

Corporate Governance, Corporate Social Responsibility And Performance With The Moderating Role Of Board Equity Ownership: Evidence From Indonesia's Oil Palm Companies

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ABSTRACT

The Oil Palm Companies is one of the highest contributions towards Indonesia economic development. However, the company performance in the oil palm companies is far from expectation which is related to how they responsible on their shareholders as well as stakeholders. Thus, the study purpose is to examine the relations between corporate governance mechanisms, corporate social responsibility and board equity ownership on performance in Indonesia's Oil Palm Companies. The findings highlight a positive relationship between board equity ownership, corporate social responsibility and company performance. Furthermore, the moderating role of board equity ownership has a significant positive on the relationship between independence director and company performance as well as corporate social responsibility. The relationship between female director and company performance shows the same result with the interaction of board equity ownership. Currently studies have found that corporate governance mechanisms, corporate social responsibility have significant effect on company performance. Nevertheless, this evidence showed that direct relationship between corporate governance, social responsibility and company performance have mix results. Admittedly, the indirect relationship revealed that board equity ownership contributes significant effect on the relations between corporate governance, social responsibility and company performance particularly in Indonesia's oil palm companies. Based on the author knowledge, a few studies have been done in oil palm companies which it provides a prominent issue in corporate governance mechanism particularly on board equity ownership which majority is held by family member ownership.

Keywords Corporate governance, social responsibility, board equity ownership, company performance

INTRODUCTION

Corporate governance herein after as CG mechanism emphasizes the board director importance role in monitoring management and reducing the interest conflict between managers and shareholders [1]. Thus, by achieving effectiveness of board in monitoring and supervising management, its impact on company performance [79]. However, the internal corporate governance shows how to reduce conflict between shareholders and managers are still debatable whether internal CG mechanism can improve company performance or reduce its performance. It can be argued that the internal and external CG mechanism have an effect to elevate company performance [6] Nevertheless, internal CG mechanism has the major role on how its mechanism assures investors or shareholders to achieve better returns [59]. Furthermore, scholar's debate on governance refers to agency theory but they neglect stakeholder theory, which is increasingly applied to explain the enhancement between different actors involved in company [7]. Board of director as functional mechanism with appropriate ownership will reduce the cost arising from disagreement between manager and shareholders [79].

Likewise, Shan [66] argues by allowing board directors have appropriate ownership (they comply monitoring and oversight obligations for company decision. Indonesia one of countries got a vulnerable condition both politic and economic as well when economic crisis is happened in 1997. Corporate Governance is one key issue in economic reforms but corporate governance has negative perspective since crisis happened in Asia [63]. The Indonesia Financial Authority Services (Otoritas Jasa Keuangan) as a formal authority in charge CG rules in 2012.

This development was important because until that time there were no obligation for private or public limited companies, which were not willing to adopt CG codes. Several codes are produced by the Indonesia Financial Authority Services, the Rule No. 32 for guidance of private listed companies, the Rule No1 for guidance of public listed companies, and the Rule No.55 for guidance of banking sector [37,38]. Yet, that guidance of corporate governance still in development stage which it requires for companies to apply in order to assure investors shareholders. Besides CG mechanism reform, Indonesia companies have critic on how their responsibility toward stakeholders. Prior studies found the level of CSR activities in Indonesia is weak and need companies' consideration by applying CSR activities may achieve company performance and increase market share [9].

Recently, the booming of agriculture sectors in oil palm industry indicates the challenge of country economic even reduces poverty in rural district [28]. It requires study particularly in Indonesia' oil palm industry due to limited study carried on its industry and its path relations corporate governance and social responsibility on company performance [56]. Further, ownership structure is crucial addressing the agency problem between owner and management because by allowing board has a portion equity in company, they have sufficient authority on company strategy [63]. Hence, this study concerns on the influence of corporate governance (CG) mechanisms, corporate social responsibility (CSR), and board equity ownership (BEO) on performance, particularly in emerging countries environment where CG mechanism and CSR activities are poor and unsettled [59,78]. The remainder of the study is organized as follow. In Section 2, we present literature review. Then, methodology part is discussed in section 3. The result is provided in section 4; followed by discussion and conclusion given in final section.

