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The important the Size of of Board of Directors and Large shareholder on Performance of Indonesia Life Insurance Companies

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Abstract
Life insurance companies have developed in Indonesia. The management of this company comes from the power of the large shareholder and board of directors. The objective of the research is to investigate the influence of large shareholders and the size of the board of directors on the performance of insurance companies in Indonesia. The author derives hypotheses based on review of literatures and tests hypotheses by using multiple linear regerssion model and data set of Indonesia life Insurance Companies in the period of 2013–2020. The impirical results suggest that the large shareholder has power to monitor the behavior of manager in managing insurance company by selecting the best agent (executive officers) in order to manage company affectively and afficiently and achive the company's objectives. The size of the board of directors attenuates the relatiohship between large shareholders and the company's performance.

Keywords: Company's performance; the large shareholder, the size of board of directors.

1. Introduction

The agency theory has interested several disciplines: accounting, finance, economics, law, political science, strategy or organizational psychology (Zogning, 2017). Eisenhardt (1989) states agency theory is concerned with solving problems that arise as a result of the agency relationship between the agent and the principal. Agency problems arise when (a) the desires or goals of the principal and agent conflict and (b) the principal has difficulty or has to incur large costs to monitor and verify what the agent actually does. One mechanism for controlling agency problems is the existence of concentrated ownership or large shareholders. The higher the share ownership concentrated in an institution, the more effective the institution will be in monitoring the behaviour of company managers. To be able to monitor the behaviour of company managers effectively, large shareholders must create a mechanism to be able to obtain all information about the company continuously and large shareholders must continue to have a dominant portion of shares so that they can effectively influence corporate outcomes. Konijn, et al., (2009) states that large shareholders or blockholders may also play an important role in governance structures. Stakeholders may rely on a large blockholder (internal control), or a potential large instantaneous blockholder (external control) to restrict management's discretionary power. Supervision activities carried out by large shareholders are expensive activities, because this supervision is not only aimed at the behaviour of managers (agents), but supervision is also aimed at knowing and understanding the strengths and weaknesses of internal resources and changes in the external environment in the form of opportunities and threats. for the company. Apart from that, supervision is also aimed at playing an active role in company decision making.

Agency conflict can give rise to agency costs in the company and these costs can decrease with large ownership by an institution, due to increased efficiency in monitoring (Jensen and Meckling, 1976) and the presence of large blockholders can improve company performance (Shleifer and Vishny, 1986). One particularly relevant mechanism for monitoring executive behaviours is the board of directors. From an agency perspective, boards can be used as

monitoring devices for shareholder interests (Fama & Jensen, 1983). This conflict occurs as a result of information asymmetry between owners and managers (Zeckhauser and Pound, 1990). Zogning (2017) states that the leaders in charge of the company's management have quite frequently access to insider information on the company's operations. Also, shareholders do not always have the necessary competencies to know whether a transaction will serve their best interests or those of the managers. It is therefore possible for managers to adopt an opportunistic behaviour by manipulating the information they manage. Problems of moral risks, adverse selection and opportunism are also associated to information asymmetry. Shareholders know the condition of the business imperfectly and try to understand it by analysing current financial statements. Large shareholders can improve company performance by changing the company's operating strategy by modifying the strategy or by changing company management. Serly and Yolandafitri (2019) indicates that institutional ownership has positive and significant effect on agency cost.

Company managers who have more and more accurate information about business conditions have an incentive to manipulate current profits at the expense of future revenues. Large shareholdings in a company can create an incentive to review the company's actions in greater detail. The presence of these large shareholders prevents management from distorting profits. Boone, et al. (2011) find that the concentrated ownership has a positive, albeit decreasing, association with firm performance. Zeitun and Gang (2007) find that ownership structure has significant effects on the accounting measure of performance return on assets (ROE). In Singapore and Vietnam, large shareholders can significantly improve firms' performance (Nguyen et al., 2015). Haque and Brown (2017) discovered that a heightened level of ownership concentration has the capacity to substantially enhance the cost efficiency of commercial banks in both the Middle East and South Africa. Zhou, C. (2019) finds that in particular, multinationality of MNCs with a high level of ownership concentration, managerial ownership and institutional ownership is more likely to reduce downside risk. Rashid (2020) states that institutional ownership exhibits positive influence only on accounting-based performance (return on assets).

