

Ex-Military Commissioners and Firm Performance: The Case of Indonesia Manufacturing Companies

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Submission date: 02-Jan-2025 10:32PM (UTC+0700)

Submission ID: 2559348382

File name: 82302-379936-1-PB.pdf (291.28K)

Word count: 11629

Character count: 64828

Ex-Military Commissioners and Firm Performance: The Case of Indonesia Manufacturing Companies

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Abstract: This investigation relates to the new corporate governance (CG) suggestions that using ex-military commissioners can lead to better firm performance. Quantitative analysis was used to analyze the sample of manufacturing sector public companies. The data comprised 906 firm-years (from 2016 to 2021). This study shows that companies whose CG practices involve employing ex-military officers exhibit high firm performance levels. This study emphasizes the value of using a configurational analytical approach to explore firm jointly- and country-specific CG practices that engage firms to achieve the necessary level of performance. The current study calls policymakers' attention to evaluating the current state of regulatory and competitive development in their countries and establishing policies in line with that assessment. The methodology provides connections between firm performance and CG with retired military commissioners. This study broadens the focus of CG studies to provide effective solutions for practitioners, especially Indonesian manufacturing firms. It also highlights the importance of ex-military commissioners in a particular company sector and CG procedures specific to a particular nation. It encourages enterprises to reach the desired level of performance. The research implication relates to good governance in board diversity using ex-military as independent commissioners for supervisory roles.

Keywords: Ex-military commissioners, corporate governance, politically connected firm, performance.

JEL Classification: G30, G34, J60

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ISSN: PRINT 1411-1128 | ONLINE 1411-1128
<http://journal.ugm.ac.id/gamaijb>

Introduction

There has been an increase in the supply of military directors on corporate boards (An et al., 2020), and Indonesia is no exception. Some researchers (An et al., 2020; Harymawan, 2018) use the term directors to refer to all members of the board of directors in a one-tier and two-tier board structure, but Indonesian companies use a two-tier board and separate the term directors who are in charge of the supervisory or control function over the board of directors (board of commissioners or BOC) and management or operational functions (board of directors or BOD). From 2004-2012, all military-connected directors served on BOC (Harymawan, 2018). The ex-military status is chosen because it is distinguishable from other political connections, so investors can quickly identify it and consider it in their decision-making. In addition, the extent of ex-military roles is in line with the conditions of the Indonesian state.

In Indonesia, the BOC gains the trust of the principal to oversee the BOD's management of the principal's resources (Utama et al., 2022). The existence of a working relationship between the BOD (executive) as a decision-maker and the BOC (supervisory) causes the BOC's unique background, characteristics, and experiences to influence the BOD's decisions. Moreover, the external environment is one of the determinants of leadership style (Rosenbach et al., 2019). Agency problems, environmental interdependence and uncertainty, and leadership from a BOD need to be addressed or minimized by having a BOC that plays an excellent supervisory role. Therefore, external company personnel with adequate education and expertise as a tag team are urgently needed and it is important that this is researched.

In the corporate world, leadership is external (Kiyosaki, 2015), which provides an opportunity for external parties or people to be top leaders, including BOCs, such as the ex-military serving on BOCs. Ex-military commissioners have experienced remarkable personal growth in psychology and competence (Elder, 1986; Elder & Clipp, 1989), including leadership skills and values (Groysberg et al., 2010; Kiyosaki, 2015) and knowledge. Franke (2001) finds differences in values between military and civilian members; the military members tend to be more conservative and patriotic than the civilians.

The recruitment of ex-military officers as commissioners is motivated by their relevant attributes and interests. The attributes of retired military officers are relevant to civilian careers. More than half of veterans performed "better than" nonveteran employees (Barrera & Carter, 2017). Moreover, veterans are more likely to have the same value systems and attitudes as the military (Law & Mills, 2017). Veterans represent a unique, diverse, and high-performing source of talent (Australian Government Department of Veterans Affairs, 2022; US Department of Labor, n.d.). Veteran-friendly companies out-

perform nonveteran-friendly ones in terms of stock returns (overall firm performance), so the veterans' contributions within organizations matter in significant ways and have a positive financial impact on companies (Pollak et al., 2019). For companies that are prone to conflict, the goals and interests include handling security and conflict issues, making it easier to negotiate with the community (for plantation, mining, property, and real estate companies), protecting the business from outside interference, and resolving disagreements (Azis et al., 2022). Based on the hiring motivations, an ex-military officer as a commissioner, who acts as a supervisor (controller), potentially contributes positively to controlling the business.

Diversity within the BOC can use the potential of the ex-military personnel to reduce agency problems between BOD (agents) and shareholders (principals), deal with environmental interdependence and uncertainty, and control the company's performance. The reason is that performance is unaffected by politically connected independent commissioners without focusing on a specific political connection (such as military connections) (Li & Rainville, 2021; Junus et al., 2022). Inspiration for the involvement of ex-military personnel comes from the similarity between business and war, both of which are tough, often dangerous, environments. Hence, businesses need men and women who are serving or have served in the armed services and have already undergone a unique and rigorous educational process, a process that's essential for all entrepreneurs (Kiyosaki, 2015). The ex-military personnel have been tested to the breaking point physically, emotionally, spiritually, and mentally (Kiyosaki, 2015). The impact of a director's military experience on firm value is increasingly essential as corporations target military veterans for board seats (Li & Rainville, 2021). Ensuring there is diversity within the BOC can be one of good corporate governance practices. Corporate governance practices determine the success or failure of a company (Zakaria & Chin, 2024) because good governance has a central role in fostering development (Fauzan & Jahja, 2021). The novelty is that the ex-military persons can be placed as independent commissioners from outside the company, which follows the conditions of the business world. The military experience and education of a retired military person is needed by someone in the role of a commissioner. The existence of an ex-military person as an independent commissioner plays an essential role as a management advisor and supervisor, which will later influence the company's performance.

