



The Influence Of Risk Management Committee And Family Ownership With Company Performance In Indonesia: Busy Directors As Moderating Variable

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ABSTRACT

Corporate risk management and corporate governance have become important in managing the company. Both are believed to be able to reduce agency problems, between company owners and managers or between shareholders. Using a panel data regression analysis model, a sample of 602 non-financial public companies registered in Indonesia in the 2019-2021 period, this study focused on testing the effect of the existence of the Risk Management Committee and family share ownership on company performance (ROA). The study also used busy directors as a moderating variable. The results showed that the existence of the Risk Management Committee had a positive and significant relationship with ROA. But family ownership has a negative and significant relationship with ROA. Meanwhile, the presence of commissioners who concurrently hold positions in other companies at once or busy directors, does not significantly affect the relationship between the Risk Management Committee and family ownership and the company's performance.

INTRODUCTION

Improving company performance and earning profits is the company's goal and the expectations of its stakeholders. Companies that are transparent about the risks they face and transparent in controlling them with the aim of improving performance and avoiding future losses will be viewed positively by stakeholders . The various processes carried out by companies to manage these risks are called risk management. *Enterprise Risk Management* (ERM) has become commonly known throughout the world. ERM is a concept that can focus a company to achieve its goals. Risk management is expected not only to control, but also to disclose the

necessary information so that interested parties can understand risk management. ERM plays an important role because it refers to the identification, measurement and financial control of activity risks, which can cause damage or loss to the company. In particular, ERM is considered capable of expanding the ability of the board and senior managers to investigate the risks facing a company (Beasley et al., 2006). Research that supports the opinion that ERM can improve company performance includes Malik (2020), Brown et al (2009) and Liebenberg & Hoyt (2003).

In ERM, the establishment of *Board-Level Risk Management* can help the board monitor risks, foster risk management, and improve the quality of risk reporting and monitoring (COSO, 2009; Malik et al, 2020). One form of risk management at the board level is the formation of a Risk Management Committee (KMR) which was formed specifically with the aim of handling company risks and whose existence helps carry out the duties and authority of the directors. The government has mandated the establishment of KMR in the banking industry and state-owned companies. This can be seen in various regulations such as PBI No. 8/4/PBI/2006 and Minister of State-Owned Enterprises Regulation No. As of 10/MBU/2012. It can be concluded that in Indonesia, the formation of KMR is mandatory in the banking sector, but is still voluntary for sectors other than banking.

Research related to the relationship between the implementation of risk management, especially the formation of KMR, and company performance has been carried out previously. Jia & Bradburry (2020), stated that companies that have KMR perform better compared to other companies that do not have it and KMR that is formed separately from other committees performs relatively better. Other research conducted by Malik et al (2020), states that KMR is able to improve company performance and its existence is structurally very important for effective ERM governance.

The implementation of ERM as described above has close ties to *Good Corporate Governance* (GCG). This is because currently, companies are forced to always be open in their business in accordance with GCG principles, namely transparency. This transparency is designed to ensure that corporate governance can run well and is able to provide maximum performance. However, in achieving maximum performance, *agency problems often occur* (Jensen & Meckling, 1976). This *agency problem* often occurs in companies, namely between shareholders, especially in family companies, where the family has control over the company (Burkart et al, 2003; Villalonga & Amit, 2006). Berle & Means (1932) and Jensen & Meckling (1976), argue that there can be conflicts of interest between company managers and shareholders, as well as investors from outside the company, for example minority shareholders.

Family ownership of companies is a common type of ownership found throughout the world. Various studies regarding this type of ownership have also been carried out with varying results. Several studies related to family control in various countries are presented in Table 1.1. Insiders, in this case the family who controls the company's assets (La Porta et al, 1999), can use the assets owned by the company for various purposes which can ultimately harm the interests of outside investors. La Porta et al (2000) state, several things that families can do are diverting company assets into personal assets which can be done by direct theft, allocating excessive salaries to families who occupy certain positions in the company, selling assets. company assets to other companies they own at a reasonable price, or transfer of assets to other entities they own.

Table 1. Research Results Related to Family Control in Various Countries

Researcher (Years)	Countries Studied	Research result
Lamer (1963)	United States of America	There are 84% of 200 companies open non financial largest by assets, controlled by family.