LITERATURE REVIEW

Company performance on the Oil Palm Companies in Indonesia has a significant contribution towards economic development. Since 2017, the gross domestic product (GDP) from agriculture sector show an increasing trend by 3 percent [39]. In the contrary, the increasing of GDP is not aligning with the company performance among oil palm companies. Thus, the companies have a challenge to raise their performance due to the unpredictable market and competition. Corporate governance (CG) and social responsibility (CSR) are dimensions which can affect the company performance, particularly in emerging countries, i.e. Indonesia.

The CG mechanism and CSR practices is still weak and it requires company awareness of CG mechanism and CSR practices [51,56]. The previous researches have been conducted majority in banking, industry, and manufacture sectors [70,75]. Little studies focused on oil palm companies. Thus, it may bring a substantial contribution to find out whether CG mechanism and CSR activities have an impact on company performance in Indonesia oil palm companies. Above all, the study should implemented be to examine the relationship between CG mechanism, CSR activities, and company performance in oil palm business. In addition, the board equity ownership plays notable roles which they can perform CG mechanism by fulfil controlling and monitoring responsible for company activities. Subsequently, it will enhance company performance [33].

Board size is prominent dimension of board structure which it affects board's capability of decision making and efficiency [36]. There is already an extensive body of literature on the relationship between board's size and company performance [13]. Yet, the ideal number of board is debatable among scholars whether small or big number of person in board member. According to García-Ramos and García-Olalla [27] the rational number of board size can be effective for company monitoring compared to the bigger of board size negatively impact on performance. In contrast, Sun, Lan, and Ma [68] argue the advantage of large board create better decision. Thus, the optimum number of board size as reasonable response due to internal company condition and external environment [58].

Independence director is supposed to supervise executives on how they exploit company resources. In the same vein, agency theorists suggest high proportion of boards independence create effectively governing, handling, and monitoring management [21,42]. Admittedly, the presence of independence director influences company value [74]. However, van Essen et al. [76] confront a limited evidence of direct relation between independence director and performance in the Asia context by using meta-analysis. Their finding indicated a positive relation between two variables. Hence, the study the correlation between independence director and company performance in emerging context is still required.

There is the issue of board diversity particularly female join into board member. The studies of female's participation pay attention since two last decades [48]. One of board diversity is female membership on board which it noticed will enhance company performance [5]. Thus, it can be influences various aspects of corporate behavior as decision making, boardroom behavior, board activity and outcome [46]. Further, Toumi et al. [72] believe it still lack a clear understanding on gender diversity impact, as gender diversity of the board so far. Different corporate governance factors were found to have impact on performance, such as recruitment policy, staff training and

development, communication polling and performance evaluation [71]. Hence, the woman's board may have an important role that should not be neglected.

While a massive researches have been done to investigate corporate governance mechanism which is focus on board composition, board characteristic, and board structure, the board process is left behind on discussion board effectiveness [80]. Prior research suggested an integrative model which elaborated board composition, board characteristic alongside with board process [80]. Researches attempted to discuss board process into corporate governance mechanism by put board decision making activities [52]. Other scholar highlighted quality of director interaction between Chief Executive Officer (CEO) and the board and the process of board evaluation [53]. However, less study has attempted to gather an integrative approach by studying the effectiveness of board [50]. Thus, the call research for board process is urgent to accommodate in this study. Comparatively, the corporate governance mechanism received a critic from scholars [57], which they argue that the governance process in companies is not a sole aspect in business management in order to achieve economic but also social health of the organization.