The existence of a positive contribution to performance by ex-military independent commissioners is supported empirically. Some empirical evidence has found that ex-military commissioners affect debt policy (Fitriani et al., 2022) and loan interest rates (Harymawan, 2018), improve financial reports quality using the selection of industry-specialist auditors (Azis et al., 2022), minimize corporate tax avoidance (Law & Mills, 2017), increase good corporate governance (GCG) (Koch-Bayram & Wernicke, 2018; Lin et al.,

2013), and increase easiness of financial resources (Agrawal & Knoeber, 2001; Goldman et al., 2013). The advantages include positive economic payoff (Wong, 2010), less impact during financial distress (Ahmad et al., 2018), and reduced external risks (Mitchell & Joseph, 2010). The cost of debt may change when independent commissioners are present (Chen et al., 2009; Fitriani et al., 2022).

As opposed to advantages, some researchers have found that some adverse effects of military directors on corporate boards reduce firm performance because they possess social capital but lack business expertise (An et al., 2020). Among bailed-out firms, those that are politically connected exhibit significantly worse financial performance than their non-connected peers at the time of and following the bailout; political connections influence the allocation of capital through the mechanism of financial assistance when connected companies are confronted by economic distress (Faccio et al., 2006). Independent directors with past military experience tend to have poor firm performance and do not improve firm performance (Li & Rainville, 2021). Independent directors with military experience tend to have poor firm performance (Junus et al., 2022; Li & Rainville, 2021; Shahzad et al., 2021) and invest less in research and development (Li and Rainville, 2021). The disadvantages are agency problems (Tee et al., 2018), actual earnings manipulation (Sani et al., 2020), and higher earnings management (Kamarudin et al., 2021).

There needs to be more research on their effectiveness or the experiences of veterans and their civilian employers. Some research findings have provided initial evidence of the ex-military connection and show that the topic has received attention in current research. Still, the prior literature has yielded equivocal results. Moreover, based on one survey, most studies examine topics related to financial markets, such as stock prices (Harymawan & Rahayu, 2022). The empirical evidence that documents the employment outcomes of veterans in the workplace by assessing firm-level financial outcomes is limited (Batka & Hall, 2016; Pollak et al., 2019). This research will focus more on company performance. The literature gap is filled by this study, which aims to provide empirical evidence on the effect of military connections in business. This evidence will further enhance our understanding of the benefit of appointing an ex-military board member with military experience. This paper adds to the literature by examining the influence of ex-military commissioners on firm performance.

The BOC's role as the supervisor of the BOD can be briefly explained using three theories: the principal-agent theory, resource dependency theory, and upper-echelon theory. According to the principal-agent theory, the BOC is an organ entrusted by the principal—that is the shareholders through the general meeting of shareholders (GMS)—to supervise agents (directors). In contrast, the BOD is an organ entrusted by the principal to manage the resources owned by the principal (Utama et al., 2022). The BOC supervises

any conflicts of interest and gives suggestions to directors, recommendations, and supervision (Utama et al., 2022). According to the resource dependency theory, GMS should appoint ex-military commissioners because of their characteristics and benefits, including a greater connection with the external environment, reduced environmental interdependence and uncertainty, and improved firm decision-making capabilities. As a valuable external resource, have military veterans onboard offers benefits to firms, such as a stronger connection with the external environment, improved decision-making capabilities, and an influence on company performance. According to the upper-echelon theory, the BOC's unique background, characteristics, and experiences will influence and complement the BOD's decisions through the work relationship process. The BOD's decisions are a product of the knowledge and experience of the people who make up the board and after receiving advice from the BOC. The ex-military commissioner's characteristics and experiences when serving on a BOC can affect firm performance. Military service can significantly determine managerial decisions and firm outcomes (Benmelech & Frydman, 2015); this is caused by military service experience being associated with conservative corporate policies and ethical behavior. Additionally, military connections benefit firms in conflict and security problems by coordinating easier negotiations with the surrounding community, securing the company from interference, and resolving disputes.

Additionally, the COVID-19 pandemic had an impact on all aspects of business activity, including corporate performance, CG, and others (Harymawan & Rahayu, 2022), and this cannot be ignored. The same governance cannot be applied in all situations. The same research question was tested before and during the COVID-19 pandemic. These arguments led to the need to have more research on the military connection in a country that is strongly influenced by the military.

The analysis was extended to the specific situations: more deeply in normal and crisis situations and before and after the abolishment of independent directors by the Financial Service Authority. The data without a year lag on the variables were subjected to an additional robustness test. This highlighted the need for more empirical research on the impact of veterans in civilian organizations, especially in encouraging businesses as BOC members. Our primary research question was whether ex-military commissioners influence firm performance.

This paper contributes both academically and practically. The first expectation is that it adds to the body of knowledge on CG, ties to the military, and specifically public firms with independent commissioners with a military background in a two-tier system. Specifically, the relationship between the ex-military independent commissioners and firm performance in Indonesia's manufacturing sector in the 2016-2021 period. Research in one country will provide more in-depth results and specific suggestions for that country

being researched (Harymawan & Rahayu, 2022).

Further, the determinants and accounting performance can differ among countries and sectors (Labelle et al., 2015; Amore & Garofalo, 2016), so this research only focuses on the manufacturing sector as the largest firm population of the non-financial sector in the Indonesian Stock Exchange (IDX). The manufacturing sector is a mass sector with many dynamic changes compared to other sectors. As part of an ASEAN country, Indonesian manufacturing sector companies have a manufacturing value chain using multinational value-chain integration with other ASEAN countries (Meyer et al., 2021). Manufacturing growth has been led by labor-intensive assembly work and strong export growth in higher-value goods such as machinery and electronics (Meyer et al., 2021). Manufacturers are progressing toward their environmental, social, and governance (ESG) commitments by making operational changes across their value chains (Deloitte, 2023). The exposure risks include many problems, such as sourcing bottlenecks, global logistics backlogs, cost pressures, and cyberattacks (Deloitte, 2023). The problems of this manufacturing development need to be accompanied by monitoring efforts to check abnormal behavior and exposure risks. The complexity of the process and various networks of manufacturing companies give more challenges to BOC to supervise. The Indonesian manufacturing sector was exposed to the COVID-19 shock and had a low level of teleworking ability and a medium level of exposure to the virus (Handayani, 2024).

