

# The Effects of Age, Family-Relation, and Activities of the Board of Commissioners on Company Value

Sitti Rizki Mulyani<sup>1</sup>, Darma Syahrullah Eka Jaya<sup>2</sup>,  
Yani Fitriyanti<sup>3</sup>, and Desi Permata Sari<sup>4\*</sup>

*Faculty of Economics and Business Universitas Putra Indonesia "YPTK", Padang, West Sumatera, Indonesia*

*\*Corresponding author. E-mail: [desipermatasari@upiyptk.ac.id](mailto:desipermatasari@upiyptk.ac.id)*

## ABSTRACT

This study aims to analyze how the effect of age, family relation as a board of commissioners, and activities of the board of commissioners on company value. Two variables are used as control variables, which are company age and company leverage. The samples in this research is taken by random sampling method among public company listed in Indonesia Stock Exchange (IDX) consisting of 266 companies with research period for 7 years from 2011 until 2017. The results show that age, family relation as a board of commissioners, and activities of the board of commissioners have no significant effect on company value. Meanwhile, company age and company leverage have negative and significant effect on company value.

**Keywords:** *Company Value, Age, Family-Relation as Board of Commissioners, Activities of Board of Commissioners*

## 1. INTRODUCTION

The increase in number of new companies has made competition in the business world in Indonesia even tighter. Companies engaged in various fields compete with each other in order to be able to survive and become the best. According to Mulyani, Amboningtyas, and Fathoni (2017), the value of the company can describe the state of the company. The higher the value of a company makes it seen more favorably by investors and the desire of investors to invest will also increase (Setiawati and Lim, 2018).

Many factors affect the value of the company. One of them is the existence of the board of commissioners. This board has a very important role in the company. The better performance of a board of commissioners can create higher value of the company (Badu, 2017).

The characteristics of a board of commissioners can be reflected in their age. The age difference between board members leads to variations in values and perspectives. According to Kagzi and Guha (2018) the diversity of ages among board members will provide many benefits for companies such as increasing company performance, but will also cause a low social sense for each member.

In general, previous studies examined little family involvement in increasing company value. Furthermore there is no previous research that examines the involvement of the family as board of commissioners in Indonesia. For this reason, current research is interested in examining the involvement of family members in the board of commissioners.

Family as a board of commissioners also has a large influence in the company. The increasing number of family members serving on the board of commissioners will also have an impact on the company's long-run. The data from Indonesia Institute for Corporate and Directorship (IICD) in

2010 shows that more than 95% of businesses in Indonesia are family owned or controlled companies.

According to Abdul et al. (2018), the disadvantage of family involvement as board of commissioners in a company is an increased focus on seeking personal gain and less attention to maximizing profits for minority shareholders. Besides the advantages that can be obtained from family involvement is the high loyalty and dedication of the family to the progress of the company. This also has an impact on reducing agency conflict between shareholders and management (Kuo, Wang, and Yeh, 2017).

According to Field et al. (2013), the limited time owned by the busy board of commissioners made them unable to properly monitor the company's performance. Board of commissioners who are busy provides various benefits, but for companies that have matured usually need more monitoring than providing advice, so that the benefits of a busy board of commissioners will be less effective. Virk (2017) states that the lack of time held by a busy board of commissioners cause losses to the greetings and company value.

Present day, there has been no previous research that examines the influence of family as board of commissioners, and busy board of commissioners on the value of companies in Indonesia. Based on the description above, the authors are interested in conducting a study entitled the effect of age, family as board of commissioners, and busy board of commissioners on company value.

## 2. LITERATURE REVIEW

### 2.1 Age

The age difference in the company also affects the value of the company, especially in the board of commissioners. According to Kahar (2016) the old board of commissioners tends to avoid risk and prefer to work safely without

developing new innovations, but they are better equipped to deal with situations that threaten the company because of the amount of experience they have. While the young board of commissioners is still lacking in experience, they have high creativity for the advancement of the company.

Research conducted by Kagzi and Guha (2018) found that there is a positive linear relationship between the demographic diversity of board members (gender, age, ownership, and education) and company performance. Ibrahim and Hanefah (2016) found that the proportion of female directors, independent directors, foreign directors, and young directors have significant and positive effect on corporate social responsibility disclosure.

H<sub>1</sub>: It is suspected that age affects company value.

## **2.2 Family-Relation as Board of Commissioners**

The involvement of family members in the board of commissioners has an impact on the company. By involving family members, the loyalty and dedication of the family to the progress of the company will be higher. This also will have an impact on reducing agency conflict between shareholders and company management (Kuo, Wang, and Yeh, 2017).