The social aspect can be explained by the initiative company on their stakeholders who called with social responsibility [14]. A bulk of studies have been done to investigate the impact of CSR on company performance [12,26]. Nevertheless, there is currently a vast body critical literature from researchers on how the integration model of corporate governance and social responsibility [7] and to conduct its integration to enhance company's profit [43]. Hence, the importance study to examine corporate governance and social responsibility should be done in order to achieve company performance. past studies discovered the positive result the influence of corporate governance and social responsibility on financial performance [20]. Conversely, the limited prior studies and the inconclusive result may need to examine the relation corporate governance and social responsibility on company performance especially in emerging countries [2,43]. According to agency theory, one of the types of ownership is board equity ownership (BEO) or managerial ownership which is regarding as directors who have opportunistic behavior unless they have proper incentive [1].

Given the directors opportunity to have some portion of ownership, it will reduce the company expenses from conflict of interest between manager and shareholders [79]. Further, Claessens and Yurtoglu [17] discover managerial ownership regenerating access to external resources and mitigating cost of capital. It is considered BEO one of prominent issue in CG mechanism particularly in emerging market which ownership structure area is highlighted to apply due to the knowledge in its issue is still weak [17].

METHODOLOGY

Our sample frame brings the Oil Palm Companies in Indonesia which the number of population oil palm companies was 417. The oil palm companies consist of three provinces, namely, Jakarta, Sumatera, and Kalimantan. By adopting Krejcie and Morgan' sample size [47], the number of sample size was 201 companies. The survey was conducted from April 5, 2019 to August 5, 2019. According to research design, this study uses proportional sampling based on the three regions above. Table I illustrates the proportional method sample size.

Table I. The proportional sample size

Region	Total population	%	Sample size
Java	127	30.5	61
Kalimantan	109	26	53
Sumatera	181	43.5	87
Total	417	100	201

For collecting the data, this study distributes the questionnaire. The data sets of questionnaires are composed by gathering information on socio demographic, company performance, CG mechanism, and CSR activities. Likert-type scale ranging from "1= strongly disagree" to 5= strongly agree"; from "1= never" to 5=very frequent; from "1=poor" to 5= excellent" was used to measure company performance and its determinants. After that, the coded data was key-in in SPSS version 23 Software. In order to aggregate the data, descriptive analysis such as frequency analysis was employed to identify the profile of respondents. The structural equation model (SEM) method was used to analyze factors that influence the company performance. using PLS-SEM version 3.0 software provides calculation for complex model which the measurements and structural model have many constructs and indicators [27].

The hypothesized model is represented in Figure I, which assumes that performance of the oil palm companies will be influenced positively/negatively by board size, independence director, female director, board process, and CSR activities. The list of indicators for each dimension is shown in Table II. The model of study is divided by two stages which the first stage is measure the validation of items for each dimension by using measurement model test and the second stage is to analyze the relationship between the dimensions by using structural model.

Table II. List of indicators

Variable	Description of indicators	Symbol
Financial Performance	Return on investment better during 3-year-period	FP02
	Sales growth better during 3-year-period	FP03
Non-Financial Performance	Profit growth better during 3-year-period	FP04
	Market share better during 3-year-period	FP05
	Consideration on employee development and training	NFP03
	Consideration on workplace relation	NFP04
	Consideration on employee health and safety	NFP05
	Consideration on employee satisfaction	NFP06
Independence director	Ensures the effectiveness of various corporate governance practices	ID02
	Having the independent management in decision making	ID03
	Taking part as a reviewer on corporate strategic planning and decision	ID05
	Following the progress of board decision	ID06
Board size	The board size might conceive the operating environment and advocate better guidance	DS02
	The board size might conceive business process	DS03
	Member of board has relevant experience in industry	DS04
Female director	Female member will have different experience compare to male member	FD02
	Female member has capability to influence on the board review and conducting company strategy	FD03