The role of an ex-military commissioner is essential in the manufacturing sector. The conditions of the uncertain environment, challenging risks, external parties, and many external environments involved are suited to the skills and experience possessed by ex-militaries to carry out monitoring. Apart from their monitoring skills and experience, suggestions, and access to the government, ex-military commissioners are needed to support management in problem-solving, managing uncertainty, preventing workforce shortages, driving supply chain resilience, managing a fast-evolving ESG landscape, and developing sustainability. As a form of diversity in BOCs and representation of shareholders, the control and suggestions provided by the ex-military commissioners are more likely to achieve good performance than management that does not do this. Ex-military commissioners' values, competence, experience, and access are needed to deal with environmental interdependence and uncertainty and to get suggestions.

The second expectation is that this study will be a source for evaluating solid Indonesian corporate governance in both regular and emergency (COVID-19 pandemic) situations. To the best of the authors' knowledge, this observation has never been made before. Manufacturing companies were one of the sectors that suffered the worst impact of the COVID-19 pandemic (Rifa'i, 2020). These situations can explain the discussion about the reference theories (principal-agent theory, resource-based theory, and upper-echelon

theory) to describe the environment's complexity, uncertainty, and management decisions. The tests use all periods (both regular and emergency), separated periods between the period before (2016-2019) and the period during the COVID-19 pandemic (2020-2021). The significant differences in the situations led to the need for tests using different periods. The external validity is high when the results can be generalized to many situations (Jogiyanto, 2004). Then the discussions and conclusions rely on all periods' test results.

This study demonstrates how having commissioners with military experience can improve company performance for businesses in the manufacturing sector, particularly during challenging economic times like the COVID-19 pandemic. The supervisory role of the BOC is important for manufacturing firms since there are many variations of activities from input to product distribution, as well as many interactions with various parties (suppliers and customers). Besides the supervisory role, the advisory role and the access to the government of BOC are essential for manufacturing firms facing the multinational value-chain integration with other ASEAN countries, as well as many interactions with various parties. The findings may be used to help interested parties decide on BOCs' appointment of individuals with military experience. In addition, the presence of ex-military independent commissioners influences performance only when his presence is required. The third expectation is that this study uses an integrated multi-theoretical approach (principal-agent theory, resource dependency theory, and upper-echelon theory). CG functions can be better understood from multiple theoretical perspectives (Zahra & Filatotchev, 2004; Heuvel et al., 2006; Altaf, 2022).

There are five sections in this study. The background is presented in the first section, followed by the literature review and development of the hypothesis in the second section. Then the research methods are explained in the third section, the results and discussion are in the fourth section, and the conclusion is in the fifth section.

Literature Review

A military connection (MCON) is a form of political connection. Three theories can explain MCON; they are the agent-principal theory (Jensen & Meckling, 1976), the resource dependency theory (Pfeffer & Salancik, 2003), and the upper-echelon theory (Hambrick & Mason, 1984; Hambrick, 2007). According to the agent-principal theory, there is a need to monitor management and protect shareholders' interest because of the separation of ownership and control (Jensen & Meckling, 1976), so this is how CG affects agency problems reflected by firm performance (Eisenberg et al., 1998). Incomplete separation of ownership and control does not necessarily eliminate agency problems (Jensen, 1994; Schulze et al., 2001).

According to the resource dependency theory, there is a need for organizations to reduce environmental interdependence and uncertainty so organizations can enact to minimize environmental dependences: (a) mergers/vertical integration; (b) joint ventures and other inter-organizational relationships; (c) BOD; (d) political action; and (e) executive succession (Hillman et al., 2009). Firms should appoint more diverse members to their boards, such as ex-military directors, because of their attributes. Such appointments offer several benefits, including a greater connection with the external environment and improved firm decision-making capabilities.

According to the upper-echelon theory, decision-making is influenced by the characteristics of the top management or leader (Hambrick, 2007; Hambrick & Mason, 1984). Moreover, an executive's unique background, characteristics, and experiences will impact strategic choices and firm performance (White & Borgholthaus, 2022). The upper echelons theory posits that the board's composition significantly influences decision-making strategy (Graham et al., 2016; Perryman et al., 2016) and innovation (Galia & Zenou, 2012) because the board's decisions are a product of the knowledge and experience of the people who make up the board (Farag & Mallin, 2017). The need for these connections is motivated by the contrasting characteristics of ex-military personnel that are supposed to lead to different mutual benefits (Fitriani et al., 2022). The upper echelon theory describes the professionalism and adaption of the military-connected board (Fitriani et al., 2022). The military is associated with organized, tactical, and strategic leadership characteristics (Benmelech & Frydman, 2015; Harymawan et al., 2022). Military leadership is related to conservative policy (Benmelech & Frydman, 2015). However, the firm can get some advantages from military connections, such as more accessible access to funding from a financial institution (Agrawal & Knoeber, 2001; Goldman et al., 2013) and lower interest than non-military-connected firms (Harymawan, 2018). Top leadership characteristics and experiences of boards can affect firm performance. A two-tier system also prevents military-connected commissioners and directors from abusing their power to exploit opportunities (Fitriani et al., 2022).

The BOC monitors any conflicts of interest, gives suggestions and recommendations to directors, and provides supervision (Utama et al., 2022). The role of independent commissioners is significant in making objective decisions and acting independently in monitoring and evaluating the directors' performance (Utama et al., 2022). In addition to contributing to the implementation of sound CG in publicly traded corporations, independent commissioners show a company's independence and openness. While the independent director is in charge of overseeing the executive board's activities and reducing conflicts of interest between managers and company owners, the independent

commissioner is tasked with the audit committee's oversight of the director's performance and serving as a representative of the firm's minority shareholders (Tanjung, 2020).