Additionally, prior research on the performance has identified same results regarding the impact on firm performance of a range of board characteristics, including the board structure and ownership concentration. Large shareholders who control company ownership can determine the number and qualifications of the board of directors in order to monitor company management behaviour that is not in line with the principal's interests. Mishra and Nielsen (1999) conclude that the internal monitoring which is supplied by the board is generally effective. However, when financial performance is poor, independent boards make greater use of compensation contracts to align the financial interests of managers and shareholders. Yammeesri and Kanthi Herath (2010) state that neither independent directors nor grey directors are the significant determinants of improving firm value. Belkhir (2009) concludes that there is positive relationship between board size and performance, as measured by Tobin's Q and the return on assets and the number of directors leaving the board and the number of those joining the board for the first-time increase following a poor performance. Goel, et al. (2022) find that board size positively affects the company's performance across all quantiles. Independent directors negatively impact the performance of companies across all quantiles. Mishra and Kapil (2017) find that in the banking industry there is a significant positive relationship between promoter ownership and company performance where the relationship between promoter ownership and company performance is different at different levels of promoter ownership Board size is found to be positively related to ROA. Merendino and Melville (2019) find that board size has a positive effect on firm performance for lower levels of board size. The board of directors consists of various individuals who represent the interests of shareholders. They typically include an equal balance of internal and external members. A greater balance of inside and outside (independent) members helps the board have greater success.

Insurance companies are companies whose level of success largely depends on the competence of their human resources. Because the company is part of the financial industry, the government sets very strict regulations. Almost all activities in all functions require qualified human resource qualifications, especially for board of directors and executive officers' positions. This is in order to build competitive advantage and fulfil all applicable statutory provisions which are very strict and always changing. There are several studies regarding the characteristics of the board of directors and company performance in various sectors in Indonesia, especially companies listed on the stock exchange in Indonesia with varying results. There is still very little research regarding the role of large shareholders and the size of the board of directors specifically in Indonesian insurance companies.

Maulana and Yuyetta (2014) find that Board of commissioner's size affect positively on the level of risk disclosure. Pramestie and Atahau (2021) find that GCG and profitability have no effect on company value with company size as the moderating variable. Ariyani and Sukoco (2023) find that partially ownership concentration has no effect on the financial performance of insurance companies. Institutional shares have a significant negative effect on company financial performance. The number of Commissioners has no effect on the company's financial performance. The proportion of independent commissioners has no effect on the company's financial performance. Damayanti and Triyanto (2020) find that simultaneously, audit tenure, institutional ownership, independent commissioners, and company size influence the integrity of financial reports. Institutional ownership has a negative effect on the integrity of financial reports and Thendean, and Meita (2019) find that the size of the board of directors and the size of the executive officers does not affect the value of the company.

The objective of the research is to investigate the influence of large shareholders and the size of the board of directors on the performance of insurance companies in Indonesia. The remainder of our article is organized as follows. Section 2 discusses the literature review and hypotheses development. Section 3 describes research method. Section 4 presents our results and discussion, and section 5 presents conclusion and implication of the study.

2. Literature Review and Hypotheses Development.

Agency Theory.

Agency theory has been used by scholars in accounting, economics, finance, marketing, political science, organizational behavior, and sociology (Eisenhardt, 1989). He further elaborates that from its roots in information economics, agency theory has developed along two lines: positivist and principal-agent. The two streams share a common unit of analysis: the contract between the principal and the agent. They also share common assumptions about people, organizations, and information. However, they differ in their mathematical rigor, dependent variable, and style.

Agency theory is a theory that discusses the conflict of interest between the agent and the principal as a result of differences in the interests of the two parties (Jensen and Meckling,1976). The principal has an interest in increasing company profits, increasing dividend distribution, increasing the value of the company and company assets and so on. On the other hand, agents aim to maximize profits for their own interests.

Principals can be spread evenly, they can also be concentrated in certain individuals or institutions, so that one individual or institution dominates the company while the other party becomes a minority owner of the company. If the principal does not want or is not competent to manage the company, then the principal hires a competent agent with the hope that the agent will work by receiving the amount of compensation agreed in the contract for the principal's benefit. This compensation can be in the form of salary and various allowances, bonuses and other facilities. This difference in interests between the principal and the agent gives rise to conflict between the two. If both parties to the relationship are utility maximizers, there is good reason to believe that the agent will not always act in the best interests of the principal.

Managers are empowered by the owners of the firm—the shareholders—to make decisions, and that creates a potential conflict of interest known as agency theory (Brigham & Houston, 2015). When an agent succeeds in increasing profits or company value, the agent will think about whether the compensation received is balanced with the results of his performance. If the performance exceeds the compensation received, the agent will do things to increase the compensation he receives, such as buying a vehicle with a value higher than the stipulated provisions, passing a project that actually does not meet the feasibility requirements and so on.