	Female director has equal participate actively with male counterpart in discussion Female director has a power to influence governance issues	FD04 FD05
Board risk	Board's communicate on risk tolerance of management Board's raise concern about risk management Boards' receive update from manager about risk management Boards' encourage manager to identify potential vulnerable	BR01 BR02 BR03 BR04
Access information	When outside professional services are needed, the expense will allow to spend Boards' have access on company information Boards discuss issue thoroughly with management	AI03 AI04 AI05
CEO performance evaluation	There is a forum discussion for all the significant matter of the company Seriously review of key executive and director remuneration CEO ensures the integrity of the company's financial reporting CEO ensures proper report and actively communicates with shareholders and stakeholders CEO ensures the effectiveness of various governance practices	CP01 CP04 CP06 CP07 CP08
Performance independence director	Having a understanding of company business Having a good relationship with the CEO Having an ability to provide strategy vision Recording constructively challenging and debating issues during board meeting Having an ability to apply based on industry experience Representing interest of shareholders	PID01 PID02 PID03 PID04 PID05 PID06
Employee responsibility	Encourage employees to develop skill and careers Primarily concern on employees' needs and wants Implement flexible policies to provide a good work and life balance for employees	ER01 ER02 ER03
Environment responsibility	Exploits renewable energy in a productive process compatible with environment Policies to prevent direct and indirect pollution of soil, water, and air Supporting research and development environmental technology	ENR01 ENR02 ENR03
Community responsibility	Concern on improving the general well-being of community Pursue with company organizations, government agencies, and other industry groups dedicated to social causes Support educational programs for the promotion of corporate citizenship Stimulate the economic development in the community	CR01 CR02 CR03 CR04
Shareholder responsibility	Incorporates the interest of shareholders and stakeholders in business decision Informs shareholders on changes of company policies Tries to ensure company survival and long-term success	SR01 SR02 SR03
Board equity ownership	Boards have shareholding separately from shareholder's option Board ownership motivate them to monitor efficiently and ensure that risk management decision is implemented in company Decrease equity ownership of board will reduce monitoring Increase equity ownership of board will increase monitoring Entirely compensation will pay based on board equity shares	BOE01 BOE02 BOE03 BOE04 BOE05

RESULTS AND DISCUSSION

Profile of Respondents

The characteristics of respondent are presented in Table III below

Table III. Personal background information

Variable	Frequency	Percentage
Gender		
Female	17	8.5
Male	184	91.5
Age (years)		
25 – 34	38	18.9
35 – 44	68	33.8
45 – 54	67	33.3
> 54	28	13.9
Education level		
Diploma	1	.5
Degree	152	75.6
Master/PhD	8	23.9
Current position		
President Director	34	16.9
Director	158	78.6
Independent Director	9	4.5
Duration of Work (years)		
< 5	21	10.4
5 - 9	73	36.3
10 -14	75	37.3
> 14	32	32

Most of the respondents were male by 91.5 percent, while 8.5 percent were female. In terms of age, the respondents between 35 and 44 years old and between 45-54 years old were quite balanced with 33.8 percent and 33.3 percent, respectively. About 38 percent respondents between 24 and 34 years old followed by respondents 54 years old above. The education level of respondents was quite high with the majority (75.6 percent) of them attained at least degree level.

The study also found that the majority of respondent current position was Director implied by 78.6 percent; whereas the least respondent current position was Independent Director (4.5 percent). In terms of period of the work the respondents who work between 5 to 9 years and between 10 to 14 years has the similar number defined by 37.3 and 36.3 percent, respectively. In contrast, the respondents' duration of work under 5 years implied by 10.4 percent.