The role of the independent commissioner is evident in its association with the cost of debt. The corporation can lower its cost of debt if it has a high percentage of independent commissioners (Anderson et al., 2004). A method of increasing a company's openness to the public is through the disclosure of the independent commissioners with its human resource characteristics can lower its debt costs (Putra et al., 2020). Those with a politically connected BOC frequently take advantage of the low cost of debt in contrast to companies without such connections (Joni et al., 2020).

Some previous related studies that support a positive association between a firm's political connections and its performance are by Wong (2010), Shin et al. (2018), Conyon et al. (2015), Pollak et al. (2019), and Burt and Opper (2020). Political connections do improve firm performance in Hong Kong, with the assumption that a firm can be connected politically through (1) its shareholders and (2) its managing directors (Wong, 2010). Many politically connected directors from outside a company (PCODs) in Korean chaebol firms exhibit better operating performance and enjoy lower risk. Hence, PCODs affect firm performance (Shin et al., 2018). Performance premiums are driven mainly by CEO political connections in China (Conyon et al., 2015). The publicly traded "military friendly" firms have a statistically significant higher return (financial performance) than comparable firms not identified as military friendly. Hence, the firms get the financial benefits associated with employing military veterans in the United States (Pollak et al., 2019). The politically connected firms in China with an advantaged business network show more prosperous businesses, higher asset returns, and more likely survival over time (Burt & Opper, 2020). The objectives and interests are to deal with conflict and security problems (for conflict-prone companies), to carry out easier negotiations with the surrounding community (for plantation, mining, property, and real estate companies), to secure the company from interference and resolve disputes (Azis et al., 2022). Although this previous research does not explicitly examine the relationship of ex-military connections to company performance, the logic and results of the research can be used because the connections of ex-military persons are part of political connections. The argument that can be built is that firms seek ex-military commissioners because of the benefits and opportunities. From the explanation above, the hypothesis in this study is as follows:

- H1:** Ex-military-connected independent commissioners have a positive relationship with firm performance.

Methods

Recall that our main research question is whether ex-military commissioner influences firm performance. We seek to understand the effect of ex-military commissioners on firm performance. This study employs a quantitative approach with an archival method. Then, this study uses an ordinary least squares regression model (OLS) with heteroskedasticity-robust standard errors to obtain unbiased standard errors of OLS coefficients under heteroscedasticity.

We use Indonesian firms because members of the military are given a broad role in Indonesia. It is a country that has a significant military presence (Azis et al., 2022). Since 1967 (the first president in Indonesia with a military background), military personnel have been eligible to run for and be elected to legislative and judicial positions, and hold numerous critical posts in state-owned businesses (Habib et al., 2018). The retired military members from army, navy, and air force units hold strategic managerial positions as company commissioners (Azis et al., 2022). The mutually beneficial interaction between military connections and commercial activity in Indonesia offers a particular institutional environment for evaluating that relationship (Nasih et al., 2019).

Our unit of analysis is the firm. The sample of this research comprises manufacturing companies listed on the Indonesia Stock Exchange (IDX) from 2016 to 2021, with a total of 166 unique firms or 906 firm-year observations. After eliminating missing data on the variables used in this study, the final number of samples was established. The research data come from each company's annual report and the OSIRIS database. The selection of one country and one industrial sector is adjusted according to the advice of previous research (Labelle et al., 2015; Amore & Garofalo, 2016; Harymawan & Rahayu, 2022). The manufacturing sector is the largest corporate sector on the IDX.

Three additional tests complement the primary test were carried out, namely (1) to find out the association of variables before and during the COVID-19 pandemic, (2) to find out the association of variables in the period before and after IDX abolished the obligation to have an independent director for listed companies, and (3) to test without time interval (lag) on the variables. All of the additional tests will increase the robustness of the test. Regarding the first additional test, the test was repeated by dividing the sample period into two namely 2016-2019 and 2020-2021 to provide more detailed results under different circumstances. The COVID-19 pandemic significantly impacted the world economy, and Indonesia was no exception (Harymawan & Rahayu, 2022). Regarding the second additional test, it was repeated by dividing the sample period into two namely 2016-2017 and 2018-2019 to separate the period of the IDX eliminating the independent director position at businesses listed on the IDX in 2018 via the Indonesia Stock Exchange

Directors' Decree Number: Kep-00183/BEI/12-2018. The second additional test is carried out to determine if there are any variations in the decision to remove this independent director.

A time interval (lag) due to institutional changes and the transfer of contracts and resources must be done after a while, causing a one-year lag on all independent and instrumental variables (control variables). The following formula was tested:

$$PERFORM_{it} = \alpha_0 + \alpha_1 * EXMILCOM_{it-1} + \alpha_2 * AGE_{it-1} + \alpha_3 * LEV_{it-1} + \alpha_4 * ICOM_{it-1} + \alpha_5 * IDIR_{it-1} + \alpha_6 * FCOM_{it-1} + \alpha_7 * FDIR_{it-1} + \alpha_8 * BIG4_{it-1} + \alpha_9 * INSOWN_{it-1} + \alpha_{10} * MANOWN_{it-1} + \epsilon_{it} \dots (1)$$

A total of twelve variables are used in this study. Ex-military independent commissioners (EXMILCOM), and their effect on firm performance (PERFORM). Firm age (AGE), financial leverage (LEV), independent commissioner (ICOM), independent director (IDIR), female commissioners (FCOM), female directors (FDIR), audit reputation of "Big Four" public accountants (BIG4), institutional ownership (INSOWN), and management ownership (MANOWN) are used as instrumental variables (control variables). Control variables play an active role in quantitative studies because there is the potential for them to influence the dependent variable meaning that the true influence of the independent variable on the dependent variable can be determined (Creswell, 2014). The summary of the measurement of each variable is presented in Table 1. The literature identifies them as CG mechanisms and significant predictors of firm performance (Detthamrong et al., 2017; Junus et al., 2022; Li & Rainville, 2021).

