skills, simultaneously results in human capital that has the ability to influence monitoring role the board of commissioner. It is in line with studies conducted by Kor & Sundaramurthy (2009) and Kim, Mauldin, and Patro (2014) that knowledge and experience in specific industry particularly length of work in a company may decrease asymmetric information as well as help the board of commissioner to evaluate, provide information and affect the management. Level of education, working experience and specific skills the board of commissioner has will facilitate the board in carrying out their monitoring role to prevent the management from making self-interest action/decision.

The second equation, joint contribution from the influence of monitoring, family control and interaction between monitoring and family control on corporate performance is 0.049 (4.9%). Coefficient path and level of significance from monitoring on corporate performance are (β =0.183) and (p=0.01<0.05); those from family control on corporate performance are (β -0.135) and (p=0.00<0.01); and those from interaction of monitoring role*family control are (β =0.031) and (p=0.589>0.05).

Based on the second structural equation, monitoring has significant influence on corporate performance and thus, H2 can be accepted statistically. It indicates that monitoring can increase corporate performance. The better monitoring the board of commissioner can carry out, which is reflected through higher percentage of independent board of commissioner, the better performance a company has. Independent board of commissioner in the companies listed in Indonesian Stock Exchange can carry out their tasks to supervise the management instead of fulfilling the regulations only (min.30%).

Independent board of commissioner can prevent and eliminate opportunistic behavior of the management, so that the board of commissioner carries out their role as internal control mechanism of corporate governance accurately and effectively. Based on Nuryanah and Islam (2011), in emerging markets like Indonesia, external control mechanism is not really effective and protection on investors is weak. Thus, internal control mechanism, like board of commissioner, becomes more important to eliminate conflict of interests among stakeholders.

The effect of family control in the relationship between monitoring role and corporate performance does not show significant result and thus H3 cannot be accepted statistically. Previous studies that claim that the majority of companies registered in Indonesian Stock Exchange are family-owned companies (Siregar, 2008; Sudarma, 2004) cannot be proven in the study. The percentage of family control measured by individual ownership towards a company is approximately 5.61% which indicates that family-owned stock is relatively small. The data is direct ownership (immediate) gained from company annual repot. Family control does not enhance the effect of monitoring role on corporate performance. The difference between the study and other previous studies is the previous ones used indirect ownership data (ultimate) trace in pyramid ownership structure.

5. CONCLUSION

Based on the analysis, it is concluded that (1) human capital can influence the effectiveness of monitoring role the board of commissioner; (2) monitoring role has significant effect on corporate performance; and (3) family control cannot enhance the effect of monitoring role on corporate performance. Suggestion for further studies is to use other proxies for monitoring, such as earnings quality or earnings management. Monitoring is considered effective when board of commissioner can prevent management from manipulating the earnings. Well-qualified earnings will get positive respond from investors so that corporate value will increase too. Family control proxy measured using immediate individual ownership does not represent control of family towards a company. Further studies should analyze ultimate ownership in pyramid structure similar to studies conducted by Claessens, Djankov & Lang (2000) and Siregar (2008).

Notes

1. In company where there is high ownership concentration (cases in Indonesia), agency conflict does not derived from conflict of interest between principle and agent, instead it

happens due to conflict between controlling shareholder and minority shareholder (horizontal agency problem) (Lefort & Urzua, 2008).

2. Head of Bapepam Decree that is *No: Kep.45/PM/2004* states that commissioner board is an organ of emiten or public company of which task is to give supervision and monitor management of a company and give recommendation for emiten or public company directors.

References

Abels, P. B., & Martelli, J. T. (2013), CEO duality: how many hats are too many? *Corporate Governance, 13*(2), 135-147.

Agrawal, A., & Knoeber, C. R. (1996), Corporate performance and Mechanism to Control Agency Problem between Managers and Shareholders. *Journal of Financial and Quantitative Analysis, 31*(3), 377-397.

Al-Musalli, M. A. K., & Ismail, K. N. I. K. (2012), Intellectual Capital Performance and Board Characteristics of GCC Banks. *Procedia Economics and Finance, 2*, 219-226.

Anderson, R. C., & Reeb, D. M. (2003), Founding-Family Ownership, Corporate Diversification, and Firm Leverage. *Journal of Law and Economics, 46*(2), 653-684.