Factor Effecting Company Performance of the Oil Palm Companies

As discussed in methodology section, the formation model is classified into two steps. The first step is measurement model and structural model by using PLS-SEM. The measurement model is the outer model in PLS-SEM [28]. The measurement model assessment comprises the evaluation of: 1) composite reliability (CR) to denote the internal consistency, ii) outer loadings to determine individual indicator reliability, iii) average variance extracted (AVE) to accomplish convergent validity, and iv) discriminant validity through cross-loading, Fornell-Larcker criterion, and Heterotrait-Monotrait (HTMT) ratio. The measurement model is used in this study by applying second order measurement model analysis. The two stages approach can be seen in Table 4 showed

that factor loading all constructs are above .50 and AVE score construct achieved .50 for measurement for both model stage one and stage two. Moreover, table 4 indicated that all constructs have passed the internal consistency reliability based on both CA and CR values. CA value above .70 is considered adequate [55] and CA values above .80 are preferable [19]. Unlike in table 5 shows that several construct passed the internal consistency below .70 for CA values. Nevertheless, the score below .70 can be accepted if the factor has only few items and especially for exploratory study [31]. Assuredly, CR values all constructs between .70-.90 are considered satisfactory [29]. Hence, all constructs have been reliably measured. Further, Fornier-Larcker criterion, cross loading and HTMT values also did not find discriminant values.

The second stage is proceeded structural assessment to conduct hypothesis testing. The figure II showed the structural model which demonstrated the latent variables and their path relationships (i.e. hypothesis). The direct relationship between board size, independence director, female director, board process, corporate social responsibility, and board equity ownership with performance showed that board equity ownership and corporate social responsibility have significant and positive relationships with performance. In contrast the relationship between board size, independence director, female director and board process and company performance showed no significant effect.

In terms of indirect relationship, the moderating effect of board equity ownership on the relationships between board size, independence director, female director, board process, corporate social responsibility and performance indicates only board size and board process have no significant effect on performance. Further, R^2 value interprets the proportion of percentage of variance in dependent variable that is explained by independent variables. Generally, R^2 values of .19, .33, and .67 are regarded as substantial, moderate, and weak respectively [16]. Performance has variance explained of 46.9% (i.e. $R^2 = .469$). It means the model of Performance among the Oil Palm Companies in Indonesia has a moderate level of variance explained and indicates board size, independence director, female director, board process and corporate social responsibility as significant predictor of performance.

