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The Composition of Boards of Commissioners and Bank Profitability

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This study examines the effect of boards of commissioners' size, the presence of foreign commissioners and the existence of female commissioners on bank profitability. This research was conducted using banks listed on the Indonesia Stock Exchange during 2013-2017. The data in this study was tested using multiple linear regression analysis models. The results of this study indicate that the size of a board of commissioners and the presence of foreign and female commissioners have significant positive effects on the level of bank profitability. This result implies that it is important for shareholders to properly plan the composition of the board of commissioners in order to be able to increase profitability, especially for the banking sector.

Keywords: *Board of commissioners' size, Existence of foreign commissioners, Existence of female commissioners, Bank profitability.*

Introduction

The banking industry has two main characteristics that can distinguish it from other industries. First, the banking industry is an intermediary institution, which in its operations will depend on funds and public trust both from within and outside the country. Second, the banking industry is known as a highly regulated industry. The tight regulation in the banking sector is due to the high risks faced by banks in managing public funds. These risks include credit risk, market risk, operational risk and reputation risk (KNKG, 2006). One of the regulations that binds banks is a regulation related to the implementation of good corporate governance. Commissioners are some of the organs in the structure of good corporate governance. Organisational structure within good corporate governance has a positive and significant impact on continuous improvement capability, which has a positive and significant impact on company performance (Hakim et al., 2016; Mahrani & Soewarno, 2018; Suhadak et al., 2018; Sari et al., 2018; Sulaiman et al., 2012). This study will analyse the composition of the board of commissioners in terms of size, the presence of foreign commissioners and the existence of female commissioners and the effect of these factors on profitability in a company.

Banking has a strategic position. It supports the payment system, the implementation of monetary policy and the achievement of financial systems' stability. Healthy, transparent and accountable banking is needed (Booklet, 2009). The banking industry is a high-risk industry because it involves the management of public money. The funds from the community will be managed through investments, such as giving credit, purchasing securities, and investing other funds. Regarding their complex role in society, banks are expected to be able to maintain their level of profitability. Improving performance is important in maintaining public confidence in a bank (Sadalia et al., 2018).

A board of directors represent the interests of shareholders. They are responsible for a specific set of tasks, including defining a company's strategy and corporate philosophy, executive oversight of management, and the implementation of internal controls. Based on the dual tier system adopted in Indonesia, a board of directors will be divided into a management board (responsible for carrying out the business management functions of a company) and a supervisory board (which acts as an agent of shareholders and has responsibility to appoint, supervise and give input to the members of the board of management). The board of commissioners is also one of the important corporate organs in running GCG (KNKG, 2006). This study examines the influence of the composition of a board of commissioners, which includes the size of the board of commissioners, the presence of foreign commissioners, and the existence of female commissioners on bank profitability.

The compositions of size, gender and foreign presence within a board of commissioners are important aspects that need to be considered within the company. Adams and Mehran (2003) show a positive relationship between large boards and company performance. For this reason, banks are necessitated to have a board with many members so they can benefit from the experience of those members. (Belkhir, 2005). In addition to the size of the board of commissioners, the diversity of the commissioners' gender is considered capable of making a difference in company performance. The gender of the board of commissioners can increase creativity and innovation, increase better understanding of the market, increase better decision making, and increase the effectiveness of leadership in the company (G Robinson, 1997). Rose (2007) has reported a drive to significantly increase the role of women as board members. Some countries, such as Norway, even have laws that require 40% of councillors to be women. Another aspect that needs to be reviewed is the presence of foreign commissioners. The presence of foreign commissioners can increase supervision. They can ensure that their interests are protected. Foreign board members can bring new ideas, knowledge and expertise to help improve the effectiveness and efficiency of a company's operations even though the company has to pay a significant amount of money to hire them. This is done so that diversity in board members is able to improve company performance (Swartz and Firer, 2005).

This study uses 201 observations from 43 different banks that have been listed on the Indonesia Stock Exchange during 2013-2017. Based on multiple linear analysis testing in this study, it was found that the size of a board of commissioners, the presence of foreign commissioners and the existence of female commissioners are related to the level of profitability of banks. This research has implications for shareholders to consider, such as the composition of foreign members, women and the board size. Determining the right composition is expected to have a positive effect on bank profitability.

The remainder of this paper is structured as follows: Section 2 develops the research hypotheses. Section 3 describes the research design. Section 4 specifies the empirical results. Section 5 summarises the paper and presents concluding remarks.