Andres, P. D., & Vallelado, E. (2008), Corporate Governance in Banking: The Role of the Board of Directors. *Journal of Banking & Finance, 32*, 2570-2580.

Arosa, B., Iturralde, T., & Maseda, A. (2010), Outsiders on The Board of Directors and Corporate performance: Evidence from Spanish Non-listed Family Firms. *Journal of Family Business Strategy, 1*, 236-245.

Barney, J. (1991), Firm Resources and Sustained Competitive Advantage. *Journal of Management, 17*(1), 99-120.

Bhagat, S., & Bolton, B. (2008), Corporate Governance and Corporate performance. *Journal of Corporate Finance, 14*, 257-273.

Brick, I. E., & Chidambaran, N. K. (2010), Board Meetings, Committee Structure, and Firm Value. *Journal of Corporate Finance, 16*, 533-553.

Chen, H.-L., & Hsu, W.-T. (2009), Family Ownership, Board Independence, and R&D Investment. *Family Business Review, 22*(4), 347-362.

Chou, H.-I., Chung, H., & Yin, X. (2013), Attendance of Boards Meetings and Company Performance: Evidence from Taiwan. *Journal of Banking & Finance, 37*, 4157-4171.

Chung, K. H., & Pruitt, S. W. (1994), A Simple Approximation of Tobin's Q. *Financial Management, 23*(3 Autumn), 70-74.

Claessens, S., Djankov, S., Fan, J. P. H., & Lang, L. H. P. (2002), Disentangling the Incentive and Entrechment Effects of large Shareholdings. *Journal of Finance, 57*, 2741-2772.

Claessens, S., Djankov, S., & Lang, L. H. P. (2000), The Separation of Ownership and Control in East Asian Corporations. *Journal of Financial Economics, 58*, 81-112.

Coles, J. L., Daniel, N. D., & Naveen, L. (2008), Boards: Does One Size Fit All? *Journal of Financial Economics, 87*, 329-356.

Darmadi, S. (2013), Board Members' Education and Corporate performance: Evidence from a Developing Economy. *International Journal of Commerce and Management, 23*(2), 113-135.

Davidsson, P., & Honig, B. (2003), The Role of Social and Human Capital among Nascent Entrepreneurs. *Journal of Business Venturing, 18*(3), 301-331.

Donaldson, L., & Davis, J. H. (1991), Stewardship Theory or Agency Theory: CEO Governance and Shareholder Returns. *Australian Journal of Management, 16*(1(Juni)), 49-63.

Drymiotes, G. (2007), The Monitoring Role of Insiders. *Journal of Accounting and Economics, 44*, 359-377.

Duchin, R., Matsukaka, J. G., & Ozbas, O. (2010), When Are Outside Directors Effective? *Journal of Financial Economics, 96*, 195-214.

Felicio, J. A., Couto, E., & Caiado, J. (2014), Human Capital, Social capital and Organizational Performance. *Management Decision, 52*(2), 350-364.

Filatotchev, I., Lien, Y.-C., & Piesse, J. (2005), Corporate Governance and Performance in Publicly Listed, Family-Controlled Firms: Evidence from Taiwan. *Asia Pacific Journal of Management, 22*, 257-283.

Ghofar, A. (2013), *Analysis of the Determinants and Effectiveness of Corporate Governance: A Contingency Theory Approach.* (Doctor of Business Administration), Victoria University, Melbourne.

Gimeno, J., Folta, T. B., Cooper, A. C., & Woo, C. Y. (1997), Survival of The Fittest? Entrepreneurial Human Caapital and The Persistence of Underperforming Firms. *Administrative Science Quarterly, 42*(4), 750-783.

Habbershon, T. G., & Williams, M. L. (1999), A Resource-Based Framework for Assessing the Strategic Advantages of Family Firms. *Family Business Review, 12*, 1-25.

Jermias, J., & Gani, L. (2013), The Impact of Board Capital and Board Characteristics on Corporate performance. *The British Accounting Review, XXX*, 1-19.

Johnson, S. G., Schnatterly, K., & Hill, A. D. (2013), Board Composition Beyond Independence: Social Capital, Human Capital, and Demographics. *Journal of Management, 39*(1), 232-262.

Khanna, P., Jones, C. D., & Boivie, S. (2014), Director Human Capital, Information Processing Demands, and Board Effectiveness. *Journal of Management, 40*, 557-585.