Agents can manage the company following the best interests of shareholders stated in the contract through incentives that reward them for good performance but punish them for poor performance. Some specific mechanisms used to motivate managers to act in the best interests of shareholders include (1) managerial compensation, (2) direct intervention by shareholders, (3) threat of dismissal, and (4) threat of takeover.

Shareholder and Company's performance

The company's shareholders elect a board of directors to oversee the agency's performance. At this time, especially in Indonesia, through the POJK for financial institutions, both banking and non-banking, the board of directors cannot act passively, but they must actively monitor the behavior of company managers. The implementation of the principles of good corporate governance must be outlined in a guideline which must at least be realized in the implementation of the duties and responsibilities of the CEO, Board of directors and Sharia supervisory board (Financial Services Authority, 2016). The Board of Directors has the main task of carrying out a supervisory function to voice the interests of policyholders, insureds, participants and/or parties entitled to benefits. POJK Number 73 of 2016 regulates the minimum number of directors and number of independent directors, procedures for appointment, duties and responsibilities, as well as prohibitions regarding their appointment.

There are several previous studies that examined the influence of large shareholders on insurance company performance. Udin et al. (2017) find that foreign shareholdings have a significant negative association with firms' likelihood of financial distress, in the case of Pakistan. Allam (2018) provides evidence that not all mechanisms lead to lower agency conflicts and/or higher firm performance. Ali et al. (2018) concludes that in East, Northwest, South Central and Southwestern parts of China, managerial ownership and concentration of shareholding among top ten shareholders positively influence return on equity (ROE). Interestingly, institutional shareholding negatively affects return on assets.

Kao et al. (2019) conclude that the smaller the board size, together with a two-tier board system and no chief executive officer duality, the stronger the firm's performance. With respect to ownership structure, block-holders' ownership, institutional ownership, foreign ownership and family ownership are all positively related to firm value.

Zhou (2019) who researched the effect of ownership concentration on company risk finds that multinationality of MNCs with a high level of ownership concentration, managerial ownership and institutional ownership is more likely to reduce downside risk. The reduction in company risk shows the success of large shareholders in monitoring manager behavior. Rashid (2020) which studies ownership structure and firm performance finds that foreign ownership and director ownership have significant positive influence on both accounting and market-based firm's performance, while institutional ownership exhibits positive influence only on return on assets. Other results show that the board size and board independence partially mediate the relationship between ownership structure and firm performance. Gerged et al. (2023) conclude that institutional ownership negatively influences the likelihood of financial distress and the board size, audit committee size and managerial ownership have insignificant impacts on financial distress. Institutional shares have a significant negative effect on the company's financial performance and the number of Commissioners has no effect on the company's financial performance (Ariyani and Sukoco, 2023). Based on the description above, we therefore propose the following hypothesis:

H_1: Large shareholder is related to the company's performance

Board of Directors and Company's performance

Directors are representatives of shareholders from both inside and outside the company as independent directors who carry out the function of monitoring the behavior of managers so that they remain consistent in acting in the interests of shareholders. Financial Services Authority

Regulation number 73 of 2016 regulates that insurance companies are required to have a minimum of 3 directors. They carry out supervision to minimize conflicts between principals and agents, so that agents always manage the company to improve company performance in the form of increasing profits, assets and company value. In this way the agent continues to act in the interests of shareholders.

Belkhir (2009) provides evidence that in the banking industry, the number of directors leaving the board and the number of those joining the board for the first-time increase following a poor performance, but the net change in board size is not affected by past performance. Yammeesri and Kanthi Herath (2010) who researched board characteristics and corporate value in Thailand conclude that board size has no significant relation to firm performance. It is suggested that board size is only the number of directors on the board, and this might not link to the ability, knowledge and skills the directors have in performing their tasks to improve firm value. Goel et al. (2022) studied concerning to board composition and firm performance: empirical evidence from Indian companies. They find that board size positively affects the company's performance across all quantiles. However, the strength of these relationships increases with increase in performance, thereby supporting agency theory. Bhuiyan (2015) concludes that Firm operating performance is reduced when a board is served by a problem director. Assenga et al. (2018) find that that in terms of agency theory, while the findings support the separation of CEO/chairperson roles, they do not support outside directors-financial performance linkage. Furthermore, the findings do not support an association between financial performance and board size, PhD qualification and foreign directors. The size of the board of commissioners and the size of the board of directors does not affect the value of the company. Institutional ownership may moderate the size of the board of commissioners to the value of the company and institutional ownership can moderate the size of the board of directors against corporate value (Thendea and Meita, 2019). The limited liability company law in Indonesia stipulates that companies that carry out business activities in the field of and/or related to natural resources are obliged to carry out social and environmental responsibilities. This means that mining companies that make profits are obliged to cut these profits to fulfill their responsibilities towards the environment around their company which is damaged due to the company's operations. Zahroh et al. (2023) find that Size Board Commissioner have a positive significant on CSR disclosure.