Research conducted by Munoz-Bullon, Sanchez, and Suarez (2018) stated that the index of family involvement, family equity, and the proportion of families as directors, have significant and negative effect on diversification decisions, while the first generation has a positive effect on it. Whereas research by Kuo, Wang and Yeh (2017) found that the education of the board of directors, family control and professional management have positive effect on investment in R&D companies, but institutional ownership and family involvement negatively affect investment in R&D companies.

H<sub>2</sub> : It is suspected that the family as board of commissioners influences company value.

## **2.3 Activities of Board of Commissioners**

The flurry of a board of directors influences the company. According to Field et al. (2013) busy commissioners tend to have more varied experiences and broader connections. The varied experience makes the busy board of commissioners a better advisor. On the other hand, the limited time available by the busy board of commissioners makes them unable to properly monitor the company's performance.

Research conducted by Cashman, Gillan and Jun (2012) found that busy boards of directors negatively affect company value but when focusing on larger companies the busyness of the board of directors positively influences company value. Virk (2017) found that the proportion of independent directors, the size of the board of directors, and board of director meetings have positive effect on the illegality of the company, while the busyness of the board of directors has negative effect on it.

H<sub>3</sub>: It is suspected that the busy board of commissioners influences company value.

H<sub>4</sub>: It is suspected that age, family as board of commissioners, and busy board of commissioners simultaneously influence company value.

## **3. RESEARCH METHOD**

In this study, the authors use secondary data types. The data source used in this study was obtained from the company's annual financial statements and was simultaneously listed on the Indonesia Stock Exchange (IDX) during the period 2011-2017, which was published on the IDX website ([www.idx.co.id](http://www.idx.co.id)).

The populations in this study are 555 companies listed on the Indonesia Stock Exchange (IDX) with the research year during 2011-2017. The samples in this study are 266. The companies were taken randomly by selecting public companies listed on the Indonesia Stock Exchange.

The dependent variable in this study is company value. Company value is measured using Return on Assets (ROA), which is acquired by comparing net income with total assets, then multiplied by 100% (Kuo, Wang, and Yeh, 2017). The independent variables in this study are age, family as a board of commissioners, and busy board of commissioners. Age is one of the dominant factors in the formation of one's work. Age is measured by finding the average age of the board of commissioners.

Family as board of commissioners illustrates the involvement of family members in the board of commissioners which provides their own influence for the company. Family as board of commissioners is measured by comparing the number of families as board of commissioners with the total number of board members, while the busy board of commissioners illustrates the busy life of board members. They do not only serve in one company, but also serve in other companies. Busy board of commissioners is measured by comparing the number of boards of commissioners serving in other companies with the total number of board members.

The control variables in this study are company age and company leverage. Company age is calculated as the number of years since the establishment of the company. Furthermore, company leverage is calculated by comparing its debt to its total assets.

$$ROA = \alpha + \beta_1UDK + \beta_2FDK + \beta_3BDK + \beta_4CA + \beta_5CL + \epsilon \quad 1$$

Note :

ROA = Company Value  
 UDK = Age of Board of Commissioners  
 FDK = Family-Relation as Board of Commissioners  
 BDK = Activities of Board of Commissioners  
 CA = Company Age  
 CL = Company Leverage  
 ε = error

#### 4. RESULTS AND DISCUSSION

Descriptive statistics is used to provide descriptive data that can be seen from the minimum, maximum, median, mean, and standard deviation.

**Table 1:** Descriptive Statistics

	Obs	Min	Max	Median	Mean	Std.Dv
ROA (%)	1862	-32.26	37.20	2.39	3.23	8.88
UDK (thn)	1862	35.00	80.67	58.20	58.26	6.69
FDK (ratio)	1862	0.00	1.00	0.30	0.28	0.28
BDK (ratio)	1862	0.00	1.00	0.60	0.61	0.30
CA (thn)	1862	9.00	123.00	33.00	35.57	15.40
CL (ratio)	1862	-1.46	11.85	0.51	0.56	0.54

Notes: ROA (Company Value), UDK (Age of the Board of Commissioners), FDK (Family-Relation as The Board of Commissioners), BDK (Activities of Board of Commissioners), CA (Company Age), CL (Company Leverage)

Table 1 explains the descriptive statistics of this study. Outlier test is a test used to detect data that deviates too far from other data in a data set (data outlier). The existence of outlier data in a data set will make the analysis of a series of data biased or does not reflect the actual phenomenon.

**Table 2:** Hausman-Test Results

Test Summary	Chi-Sq. Statistic	Chi-Sq. d.f.	Prob.
Cross-section random	28,141	5	0,000

Table 2 explain about the results of the Hausman test of this study. Based on the test results in Table 2, it can be seen that the probability of Chi-square is 0,000 (less than 0.05), so it can be concluded that  $H_a$  is accepted and the model used should be the fixed-effect model.