Kiel, G. C., & Nicholson, G. J. (2003), Board Composition and Corporate Performance: How The Australian Experience Informs Contrasting Theories of Corporate Governance. *Corporate Governance, 11*(3), 189-206.

Kim, K., Mauldin, E., & Patro, S. (2014), Outside Directors and Board Advising and Monitoring Performance. *Journal of Accounting and Economics, 57*, 110-131.

Kor, Y. Y., & Sundaramurthy, C. (2009), Experience-Based Human Capital and Social Capital of Outside Directors. *Journal of Management, 35*(4), 981-1006.

La-Porta, R., Lopez-De-Silanes, F., & Shleifer, A. (1999), Corporate Ownership Around the World. *The Journal of Finance, LIV*(2), 471-517.

Lam, T. Y., & Lee, S. K. (2008), CEO Duality and Corporate performance: Evidence from Hong Kong. *Corporate Governance, 8*(3), 299-316.

Lawler, E. E., Benson, G. S., Finegold, D. I., & Conger, J. A. (2002), Corporate Boards: Keys to Effectiveness. *Organizational Dynamics, 30*(4), 310-324.

Lee, L., Petter, S., Fayard, D., & Robinson, S. (2011), On the Use of Partial Least Squares Path Modeling in Accounting Research. *International Journal of Accounting Information Systems, 12*, 305-328.

Lefort, F., & Urzua, F. (2008), Board Independence, Corporate performance and Ownership Concentration: Evidence from Chile. *Journal of Business Research, 61*, 615-622.

Liang, Q., Xu, P., & Jiraporn, P. (2013), Board Characteristics and Chinese Bank Performance. *Journal of Banking & Finance, 37*, 2953-2968.

Liang, X., Wang, L., & Cui, Z. (2014), Chinese Private Firms and Internationalization: Effects of Family Involvement in Management and Family Ownership. *Family Business Review, 27*(2), 126-141.

Lin, S.-C., & Huang, Y.-M. (2005), The Role of Social Capital in The Relationship between Human Capital and Career Mobility. *Journal of Intellectual Capital, 6*(2), 191-205.

Morck, R., & Yeung, B. (2003), Agency Problems in Large Family Business Groups. *Entrepreneurship Theory and Practice, 27*(4), 367-382.

Nuryanah, S., & Islam, S. M. N. (2011), Corporate Governance and Performance: Evidence from an Emerging Market. *Malaysian Accounting Review, 10*(1), 17-42.

Otley, D. T. (1980), The Contingency Theory of Management Accounting: Achievement and Prognosis. *Accounting, Organizations and Society, 5*(4), 413-428.

Pfeffer, J., & Salancik, G. R. (1978), *The External Control Organizations: A Resource Dependence Perspective*. New York: Harper and Row.

Reeb, D. M., & Zhao, W. (2013), Director Capital and Corporate Disclosure Quality. *J. Account. Public Policy, 32*, 191-212.

Sacristan-Navarro, M., Gomez-Anson, S., & Cabeza-Garcia, L. (2011), Family Ownership and Control, the Presence of Other Large Shareholders, and Corporate performance: Further Evidence. *Family Business Review, 24*(1), 71-93.

Sanders, W. G., & Carpenter, M. A. (1998), Internationalization and Firm Governance: The Roles of CEO Compensation, Top Team Composition, and Board Structure. *Academy of Management Journal, 41*(2), 158-178.

Siregar, B. (2008), Pengaruh Pemisahan Hak Aliran Kas dan Hak Kontrol terhadap Dividen. *Jurnal Riset Akuntansi Indonesia, 11*(2, Mei), 158-185.

Sudarma, M. (2004), *Pengaruh Struktur Kepemilikan Saham, Faktor Intern dan Faktor Ekstern terhadap Struktur Modal dan Nilai Perusahaan.* (Program Pasca Sarjana), Universitas Brawijaya, Malang.

Tsao, C.-W., Chen, S.-J., Lin, C.-S., & Hyde, W. (2009), Founding-Family Ownership and Corporate performance: The Role of High-Performance Work Systems. *Family Business Review, 22*, 319-332.

Yamin, S., & Kurniawan, H. (2011), *Partial Least Square Path Modeling*. Jakarta: Salemba Infotek.