Burch (1972)	United States of America	There are 15% of 200 public companies controlled by families.
La Porta et al (1999)	27 rich countries	There are 30% of public companies controlled by families.
Faccio & Lang (2002)	Western Europe	There are 32% of family companies in the S&P 500 and on average the family owns approximately 18% of the rights to the company's assets.
Anderson & Reeb (1999)	United States of America	There are 50% of public companies controlled by families.
Claessens (2002)	Countries in East Asia	There is approximately 17% of companies are controlled by families.
pHarijonop (2005)	Australia	The existence of companies controlled by families was found in <i>miscellaneous industrials</i> sector at 22.1%, the media sector at 9.1%, the retail sector at 8.4% and the developer and contracts sector % .
Arifin (1996, 2000)	Indonesia	85.5 % of public companies were controlled 1996 and 84.06% in 2000.

Source: Sugiarto (2009) in Dharmawan (2013)

Based on a survey conducted by PwC in 2014, the proportion of family companies in Indonesia reached 95%. With this proportion, it can be concluded that almost all companies in Indonesia are of the family ownership type, so research on family companies is important to carry out. The dominance of family ownership allows decision making in company management (*Good Governance*) to be dominated by family interests. Thus, the nature of corporate governance in family firms should be about reducing the expropriation of minority or non-controlling shareholders by controlling shareholders (Zhou, 2019).

Research related to family ownership in public companies has been carried out with mixed results. Some studies argue that family-controlled companies are more profitable than those that are not controlled by the family, based on certain advantages such as lower agency costs from transactions between family members and a long-term management perspective (Bonilla et al, 2010). Gupta (2017) collected other research results from various countries which revealed that company performance can increase due to family ownership in it (Trevino & Alvararado-Rodrique, 2011; Sraer & Thesmar, 2007; Maury, 2006; Villalonga & Amit, 2006; Anderson & Reeb, 2003). However, other research states otherwise that family companies perform relatively poorly and are less productive compared to non-family companies (Lauterbach & Vaninsky, 1999; Gupta, 2017; Barth et al., 2005;).

In general, previous research regarding the influence of family ownership on company performance in Indonesia only focused on companies in certain sectors and in the period 2010-2015. Sukamto's (2017) research focuses on the infrastructure, utilities and transportation sectors. Other research was conducted by Tanil (2017) which focused on the services trade and investment sectors. Then Thejakusuma (2017) also conducted the same research but in the mining sector. This research uses audit committee variables, proportion of the board of commissioners, and family ownership structure. These three studies state that family ownership has a negative and significant effect on company performance.

Another important element in the GCG mechanism is the existence of a board in a company. In corporate governance, what determines the adoption of directors and boards of commissioners in a country is known as *one-tier* and *two-tier systems*. Indonesia adheres to a *two-tier system*, two separate boards, namely the board of directors who carry out management functions and the board of commissioners who carry out supervision.

It is often found in companies where the family is the controller or not, the directors and commissioners hold concurrent positions in other companies or are called *busy directors*. There is research which argues that board members who hold concurrent positions in other companies (*busy directors*) are considered to be able to improve company performance (Andreou *et al*, 2014; Lu *et al*, 2013). Fama and Jensen (1983) put forward the reputation hypothesis, which thinks that if one board member has concurrent positions in several listed companies, then its quality will be more visible, because only competent people can be recognized by people and employed by many listed companies as director (Lu *et al*, 2013). However, other research finds that the presence of *busy directors* does not have a positive effect on company performance (Ferris *et al*, 2013; Conyon and Read, 2006). In accordance with the implementation of the supervisory function in a company using a *two-tier system*, *busy directors* in the context of companies in Indonesia are commissioners who hold concurrent positions, both as commissioners and members of the board of directors in other companies.

Previous research has tested the direct relationship between KMR and performance, including by Jia & Bradburry (2020), stating that companies that have KMR have better performance compared to other companies that do not have it. Other research conducted by Malik *et al* (2020), argues that KMR governance is able to improve company performance and its existence is structurally very important for effective ERM governance. Research regarding the direct relationship between family ownership and performance was conducted by Sukamto, 2017; Tanil, 2017 and Thejakusuma, 2017, all three of whom concluded that family ownership has a negative effect on company performance in Indonesia. Furthermore, research on the direct relationship between *busy directors* and performance has been carried out by Andreou *et al* (2014) which states that in the maritime sector, *busy directors* contribute to higher company performance. Consistent with this view, research conducted by Ferris *et al* (2003) and Masulis & Mobbs (2011) found that multiple board members holding concurrent positions was positively related to past company performance (Liu, 2015). There is a belief that *busy directors* act as moderating variables in the relationship between KMR and family ownership and performance. Research that specifically tests *busy directors* as a moderator between KMR as part of ERM implementation in companies and company performance has not been found. However, research that focuses on the implementation of corporate ERM in small and medium-sized businesses owned by families in Austria conducted by Glowka (2020), produces no effect on performance, but ERM performance is positively moderated by CEO tenure and negatively by family involvement. Research conducted by Santoso (2019) shows that *busy directors* weaken the relationship between family ownership and company performance. Not many studies have examined the role of *busy directors* as a moderating variable in the relationship between KMR and family ownership and company performance. Bearing in mind that Indonesia adheres to a *two-tiered structure* which differentiates the duties of directors from those of commissioners, where directors are tasked with managing the company to achieve company goals while commissioners carry out control or supervision functions over directors. The control function carried out by commissioners can help protect external investors and help reduce the problem of expropriation by external shareholders, especially minority shareholders. Therefore, this research focuses on examining the role of *busy directors* as a moderating variable. The aim of this research is to provide empirical evidence of the relationship between KMR and the company.