Table 1. Description of Variables

Variables	Name of Variables	Description	Data Sources
Dependent Variable			
Firm performance	PERFORM	The ratio of net income to total assets (return to total assets).	OSIRIS
Independent Variable			
Ex-military independent commissioner	EXMILCOM	The ratio of the number of ex-military independent commissioners to the number of all commissioners.	Annual Report
Control Variables			
Firm age	AGE	The natural logarithm of years of listing since the first date listed on the stock exchange.	Firm Profile on the IDX website (https://www.idx.co.id/perusahaan-tercatat/profil-perusahaan-tercatat/)

Variables	Name of Variables	Description	Data Sources
Firm size	SIZE	The natural logarithm of total asset.	OSIRIS
Financial Leverage	LEV	The ratio of total long-term debt to total assets.	OSIRIS
Independent Commissioner	ICOM	The ratio of the number of independent commissioners to the number of all commissioners.	Annual Report
Independent Director	IDIR	The ratio of the number of independent directors to the number of all directors.	Annual Report
Female Commissioner	FCOM	The ratio of the number of female commissioners to the number of all commissioners.	Annual Report
Female Director	FDIR	The ratio of the number of female directors to the number of all directors.	Annual Report
Audit reputation from Big Four Public Accountants	BIG4	A binary variable takes a value of one where a firm's auditor is one of the big four auditing firms and zero otherwise. The big four auditing firms include KPMG, Deloitte, PricewaterhouseCoopers, and Ernest & Young (EY).	Annual Report
Institutional ownership	INSOWN	The ratio of the number of institutional ownership to the number of all common stock.	Annual Report
Management ownership	MANOWN	The ratio of the number of managerial ownership to the number of all common stock.	Annual Report

Results

Descriptive Statistics

Table 2 shows the descriptive statistics of the firm performance, ex-military independent commissioner, firm age, firm size, financial leverage, independent commissioner, independent director, female commissioner, female director, audit reputation from "Big Four" auditing firms, institutional ownership, and management ownership. The data summary from 2016 to 2021 reveals that most companies are relatively not-so-good in terms of their financial performance. Several companies recorded a return on assets of more than 50% in one period, while only PT FKS Food Sejahtera Tbk recorded success during 2019 and 2020. This is a company that is engaged in trading, manufacturing, plantation, farming, electricity, and services. At the same time, the subsidiaries' business activities are noodles

manufacturing and trading, dehydrated noodles, instant noodles and vermicelli, snacks, biscuits and candy industry, palm oil plantations, electric power plant, rice mill, and distribution (Bureau van Dijk database).

Table 2. Descriptive Statistics of Data

Variables	Obs	Mean	Median	Min	Max	SD.
PERFORM	906	0.027	0.029	-2.640	0.921	0.140
EXMILCOM	906	0.004	0	0	0.333	0.032
AGE	906	2.577	3.119	-5.207	3.770	1.184
SIZE	906	28.476	28.282	25.216	33.495	1.561
LEV	906	0.112	0.036	-0.271	3.769	0.225
ICOM	906	0.376	0.333	0	1	0.145
IDIR	906	0.140	0.111	0	0.667	0.156
FCOM	906	0.100	0	0	0.833	0.173
FDIR	906	0.114	0	0	1	0.175
BIG4	906	0.354	0	0	1	0.479
INSOWN	906	0.720	0.678	0	81.508	2.701
MANOWN	906	0.085	0	0	21.628	0.734

Additionally, a few firms use ex-military commissioners, with some using them continuously (during the observation period), such as PT Wilmar Cahaya Indonesia Tbk and PT Darya Varia Laboratoria Tbk. This means many companies have not hired ex-military commissioners. PT Wilmar Cahaya Indonesia Tbk is a company that is engaged in the food industry and produces vegetable oils, namely crude palm oil and its derivatives, illipe nuts, illipe oils, and specialty vegetable oils; it is also active in general trading—either domestic or import/export and trading of agricultural products, forest products, daily need goods, trading as a wholesaler, distributor, supplier, retailer, and others (Bureau van Dijk database). PT Wilmar Cahaya Indonesia Tbk hired Mayjend. (Purn) Drs. Hendardji Soepandji, S.H. as an independent commissioner continuously during the 2010-2021 period; he had a background in education in the Army Academy and held a Bachelor of Social and Political Sciences. PT Darya Varia Laboratoria Tbk is a company that is engaged in the manufacture and trade of pharmaceutical products, cosmetics, traditional medicine, raw materials for pharmaceutical products, medical devices, and health care products; and the rendering of laboratory, validation facilities, clinics, and hospitals services (Bureau van Dijk database). PT Darya Varia Laboratoria Tbk hired Laksamana Madya (Purn) Soedibyo Rahardjo as an independent commissioner continuously during the 2010-2021 period; he had a background education in the Naval Academy and a Bachelor of Science in Pharmacy.

The number of ex-military commissioners amounts to between 0 and 1 person for each firm. The proportion varies depending on the total number of members of BOC, ranging from 0 percent to 33.3 percent. The mean of ex-military commissioners is 0.4 percent (Table 2), which refers to only a few companies that hired ex-military persons as independent commissioners. The small number of ex-military commissioners shows that only a few companies hire ex-military commissioners.

Table 3 shows the correlation between firm performance, ex-military commissioners, and the other control variables. Multicollinearity is likely to happen when the absolute value of the coefficient correlation is close to 0.7 or higher. The correlation of ex-military connected commissioners, firm age (AGE), firm size (SIZE), independent commissioner (ICOM), female director (FDIR), audit reputation from “Big Four” public accountancy companies (BIG4), institutional ownership (INSOWN), and management ownership (MANOWN) has a positive correlation with firm performance (PERFORM). In contrast, the control variable shows leverage (LEV), independent director (IDIR), and female commissioner (FCOM) have a negative correlation with firm performance. There is no correlation between variables that exceed this limit.