Musallam (2023) investigate 31 nonfinancial Palestinian-listed companies and he finds that the effect of CEO duality and board size are significantly positive on financial performance through the existence of risk management. Puni and Anlesinya (2019) conclude that board size, frequency of board meetings and shareholder concentration/ownership structure generally had a positive impact on financial performance. However, the presence of board committees generally had a negative impact on financial performance while CEO duality had no impact on financial performance.

The existence and number of the board of directors plays an important role in overseeing company operations. Shareholders hope that they act professionally in carrying out their duties and responsibilities. In selecting a board of directors from both internal and external companies, shareholders must carry out strict selection and specifically in Indonesia, prospective directors must pass a test conducted by the financial services authority. The larger the company, the larger the board of directors. It is hoped that they can divide tasks and authority and work together to monitor manager behavior to minimize conflict between managers and principals, so that company goals can be achieved.

Based on the description above, we therefore propose the next hypothesis:

H_2: The size of board of directors moderates the relationship between large shareholder and the company's performance.

Based on the previous literature review, we propose a research model in the following figure.

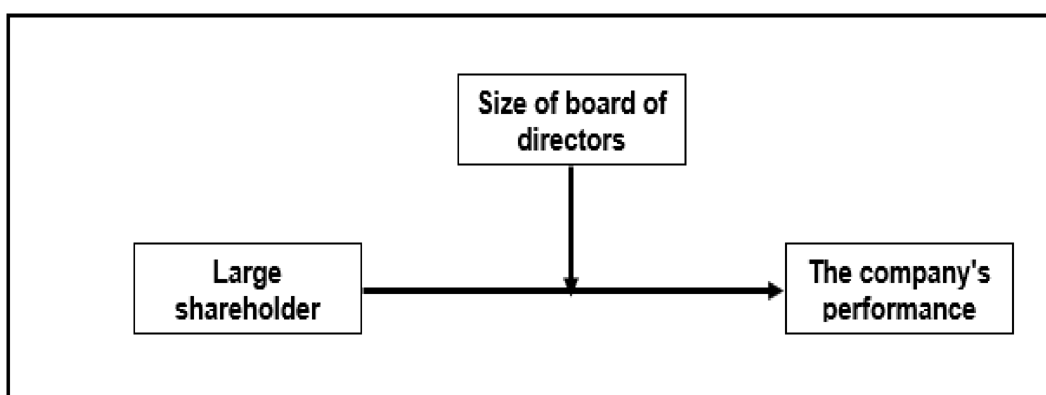

Fig. 1: Proposed research model.

3. Research Method

The subject of this research is life insurance companies in Indonesia and the object of research is the firm's performance, and large shareholder. The sampling method in this study is purposive sampling with the criteria that companies issue financial statements from 2013 to 2020 obtained from the websites of their respective companies and the number samples are 120 life insurance firms.

The sampling procedure, the number of companies sampled in this study, and the determination of the research sample size are presented in the following table.

Table 1: Sample selection.

Number of life insurance companies (Financial Services Authority, 2021)	53
Number of life insurance companies that do not present financial statements on their website	(22)
Number of companies whose financial reports on their website are incomplete for the period 2013-2020	(9)
Outlier data	(7)
The number of companies that present complete financial reports on their websites for the period 2013-2020	15
Final sample (number of sample companies x research period = (15 films * 8 years)	120

The data analysis methods used in this study are (a) statistical descriptive analysis which includes the minimum value, maximum value, arithmetic mean value, and standard deviation, and (b) inferential analysis consisting of multiple regression equation. The mathematical model of this research is shown in the regression line equation as follows:

$$FP = \alpha_0 + \alpha_1 LS + \alpha_2 SBOD + \alpha_3 SBOD*LS + \varepsilon$$

where:

FP : Firm's Performance
LS : Large Shareholder
SBOD : Size of Board of Directors
ε : Error

4. Results and Discussion.

Descriptive statistics

Report of summary statistics of variables used in the study is shown in the following table.

Table 2: Descriptive Statistics.