Hypothesis Development

A Board of Commissioners' Size and Bank Profitability

A board of commissioners is seen as a mechanism to reduce conflicts of interest between managers and shareholders. A large board of commissioners is able to control and supervise the board of directors. Adams and Mehran (2003) found a linear relationship between board size and bank performance. Thus, banks need to have a board of commissioners with a larger member size to be able to benefit from the experience of more members. The first hypothesis in this study predicts the higher the number of commissioners, the greater company profitability.

H1: The size of a board of commissioners has a positive effect on bank profitability.

Foreign Commissioners and Bank Profitability

The presence of foreign commissioners can increase supervision activities and ensure that their interests are protected. This can have an impact on improving company performance (Swartz and Firer, 2005). In addition, Wiersema (1992) explains that the existence of foreign commissioners can provide creative ideas and different perspectives from other board members. When foreign commissioners offer different interpretations of a situation, this stimulates creativity and solves various problems. Ujunwa (2012) found that foreign commissioners had a significant positive effect on bank profitability because of their ability to monitor and have better information. This is similar to the discussion about whether foreign directors have better managerial skills. It is argued the existence of foreign commissioners is able to improve the ability of a board of commissioners because of their abilities and new perspectives.

H2: The presence of foreign commissioners has a positive effect on bank profitability.

Female Commissioners and Bank Profitability

In the past, women have not been strongly represented in corporate governance. However, the situation changed starting in the 1990s when there was an increase in the number of women on company boards (Farrell and Hersch, 2005). Since then, female and male commissioners have given new perspectives in board deliberation processes and inspired workforce diversity.

The greater the presence of women on a board of commissioners, the greater the control function of the board of directors and better the advice to the board of directors. Opinions generated by female commissioners tend to be more cautious and provide less risky direction than those expressed by male commissioners. A board of commissioners of women of different races, ethnicities, and characteristics is able to enrich a company's resources and add various points of view in the problem-solving process and strategic planning (Ruigrok et al., 2006). A female commissioner may give several opinions that could be taken into consideration by other boards (Kusumawati, 2007). It is argued the existence of a women on a board of commissioners is able to improve bank profitability performance.

H3: The existence of a female commissioner has a positive effect on bank profitability.

Methods

Data and Sampling

The data in this study is quantitative data. It was sourced from the annual reports of each bank from the sites idx.co.id and idnfinancials.com. This study uses 201 observations from 43 different banks listed on the Indonesia Stock Exchange during 2013-2017.

Variable Measurement

Dependent Variable Measurement

Profitability (ROA) is a company's ability to generate profits and operational efficiency as well as the efficient use of its assets. To measure company performance, this study uses alternative performance indicators that use ROA as a measure of accounting profitability (Neely, 2007). ROA is measured using the proportion of net income to total assets.

Independent Variable Measurement

The independent variables in this study are the size of the board of commissioners (COMSIZE), the presence of foreign commissioners (FOREIGNCOM), and the existence of female commissioners (WOMENCOM). This study also used control variables consisting of company size (SIZE), company age (AGE), and capital adequacy ratio (CAR).

COMSIZE shows the size of a company's board of commissioners. COMSIZE is valued based on the number of commissioners in a Bank. FOREIGNCOM shows the presence of foreign commissioners on a board of commissioners. FOREIGNCOM is a dummy variable, which will be 1 if the company has a foreign commissioner in period t and 0 if the company does not have a foreign commissioner. WOMENCOM shows the presence of women on a board of commissioners. WOMENCOM is a dummy variable. It will be 1 if a company has a female commissioner in period t and 0 if the company does not have a female commissioner.

The SIZE variable indicates the size of a company. SIZE is how much a company operates. It can be seen from the total assets owned by the company. Company size is calculated using the natural logarithm value of total assets. Company age (AGE) is how long the company has been established (from the beginning until the year the company has been listed on the Indonesia Stock Exchange). AGE is calculated using the difference between the study year and the year the company is listed on the Indonesia Stock Exchange. Capital ratio (CAR) is a bank's capital ratio, which describes the amount of owned capital (equity) compared to the total assets owned by the bank. Capital ratio is measured using the ratio of capital to total risk weighted assets in a company. Maintaining a level of capital requirements is one way to maintain loan security at a bank (Sobarsyah et al., 2020). The greater the value of capital ratio in a banking company, the better the company is in dealing with the risk of loss and improving company performance (Irawati et al., 2019).