Table 3. Correlation Matrix

Variables	PER-FORM	EXMIL-COM	AGE	SIZE	LEV	ICOM	IDIR	FCOM	FDIR	BIG4	IN-SOWN	MA-NOWN
PERFORM	1	0.0569	0.0528	0.0747	-0.0999	0.043	-0.0626	-0.0377	0.048	0.172	0.011	0.012
EXMILCOM		1	0.0136	-0.026	-0.0557	-0.006	0.036	-0.0706	0.028	0.118	0.003	-0.013
AGE			1	0.1985	0.075	-0.0237	-0.1719	-0.0235	-0.0836	0.301	-0.035	-0.077
SIZE				1	0.140	0.059	-0.224	-0.0539	-0.163	0.465	0.024	-0.017
LEV					1	0.028	-0.0533	0.006	-0.0778	-0.0338	0.031	0.018
ICOM						1	0.102	-0.0539	0.099	0.100	0.015	0.017
IDIR							1	-0.0149	0.123	-0.1504	-0.041	-0.002
FCOM								1	0.120	-0.2151	-0.019	-0.015
FDIR									1	-0.1147	-0.017	-0.015
BIG4										1	0.060	0.013
INSOWN											1	0.961
MANOWN												1

Regression Analysis

Regression analysis was performed to examine the effect of ex-military-connected independent commissioners on firm performance across the 166 firms during the six-year period. Related to the OLS, inference is generally faulty in the presence of heteroskedasticity, so heteroskedasticity-robust methods can be applied (Wooldridge, 2013). The tests using heteroskedasticity-robust methods are valid in the presence of heteroskedasticity of unknown form (Wooldridge, 2013). The heteroskedasticity-robust procedures are valid in

large samples, where the errors have or do not have constant variance, and the researcher does not need to know which is the case (Wooldridge, 2013). The heteroskedasticity of unknown form in usual OLS is overcome with the heteroskedasticity-robust methods.

The first part of the regression results in Table 4 shows that ex-military commissioner has a positive relationship with firm performance. The hypothesis is supported. This finding is in line with some previous research on the positive association between firm political connections and firm performance (Wong, 2010; Conyon et al., 2015; Shin et al., 2018; Pollak et al., 2019; Burt & Opper, 2020). These findings indicate that firms with military connections are associated with higher firm performance.

These findings are robust to several additional tests as robustness checks using a different period (see Table 4) and no time lag period (see Appendix 1). Ex-military commissioners strongly influenced firm performance during the COVID-19 pandemic (2020-2021). The military-connected firms enjoyed higher performance than non-connected ones, especially during a crisis such as the COVID-19 pandemic (2020-2021).

Table 4. OLS Regression Results

Number of Tests: Period Variable	(1) 2016-2021	(2a) 2016-2019 (Before COVID)	(2b) 2020-2021 (During COVID)	(3a) 2016-2017 (Be- fore Abolishment of Independent Directors)	(3b) 2018-2019 (After Abolishment of Independent Directors)
Constanta	-0.038 (0.126)	-0.118 0.181	-0.132 0.155	0.071 0.365	-0.318** 0.141
EXMILCOM	0.166*** (0.051)	0.122* 0.071	0.230*** 0.075	0.092 0.108	0.153 0.109
AGE	0.002 (0.004)	-0.001 0.004	0.012 0.01	-0.001 0.009	-0.001 0.003
SIZE	0.002 (0.004)	0.005 0.006	0.004 0.006	-0.002 0.013	0.012** 0.005
LEV	-0.061** (0.031)	-0.193*** 0.046	-0.004 0.023	-0.196*** 0.065	-0.192*** 0.035
ICOM	0.028 (0.035)	0.070* 0.041	-0.035 0.062	0.121** 0.055	0.024 0.056
IDIR	-0.053 (0.046)	-0.081 0.055	-0.018 0.081	-0.169* 0.093	0.012 0.053
FCOM	-0.007 (0.029)	0.006 0.031	-0.031 0.069	0.036 0.061	-0.006 0.034
FDIR	0.056** (0.023)	0.046 0.028	0.084* 0.046	0.051 0.046	0.037 0.034
BIG4	0.048*** (0.015)	0.041* 0.022	0.040** 0.018	0.057 0.044	0.027 0.018

Number of Tests: Period Variable	(1) 2016-2021	(2a) 2016-2019 (Before COVID)	(2b) 2020-2021 (During COVID)	(3a) 2016-2017 (Be- fore Abolishment of Independent Directors)	(3b) 2018-2019 (After Abolishment of Independent Directors)
INSOWN	-0.008* (0.004)	0.009 0.016	-0.019** 0.007	-0.002 0.025	0.022 0.021
MANOWN	0.030** (0.015)	0.011 0.025	0.072*** 0.027	0.026 0.043	0.006 0.032
R-squared	0.048	0.077	0.062	0.079	0.113
Adjusted R-squared	0.036	0.059	0.028	0.041	0.08
F	8.536	5.983	9.258	3.954	6.408
P-value (F)	0	0	0	0	0
Observations	906	585	321	289	276
Notes: p-values in parentheses * p<0.1, ** p<0.05; *** p<0.01.					

Discussions

This study has examined the effect of the military connectedness of firms on their financial performance in Indonesian manufacturing firms. The prior research on this topic was not sufficiently conclusive. We used an integrated multi-theoretical approach (principal-agent theory, resource dependency theory, and upper-echelon theory) to understand CG functions better. Our primary research question was whether ex-military commissioners influence firm performance.