Variable	N	Minimum	Maximum	Mean	Std. Deviation
ROE	120	-239.00	383.00	104.6750	90.50550
SBOD	120	2.00	8.00	4.2250	1.27327
LS	120	10.00	99.00	74.8333	22.53674
Valid N (listwise)	120				

Hypothesis Testing

Before testing the hypothesis, we carried out a moderation test on the size of board of directors' variable. Multiple regression is used to test the effect of the large shareholder and the size of board of directors on firm's performance and the output is presented in the following table.

Table 3: Coefficients.

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	74.815	38.794		1.929	.056
	LS	.961	.357	.239	2.694	.008
	SBOD	-9.949	6.312	-.140	-1.576	.118

a. Dependent Variable: ROE

When the size of board of directors is treated as moderating variable, the output is presented in the following table.

Table 4: Model Summary.

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.284[a]	.081	.065	87.50811

a. Predictors: (Constant), LS_DOD, LS

Table 5: Sample selection.

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	78810.945	2	39405.473	5.146	.007[b]
	Residual	895947.380	117	7657.670		
	Total	974758.325	119			

a. Dependent Variable: ROE
b. Predictors: (Constant), LS*SBOD, LS

Table 6: Coefficients[a]

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	36.040	27.897		1.292	.199
	LS	1.461	.459	.364	3.184	.002*
	LS*SBOD	-.129	.076	-.195	-1.703	.091**

a. Dependent Variable: ROE
b. *p<0.05; **p<0.1

Based on table 3, the size of the board of directors has no effect on performance and based on table 6, the interaction between large shareholder and the size of the board of directors has effect on performance. So, it can be concluded that the size of the board of directors is moderating variable. H_1 predicts that the large shareholder is related to the company's performance. Table 6 shows that the estimated coefficient of large shareholder is positive and significant (i.e., $p < 0.05$). H_2 predicts that the size of board of directors moderate the relationship between large shareholder and the company's performance. Table 6 shows that the coefficient of the interaction between large shareholder and the size of the board of directors (LS*SBOD) is negative and significant (i.e., $p < 0.1$).

Table 4 shows the adjusted coefficient of determination (adjusted R Square) of 6.5 percent. This means that the large shareholder and the interaction between the large shareholder and the size of board of directors can explain the variance of its effect on the financial performance of life insurance companies by 6.5 percent, and the rest is influenced by other variables not examined in this research.

The result supports H_1 and suggests that the large shareholder is more likely to increase insurance firm's performance. Large shareholders have the power to monitor managers' behaviour in managing the company. The greater the percentage of ownership of the large shareholder, the greater the power the large shareholder has in carrying out supervision, especially in determining the company's CEO. The results are in accordance with the research results of Jensen and Meckling, (1976), Shleifer and Vishny, (1986), Zeitun and Gang (2007), Mishra and Nielsen (1999), Konijn, et al., (2009), Boone, et al. (2011), (Nguyen et al., 2015), Haque and Brown (2017), Zhou, C. (2019), Rashid (2020).

The result supports H_2 and suggests that interaction the large shareholder and the size of the board of directors is more likely to decrease insurance firm's performance. It implies that the existence of the size of the board of directors only weakens the relationship between the large shareholder and company performance. The results of this research are not in line with the results of research from Belkhir (2009), Maulana and Yuyetta (2014), Merendino and Melville (2019), and Goel, et al. (2022) conclude that the size of the board of directors has no effect on the company's financial performance while Thendean, and Meita (2019), Pramestie and Atahau (2021), and Ariyani and Sukoco (2023) conclude that the size of the board of directors has no effect on the company's financial performance.

5. Conclusions and Implications

Life insurance companies in Indonesia are an important sector in the national economy. Therefore, this industry must be able to develop so that it can contribute to the Indonesian economy. The development of this industry is very dependent on management's ability to manage the company and the ability of company owners to monitor the behavior of managers.

The first finding of the research is that the large shareholder has power to monitor the behavior of manager in managing insurance company by selecting the best agent (executive officers) in order to manage company effectively and efficiently and achieve the company's objectives. The second, the size of board of directors attenuate the relationship between large shareholder and company's performance.

The implications of this paper as follows: first, this study shows that large shareholders have a positive influence and relationship on insurance companies' performance. Therefore, the finding reminds principal in Indonesia who want to gain advantages by selecting best manager (agent) and support firms implementing fit and proper test procedures to obtain the most competent and best insurance company managers. Second, the findings of this paper indicate that the greater the size of the board of directors can only weaken the relationship between large shareholders and company performance and confirms the ineffectiveness of the board of directors in company.

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