**Table 3:** Fixed-Effect Model Estimation Results

Variable	Coefficient	Std. Error	t-Statistic	Prob
C	17,363	4,526	3,836	0,000
UDK	0,033	0,066	0,503	0,615
FDK	-1,623	1,970	-0,824	0,410
BDK	-1,676	1,260	-1,330	0,184
CA	-0,378	0,096	-3,935	0,000*
CL	-2,080	0,613	-3,392	0,001*
R <sup>2</sup>	0,319			
Adj R <sup>2</sup>	0,203			
F. Value	0,000			

Note: \* indicated a significance at 1%

The results of the first hypothesis testing using the age variable (UDK), has a regression coefficient of 0.033 and t-statistic value of 0.503 with a probability value of 0.615, which is greater than 0.05 or ( $0.615 > 0.05$ ), so it can be concluded that the age variable (UDK) has no significant effect on the value of the company in publicly listed companies in Indonesia Stock Exchange during 2011-2017 period. The result of this study is in line with the one conducted by Alqatamin, Aribi and Arun (2017), in which age diversity does not affect company value. Meanwhile, the results of the research conducted by Kagzi and Guha (2018) stated that the age of board members has a positive effect on company performance.

The results of the second hypothesis testing using the family-related variable as board of commissioners (FDK), has a regression coefficient of -1,623 and a statistic of -0,824 with a probability value of 0.410, which is greater than 0.05 or ( $0.410 > 0.05$ ), so it can be concluded that the variable of family relation as board of commissioners (FDK) does not significantly influence the value of the company in publicly listed companies listed on Indonesia Stock Exchange in the period 2011-2017. The result of this study is not in line with the one conducted by Wijethilake, Ekanayake, and Perera (2015), whereas family-related share ownership in board members has positive effect on company performance. Meanwhile, the results of research conducted by Kuo, Wang, and Yeh (2017) stated that family involvement negatively influences the investment in R&D companies.

The results of the third hypothesis testing by using the variable of activities of board of commissioners (BDK), has a regression coefficient of -1.676 and a statistic of -1.330 with a probability value of 0.184, which is greater than 0.05 or ( $0.184 > 0.05$ ), so it can be concluded that the variable of activities of board of commissioners (BDK) does not significantly influence the value of the company in publicly traded companies listed on Indonesia Stock Exchange in the period 2011-2017. The result of this study is not in line with the one conducted by Cashman, Gillan, and Jun (2012), whereas busy boards of directors negatively affects company value, but when focusing on larger companies, the activities of the board of directors has positive effect on company value. Meanwhile, the results of the research conducted by Field, Lowry and Mkrtyan (2013) stated that the activities of a board member will reduce its effectiveness in monitoring the company.

The test results using the company age variable (CA) has a regression coefficient of -0.378 and a statistical value of -3.935 with a probability value of 0.000, which is less than 0.05 or ( $0.000 < 0.05$ ), so it can be concluded that the company age variable (CA) has negative and significant effect on the value of the company in publicly listed companies in Indonesia Stock Exchange during 2011-2017 period.

The result of this study is in line with the one conducted by Halim and Christiawan (2017), in which the age of the company has negative and significant effect on company value. Meanwhile, the results of the research conducted by

Mahardhika and Roosmawarni (2016) stated that the age of the company has no effect on the value of the company.

The test results using the company leverage (CL) variable has a regression coefficient of -2.080 and a statistical value of -3.392 with a probability value of 0.001, which is smaller than 0.05 or ( $0.001 < 0.05$ ), so it can be concluded that the company leverage variable (CL) has negative and significant effect on the value of the company in publicly listed companies in Indonesia Stock Exchange during 2011-2017 period.

The result of this study is in line with the one conducted by Izzah (2017), whereas leverage has negative and significant effect on company value. Meanwhile, the results of the research conducted by Ekadjaja (2017) stated that leverage has positive effect on company value.

Table 3 shows that the F-statistic value is 2.759 and the probability is 0.000 with an error rate used at 0.05. The result obtained indicates that the probability value generated is  $0,000 < 0.05$ , so the conclusion that can be drawn is age (UDK), family relation as board of commissioners (FDK), activities of board of commissioners, company age (CA) and company leverage (CL) simultaneously have significant effect on the value of the company (ROA) among public companies listed on the Indonesia Stock Exchange in the 2011-2017 period.

Table 3 shows that the value of the coefficient of determination generated in the Adjusted R-squared test is 0.203. The result obtained shows that age (UDK), family relation as board of commissioners (FDK), activities of board of commissioners, company age (CA) and company leverage (CL) are able to contribute in influencing company value (ROA) as much as 20.30%, while the remaining 79.70% is influenced by other variables not included in the model.

## 5. CONCLUSION

From the results of the study, it can be known that partially age, family relation as board of commissioners, and activities of board of commissioners do not significantly influence the value of the company, while company age and company leverage have negative and significant effect on company value.

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