According to the theories related to the primary research question, the expectation is that ex-military-connected independent commissioners have a strong positive influence on firm performance. In order to implement a test of this argument, an empirical model is specified. Thus, the model was tested in different situations (before and during the COVID-19 pandemic period) to distinguish differences between normal and downturn periods for industry. The greater the management effort in managing discretion (information asymmetry), overcoming uncertainty, and facing increased control from the BOC, the better the performance in the downturn period compared to the normal one. The uncertainty is more complex when the industry is in a downturn period compared to a normal period. The next expectation is that the power of testing will be greater on the positive influence of ex-military-connected independent commissioners on firm performance in the downturn period than in the normal period.

The beneficiaries of the presence of ex-military-connected independent commis-

sioners are primarily the shareholders (principal). Management that does not experience severe agency problems is better prepared to deal with environmental interdependence and uncertainty and gets suggestions. Control is more likely to achieve good performance than management that does not exert it. The better the firm performance (the ratio of net income to total assets), the bigger the propensity for shareholders to gain a more significant return in paid dividends. The next beneficiary is the BOD because it gains suggestions, controls, and knowledge from the ex-military independent commissioners. The BOD's performance has the potential to be better than management's performance without advice and control. The last beneficiary is the veteran who is, hired as an ex-military-connected independent commissioner. Competent veterans with the appropriate skills get another career path in business after retirement, so a veteran labor market in Indonesia is formed because the country is dominated by the military.

The presence of ex-military-connected independent commissioners provides a valuable resource and leadership that can benefit the firm to increase its performance. The role of independent commissioners is significant in making objective decisions and acting independently in monitoring and evaluating the directors' performance (Utama et al., 2022). Independent commissioners demonstrate a company's independence and transparency while contributing to implementing sound CG in publicly traded corporations. As an agent, the ex-military independent commissioner can protect shareholders' interests. The ex-military commissioner's presence also helps to deal with conflict and security issues, facilitates more straightforward interactions with the local community, protects the business from outside intrusion, and settles disputes (Azis et al., 2022) to reduce the firm's environmental uncertainty. Top leaders' attributes, characteristics, and experiences determine managerial decisions and firm outcomes (Benmelech & Frydman, 2015).

The second part of the regression results in Table 4 shows that ex-military-connected independent commissioners have a stronger positive relationship with firm performance when there is a crisis or industry downturn (as was the case when the lockdown happened because of COVID-19). The COVID-19 pandemic can be classified as a fast, broad, and unexpected crisis (Golubeva, 2021), impacting business continuity (Le & Nguyen, 2022) and producing uncertainty. Benmelech and Frydman (2015) find that military CEOs are less likely to be involved in fraudulent corporate activity and perform better during industry downturns in the US, using a one-tier system (no separation of boards between BOD and BOC). The ex-military-connected independent commissioners who have experienced personal growth in psychology and competence (Elder, 1986; Elder & Clipp, 1989) can give suggestions, exert control, and transfer knowledge to management to be more prepared for normal and downturn periods for an industry. Then, these things can reduce agency problems, improve dealing with environmental interdependence and

uncertainty, and control the firm performance following the shareholders' (principals) mandate. The ex-military independent commissioner's experience and military education are needed, especially during the industry's downturn. Awareness of the importance of solid governance increases in line with the crisis (Kells, 2020). The ex-military independent commissioner could minimize the impact of this crisis. Companies can consider ex-military-connected independent commissioners to help companies during crises like COVID-19 or other industry downturns.

GCG can help a firm enhance its capability to respond to fluctuations in the external environment of the business (Le & Nguyen, 2022). The characteristics of leaders have a crucial role in leading the transformation their organizations need, including their governance structures and processes (Mather, 2020). Organizations can continue to be agile and adapt, and change proactively with different thinking will thrive in the next normal period (Harymawan & Rahayu, 2022). By keeping GCG and business ongoing, firms had the ability to achieve resilience and sustainability and reverse the harmful effects of COVID-19.

The third part of the regression results in Table 4 shows that ex-military commissioners were not influential in 2016-2019 (before and after the abolishment of independent directors). Independent directors influenced performance in the period before their abolishment. After abolishing independent directors, a few firms have retained independent directors while gradually eliminating the mention of them in their annual reports (2018: 99 firms, 2019: 76 firms, 2020: 55 firms).

There is no military connection in the military-connected independent director of manufacturing sector companies. The existence of a regulation that removes independent directors reduces the opportunity to have military-connected independent directors. Therefore, the relationship between ex-military-connected independent directors and company performance cannot be tested.

The results of testing the control variables produced some interesting findings. Auditor reputation, as a CG mechanism, is decisive and positively affects performance. Opinions, input, and suggestions from auditors from the "Big Four" auditor firms with an international reputation benefit the company by improving performance in the next period. Additionally, leverage has harmed performance in various conditions, except during the COVID-19 pandemic.

This study gives recommendations for practitioners in Asia, particularly manufacturers and investors in the ASEAN region. Several emerging markets have focused their governance reforms on regulating boards (Ararat et al., 2021). It is optional to have independent directors (executives) in Indonesia so that the diversity of BOC members can be increased. Much more needs to be done to reach a level of board diversity commensurate

with the retired military role in society and the workplace in the ASEAN region. Retired military members can expand the diversity of board members.

First, this paper underlines the importance of retired military as members of BOCs. The ex-military commissioner can improve firm performance in a nation with a significant military presence (history) and use a two-tier system (separation between BOC and BOD). Information about board composition in terms of ex-military commissioners can indicate the companies' financial performance. Companies wishing to invest need to pay attention to board diversity. The composition of all board members can be arranged at GMS. Hiring retired military members has many advantages, such as gaining political closeness. The benefits will be even more substantial during times of crisis, such as was the case during the COVID-19 pandemic.

Second, our study gives insight into the importance of GCG. The other powerful CG mechanism is auditing by "Big Four" auditors. These auditors can enhance firm performance in regular and crisis periods. Notably, amid the COVID-19 pandemic, firm performance was severely impacted, but it was better to continue hiring "Big Four" auditors to ensure the audit quality. Therefore, the company can enhance its performance in the next year.