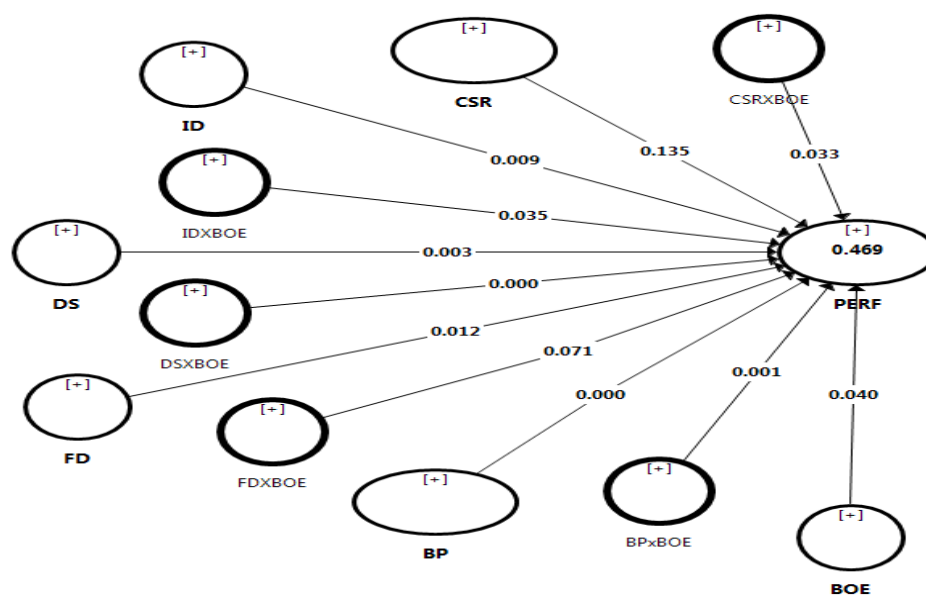


Figure II. The structural model

Table IV Result of Convergent Validity and Internal Consistency Reliability

Constructs	Loading	CA	pc	AVE
Independence Director: ID02 ID03 ID05 ID06	0.773 0.898 0.587 0.802	0.832	0.853	0.598
Board Size: DS02 DS03 DS04	0.852 0.828 0.669	0.703	0.829	0.620
Female Director: FD02 FD03 FD04 FD05	0.714 0.885 0.916 0.826	0.871	0.904	0.704
Board Equity Ownership: BOE01 BOE02 BOE03 BOE04 BOE05	0.861 0.854 0.705 0.736 0.898	0.888	0.907	0.663
Company Performance: Financial Performance Non-Financial Performance	0.739 0.861	0.888	0.907	0.663
Board Process: Board Risk Board Access Information CEO Evaluation Performance Performance Independence Director	0.825 0.682 0.824 0.463	0.666	0.799	0.510
Corporate Social Responsibility: Employee Responsibility Environment Responsibility Community Responsibility Shareholder Responsibility	0.848 0.867 0.488 0.583	0.664	0.799	0.512

DISCUSSION

This study supplement earlier resource-based and agency account in bringing a corporate mechanism to assume in understanding the consequences of specific internal corporate governance aspects within the oil palm companies. In fact, corporate governance mechanism as well as corporate social responsibility in Indonesia is still in early stage and it requires more concern on company to apply corporate governance mechanism and corporate social responsibility activities. Supporting of Indonesia Government for corporate governance and corporate social responsibility has been reflected through their regulation and organization. Establishment of the National Committee on Corporate Governance Policy which is conducted Corporate Governance Code in 2006 [45]; the Law of Limited Liability Company No 40 stipulates of good corporate governance as well as corporate social responsibility.

By implementing corporate governance mechanisms and corporate social responsibility activities are expected to build trust from both shareholders and stakeholders thus improve company

performance among oil palm companies in Indonesia. Current studies have been done to examine the effect of corporate governance in Indonesian companies indicated that the corporate governance mechanism approach have several kinds on how companies comply their corporate governance practices. On one hand, corporate governance dimensions are examined of principle of corporate governance which adopt from OECD [60]. Other companies examined Corporate Governance Perception Index (CGPI) is the ranking of corporate governance performed by SWA magazine and the Indonesian Institute for Corporate Government (IICG) by of seven categories. The companies as participants in CGPI award are listed companies which they comply corporate governance mechanism in their annual report [35].

Whereas, some companies disclosed Good Corporate Governance Code 2006 by using the average code index [23,34]. Little studies have been applied corporate governance mechanism such as board characteristic, board structure and ownership structure on company performance [10,73]. Hence, this study may offer contribution on the corporate governance mechanism in Indonesian Oil Palm Companies whereas past studies majority investigate on banking sector and inadequate study on other sectors (i.e. forestry) [70]. Our finding revealed the board size has no effect on company performance. This study contradicted with previous studies were investigated by Herdjiono and Mega Sari [34] and Tulung and Ramdani [73]. They found the board size has positively significant on company performance. However, Herdjiono and Mega Sari [34] highlighted the limitation of their study that the finding could not apply for generalization another sectors and it occurred the debate among scholars. In the same vein, our finding has a similar result with the study was conducted by Praptiningsih [61] which between board size has no effect on company performance. Further, agency theorists believe that independence director can protect shareholder interest and influence firm performance [24].

Our result obtained independence director has no effect on performance, whereas past studies have performed in Indonesian companies discovered the influence independence director on company performance have mix results. Basyith et al. [10] and Praptiningsih [61] supported our finding that independence director was insignificantly effect on performance. On the contrary, Tulung and Ramdani [73] argued that independence director was significant positively on company performance. Admittedly, this finding of study can be explained that the independence director has insignificantly effects on company performance due to the lack of effectiveness of the role of board in governing, handling, controlling management. In fact, Indonesian companies are majority the shareholders among family members which independence director could not presence their real task in management, likewise Bhatt and Bhattacharya [11] found the independence director is not truly as independence director because of the family control member. Thus, independence director should give consideration as one of prominent board composition for enhancing investment and company performance [40].