Methodology

Hypotheses 1,2,3, and 4 in this study were tested using multiple linear regression analysis using SPSS 21.0 software. To test the four hypotheses, the following regression equation was used:

$$ROA\ i,t = \alpha + \beta_1\ COMSIZE\ i,t + \beta_2\ FOREIGNCOM\ i,t + \beta_3\ WOMENCOM\ i,t + \beta_4\ SIZE\ i,t + \beta_5\ AGE\ i,t + \beta_6\ CAR\ i,t\ e\ i,t$$

We expected the COMSIZE, FOREIGNCOM and WOMENCOM variables to have a positive coefficient on the Bank's profitability (ROA). ROA is a company's performance i in period t measured using return on assets; COMSIZE is a measure of the board of commissioners of the company i in period t; FOREIGNCOM is a dummy variable with a value of 1 if the company has a foreign commissioner in period t and a value of 0 if the company does not have a foreign commissioner in period t; WOMENCOM is a dummy variable with a value of 1 if the company has a female commissioner in period t and a value of 0 if the company does not have a female commissioner in period t; SIZE is the natural logarithm of total assets; AGE is the difference between observation year and company IPO year and CAR is the ratio of capital to total risk weighted assets.

Testing the hypotheses in this study was done using a significance level of 5%. If the significance value was greater than 5%, then Ho was accepted and H1 was rejected, which means that the i-th independent variable does not significantly influence the dependent variable. If the significance value was less than 5%, then Ho was rejected and H1 was accepted, which means that the i-th independent variable significantly influences the dependent variable. In this study, multicollinearity testing was also carried out. If the tolerance value<0.10 and VIF value>10, then the independent variable experienced symptoms of multicollinearity, which means that there was a correlation between the independent variables.

Empirical Results

Descriptive Statistics

Table 1 shows the minimum, maximum, mean and standard deviation values of this study sample. The average ROA of a company is 0.0099. The minimum value of ROA in a sample company is -0.0533, which means that the sample company in that year suffered a loss of 5.33% and the maximum value of ROA in the sample company was 0.0422. This shows that the sample companies in the period had a high ability to generate profits using assets of 4.22%. COMSIZE has an average value of 4.78 and the value varies from 3 to 10 people. FOREIGNCOM has an average of 10.81%, meaning that 10 percent of the study sample has foreign commissioners. WOMENCOM has an average value of 8.25%, which means that 8.25% of the research sample has women in its board of commissioners. The average capital adequacy ratio (CAR) is 20,331. The average company size is 30.79. The age of the companies (AGE) vary from 15 to 76 years.

Table 1: Descriptive Statistics

	N	Minimum	Maximum	Mean	Std. Deviation
ROA	201	-.0533	.0422	.009901	.0141530
COMSIZE	201	3	10	4.78	1.856
FOREIGNCOM	201	.0000	1.0000	.1081	.18435
WOMENCOM	201	.0000	1.0000	.0825	.12702
CAR	201	8.02	87.49	20.3351	8.21039
SIZE	201	27.3375	34.3822	30.794145	1.8157956
AGE	201	15	76	39.39	15.084
Valid N (listwise)					

Multicollinearity Test

Table 2 shows the results of the multicollinearity test. Each independent variable of the test results in this model has a tolerance value of no less than 0.01, and no VIF value of more than 10. Based on these results, it can be concluded that the regression model in this study did not incur multicollinearity. This means there is no linear relationship between the independent variables for the ROA model.

Table 2: Multicollinearity Test Results

MODEL	**Collinearity Statistics**	
	Tolerance	**VIF**
(Constant)		
COMSIZE	0.319	3.315
FOREIGNCOM	0.682	1.466
WOMENCOM	0.931	1.074
CAR	0.889	1.124
SIZE	0.345	2.902
AGE	0.634	1.577

A Board of Commissioners' Size and Bank Profitability

In table 3, it can be seen that the COMSIZE variable has a positive coefficient of 0.002 ($t = 1.95$) and has a significance of 0.053. These results indicate that hypothesis 1 is accepted: The greater the size of the board of commissioners, the greater bank profitability.

The position of a board of commissioners is very important in bridging the interests of the principals in a banking company because the main function of the board of commissioners is to oversee the completeness and quality of information on the performance of the board of directors. The composition of the board of commissioners must enable effective decision making and more stringent oversight of management so that fraud is low. The results of this study are in line with the work of Adams and Mehran (2003); Neema (2017) and Estelyi et al

(2016), which shows a linear relationship between board size and bank performance. This shows that the presence of a higher member count is beneficial in terms of members having more combined experience. A large number of commissioners provides input of opinions that might complement each other, generate creative ideas and create effective opportunities when compared to boards of commissioners with fewer members. Knowledge sharing mediates capital relationships and can enhance company performance (Aisyah et al., 2019). Furthermore, Larasati & Khusnul (2019) show that the number of commissioners could affect a firm's performance and hence increase the firm's value. Thus, more and more boards of commissioners can carry out better monitoring and generate high profitability for their companies.