Finally, experience and supervision from institutions (institutional ownership) also influence the firm performance. Additionally, the increase in management ownership also affects the increase in firm performance. Good financial performance is one of the main goals of investors because it is related to returns (capital gains and dividends). Investors face limited access to information due to information asymmetry, such as management's adverse selection. Management may postpone informing investors of negative news (Kothari et al., 2009). The general agency issue is closely related to the "separation of ownership and control" in contemporary dispersed organizational ownership (Jensen & Meckling, 1976). Various attempts have been made so that principal-agent relations and agents act in harmony with the interests of investors and give higher investor protection. Investors need governance mechanisms that can improve oversight of firm performance. Financial performance can be linked to governance mechanisms.

Conclusions

The results revealed that firm performance is positively associated with the proportion of ex-military independent commissioners on a board. Military-connected firms may benefit from their presence. Firms, and the policymakers managing them, especially in countries where the influence of the military is significant, can use the results of this study for the development of military connections. Another result is that firm performance is more

substantial and positively associated with the proportion of ex-military independent commissioners on a board in times of crisis, as was especially evident during the COVID-19 pandemic. This observation has never been made before by previous researchers.

Due to the complexity of business, ex-military independent commissioners must have colleagues with other necessary management skills such as finance, production, marketing, law, and other skills. Business leaders with political (military) backgrounds are appointed only based on their prior job experience, not on their skill and knowledge in the financial and managerial aspects of a firm (An et al., 2020; Junus et al., 2022). Moreover, firms should focus on advancing technology or utilizing talent and entrepreneurship to gain a competitive advantage (An et al., 2020).

The implications are related to team diversity to achieve good governance. Our empirical results provide guidelines for the principals and regulators of firms in Indonesia concerning the diversity of representation on BOC and BOD, other than the presence of women, although few companies in the Indonesian manufacturing sector still use ex-military personnel as independent commissioners on an ongoing basis. The presence of ex-military as independent commissioners is a valuable resource for supervisory roles, which can increase firm performance. There is a need for diversity among BOC members in terms of education, competence, work background, and experience, and it also discourages the promotion of the presence of ex-military in BOC in manufacturing firms in developing countries.

Limitations

We acknowledge that this study has several limitations. It does not distinguish between the last military rank of persons who hold commissioner positions. The authors believe that the higher the last rank, the more benefits can be provided to the company. The last rank of ex-military persons is related to their achievements in terms of dominance, authority, roles, and responsibility in a military hierarchy (Jaffe, 1984), and also power and authority (Pigeau & McCann, 2002). Mattila et al. (2017) found that military rank is related to the chain of command (hierarchy), a person's level of skills and competencies (proficiency), the perceived prestige that the rank is likely to endow (social status), and a need to commit to the legacy of the preceding generations (identity). Subsequent research could share in more detail the ex-military proxies of this study to find out the relationship between ex-military commissioners and performance. Additionally, finding the effect of ex-military commissioners on new and different sectors of a firm affects the range of explanations for the ex-military commissioners' influence and diversity in the board.

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Appendix

Descriptive Statistics of Data Without Year Lag

Variables	Obs	Mean	Median	Min	Max	SD.
PERFORM	1071	0.02747	0.02811	-2.6404	0.921	0.13959
EXMILCOM	1071	0.00361	0	0	0.33333	0.03112
AGE	1071	2.6105	3.1383	-5.2068	3.7931	1.1378
SIZE	1071	28.484	28.287	25.216	33.537	1.5646
LEV	1071	0.11566	0.03736	-0.2714	3.7936	0.2439
ICOM	1071	0.3782	0.33333	0	1	0.14599
IDIR	1071	0.13369	0.09091	0	0.66667	0.15675
FCOM	1071	0.09909	0	0	0.83333	0.17176
FDIR	1071	0.11555	0	0	1	0.17583
BIG4	1071	0.34734	0	0	1	0.47635
INSOWN	1071	0.71084	0.67824	0	81.508	2.4886
MANOWN	1071	0.08198	0	0	21.628	0.67777

Correlation Matrix of Data Without Year Lag

Variables	PERFORM	EXMILCOM	AGE	SIZE	LEV	ICOM	IDIR	FCOM	FDIR	BIG4	INSOWN	MANOWN
YROA	1	0.0569	0.0299	0.1243	-0.1069	0.064	-0.0566	-0.0377	0.048	0.172	0.011	0.012
MC		1	0.0147	-0.0251	-0.0512	0.0101	0.027	-0.0706	0.028	0.118	0.003	-0.013
LnAge			1	0.2033	0.059	-0.0264	-0.1837	-0.0235	-0.0836	0.301	-0.035	-0.077
LnAsset				1	0.106	0.061	-0.2341	-0.0539	-0.163	0.465	0.024	-0.017
Lev					1	0.036	-0.0612	-0.0035	-0.0868	-0.0408	0.029	0.012
IC						1	0.090	-0.0516	0.104	0.092	0.010	0.017
ID							1	-0.0073	0.1078	-0.1582	-0.040	0.003
FC								1	0.110	-0.2103	-0.018	-0.014
FD									1	-0.0957	-0.015	-0.015
Big4										1	0.057	0.007
InsO											1	0.952
ManO												1

OLS Regression Results Without Year Lag - Heteroskedasticity-robust Standard Errors

Number of Test: Period Variable	(1) 2015-2021
Constanta	-0.192** 0.076
EXMILCOM	0.193*** 0.047
AGE	-0.002 0.003
SIZE	0.007*** 0.003

Number of Test: Period Variable	(1) 2015-2021
LEV	-0.060** 0.027
ICOM	0.045 0.033
IDIR	-0.039 0.031
FCOM	-0.010 0.028
FDIR	0.047** 0.021
BIG4	0.038*** 0.011
INSOWN	-0.006* 0.003
MANOWN	0.024* 0.013
R-squared	0.048
Adjusted R-squared	0.044447
F	9.126604
P-value (F)	0
Observations	1071

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