A massive attention is to lead board diversity particularly female participation on board. Agency theory suggests that female on boards perform as a mechanism of supervision and monitor of board activities [4]. Conversely, the involvement studies of female on boards are found inconclusive finding. Past studies emphasized that a strong relationship between female director and company performance [48]. On the contrary, other studies argued that female directors exist into board member can reduce the company performance [25]. This study was consistent with past research which highlighted the insignificantly effects board female on company performance. Likewise,

Darmadi [18] emphasizes in his study the higher number of female directors have occurred in small company which controlled by family. Nevertheless, female directors in large company are considered challenge opportunity to sit in as board member. Thus, it can be revealed that board diversity in terms of gender brought negative stereotypes may be one reason women are underrepresented in management, more research needs to be done to understand the benefits of board diversity [3]. One of characteristic of corporate governance is ownership structure particularly board ownership structure which has effect on company performance because it will reduce conflict arise between principal and management [17].

Based on ownership structure in Indonesia majority companies implemented concentrated ownership which the management is control with family ownership. However, Arifai et al.[8] highlighted it is unclear whether family ownership has opportunity or barrier to enhance company performance in Indonesian listed companies. Moreover, Kamal [44] suggested in capital market trend the companies should change the ownership structure into dispersed ownership which it allows board has the certain portion shareholder. The understanding of Indonesian companies on corporate social responsibility activities is still poor and inconsistent [77]. Nevertheless, the corporate social responsibility activities alter significantly to understanding in Asian Countries [65]. The result of previous study indicated corporate social responsibility practices has a prominent role in enhancing business performance particularly in emerging countries [22].

This study also supported the past studies result which corporate social responsibility activities was significantly effect on company performance. Additionally, this study revealed the moderating variable- board equity ownership on the relationship between corporate governance mechanisms such as, board size, independence director, female director, and board process and company performance as well as the moderation effect of board equity ownership on the relation between corporate social responsibility activities and company performance among the Indonesian Oil Companies.

This study discovered board equity ownership has significantly effect on the relations between independence director and company performance. This result supported study has been done by Abdallah and Ismail [1] highlighted that board equity ownership strengthen the connection between corporate governance mechanism and performance. Likewise, the relationship between female director and company performance is positive significant after involving the moderation effect-board equity ownership. In contrast, board equity ownership weakens the connection between board size, board process and company performance. Interestingly, moderating effect of board equity ownership has significant positively on the connection between corporate social responsibility and company performance. This finding supported by study of Javeed and Lefen [41] which emphasizes that board equity ownership enhances the interest of board member in corporate social responsibility activities.

CONCLUSION

This study analyzed the dimensions that provide to company performance among oil palm companies in Indonesia by applying SEM-PLS method. Results have been revealed that the moderating effect of board equity ownership has significant positively on the relationship between independence director, female director, and company performance. This study also found that the moderation effect of board equity ownership has stronger on the relations between corporate social

and company performance. Conversely, direct relations between board size, independence director, female director and company performance had failed to justify their relationship as well as board process has no effect on company performance among Indonesian Oil Palm Companies.

This would reflect that board equity ownership has a substantially role to encourage corporate governance mechanism- independence director and female director eventually improving company performance. In addition, corporate social responsibility has greater effect on company performance. Corporate social responsibility is certainly applied in order to achieve business benefit. Overall, this study offers the existing literature by providing new data on the relationship between corporate governance mechanism, board process, and corporate social responsibility on performance particularly in oil palm companies. Our result can be helpful for researchers but also professionals, especially in the field of oil palm sector. By providing results form not just industry but also national specific context. We believe our results can be useful in better understanding of corporate governance mechanisms, board process, and corporate social responsibility on performance among oil palm companies in Indonesia.

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