Foreign Commissioners and Bank Profitability

Based on table 3, the FOREIGNCOM variable has a positive coefficient of 0.010 (t = 2.037) and has a significance of 0.043. These results indicate that hypothesis 2 is accepted, where the presence of foreign commissioners will be positively related to bank profitability.

The results of this study are in line with the work of Ujunwa (2012) and Neema (2017), who indicate that the presence of foreign commissioners is able to increase company profitability. Adams and Daniel (2009) state that people who come from different backgrounds and different experiences have a tendency to solve similar problems in different ways. Cyret and March (1963) in Estelyi and Nizar state that the decision-making process cannot be separated from individual past experiences. Wiersema (1992) explains that the presence of foreign members on a board of commissioners will be able to provide varied perspectives, as well as more comprehensive ideas and information. This will then increase a company's capacity to solve problems and make decisions more effectively.

Table 3: Multiple Linear Regression Results

Variabel Independen	**Regression Model**			
	Koefisien	**T**	**Sig**	**Kesimpulan**
Constant	-0.071	-3.252	0.001	
Comsize	0.002	1.950	0.053	Signifikan
Foreigncom	0.010	2.037	0.043	Signifikan
Womencom	0.014	2.083	0.039	Signifikan
Car	0.000	3.232	0.001	Signifikan
Size	0.002	2.556	0.011	Signifikan
Age	0.000030	0.564	0.573	Tidak Signifikan
Rsquare	0.313			
N	201			

Foreign commissioners can also provide advice in the form of information and knowledge related to the foreign commissioner's home country. This will make it easier to expand operations or expand into the international market. The existence of foreign commissioners will then increase the investment opportunities of a company. Foreign commissioners only want to increase the capacity of a company to solve problems, implement more effective corporate strategic planning and make better decisions. This is followed by an increase in company profits. Thus, the presence of foreign commissioners can increase a Bank's profitability.

Female Commissioners and Bank Profitability

In table 3, WOMENCOM has a positive coefficient of 0.014 ($t = 2.083$) and has a significance of 0.039. These results indicate that hypothesis 3 is accepted, where the existence of female commissioners will be positively related to bank profitability.

This result is in line with the work of Neema (2017) and Adams & Daniel (2009), where the presence of women on a board of commissioners can increase company profitability. Kusumawati (2007) explains various definitions that conclude gender is a concept used to identify differences between men and women in terms of socio-cultural aspects. The sign of a good company and good governance is the formation of different members into a board of commissioners. This is because it is more profitable than having board members consisting only of men, and the presence of female members on a board of commissioners can bring different effects or can influence the decision made. A board of commissioners including women of different races, ethnicities, and characteristics is able to enrich a company's resources and add various points of view in the problem-solving process and strategic planning (Ruigrok et al., 2006). A female commissioner may give several opinions that could be taken into consideration by other boards (Kusumawati, 2007). The presence of women on a board of commissioners can increase a bank's profitability.

Conclusion

Based on research conducted using 201 banking observations listed on the Indonesia Stock Exchange during 2013-2017, the size, presence of foreign members and presence of women on a board of commissioners is able to increase bank profitability. With an increasing number of councils, the presence of foreigners and women in the ranks is considered capable of eliciting views and producing more diverse initiatives. A larger board of commissioners will bring more diverse experience and be able to provide variations in monitoring activities within a company. Foreign commissioners are also considered capable of providing new perspectives in a company. A commissioner can also provide advice in the form of information and knowledge related to the foreign commissioner's home country. This will make it easier to expand operations or expand into the international market, increasing investment opportunities. In line with this, a female commissioner is also considered capable of providing a new perspective in solving problems within a company. Female commissioners will tend to act less riskily. The opinions they give can be taken into consideration by other councils.

This study focuses on analysing board composition's effect on company performance. Suggestions for further research are to analyse the effect of the performance of the board of commissioners on board performance. Researchers can then analyse the relationship between a board's performance through various analytical techniques such as surveys, observations and measurements of actual performance within a company. The existence of this will produce a better understanding of how directors contribute individually and the overall performance of the board of directors as a group (Nowland, 2016).

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