LITERATURE REVIEW

Financial Performance

The company's financial performance is a report on the company's financial condition over a certain period of time to find out how successful and profitable a company is in generating income. According to Munawir (2007: 64), financial ratio calculations are usually used in measuring company performance (Adur, 2018). According to Subramaniam *et al* (2009), Return

On Assets (ROA) is one of the ratios commonly used in measuring financial performance. Every company strives to have a high return on assets. ROA is an example of a popular profitability measurement, which is the ratio between profit after tax and total assets. If the ratio value is getting bigger, then the company in managing its assets can be said to be good and able to make a profit.

Agency Problem

Jensen & Meckling (1976) came up with agency theory which is often used as the basis for research on corporate governance. Jensen & Meckling (1976) define the concept of agency costs in relation to separation and control issues. This agency problem exists in all corporate governance systems around the world. This problem occurs between managers and shareholders (principal and agent) or between company shareholders (Acero & Alcalde, 2014). Furthermore, Acero & Alcalde (2014) provide an explanation of the types of agency problems that often occur in various companies, namely type I and type II agency problems. In general, the type of company ownership in Asia is family ownership.

In addition, the ownership structure in East Asia is classified as concentrated ownership which is indicated by the presence of controlling shareholders which can cause agency problems between majority and minority shareholders (La Porta, 1999; Claessens, 2000). Burkart et al (2003) and Villalonga & Amit (2006), state that family firms, due to their usually concentrated form of ownership, are often faced with significant twin-agency problems, namely problems between company leaders and stakeholders, and problems between majority and minority stakeholders.

Risk Management and Corporate Performance Committee

According to Bhimani (2009); Power (2007); Soin & Collier (2013), Enterprise Risk Management (ERM) has grown rapidly in organizations over the past two decades and relates to shareholders, regulators, professional bodies, and rating agencies that push for better corporate governance, risk management, and internal controls (Meidell & Kaarbøe, 2017). In ERM, Board-Level Risk Management through the establishment of a Risk Management Committee (RMC), can provide assistance to the board of directors in carrying out risk oversight functions, fostering risk management, and improving the quality of risk reporting and monitoring (COSO, 2009; Bexter et al, 2013; Malik et al, 2020).

The existence of RMC can assist the board in managing future risks and can provide additional confidence for shareholders that the company has implemented GCG. According to Subramaniam et al. (2009); Sambera & Meiranto (2013), there are differences between companies that have a dedicated RMC compared to those that do not have one because companies that have an RMC will have more power in supporting risk control carried out by the board (Agustina et al, 2021). In Indonesia, the existence of RMC, apart from the financial sector, is not yet mandatory, so there are not many companies in Indonesia that have a separate RMC that is separate from other committees in the company, for example the Audit Committee. So it can be concluded that the existence of RMC can improve company performance.

Family Ownership and Company Performance

Family firms are a form of ownership in which family members own the majority of the firm's equity, management and operating rights. It is often described as an organization that lacks independence in decision making, as its decisions are influenced by the interests of family members (Minh Ha, 2022). The same thing is conveyed by Anderson & Reeb (2003); Silva & Majluf (2008); Shyu (2011) who argue that the family ownership structure is defined as ownership where the majority of shares are owned by the family, or the family has a role in the management of the company, so that the family's intentions and interests take part in company decisions (Thejakusuma & Juniarti, 2017).

According to La Porta et al (2000), there are several activities that may be carried out by family members, namely the transfer of company assets into personal assets which can be done by direct theft, allocating excessive salaries to families who occupy certain positions in the company, selling company assets to other companies they own at prices that are worth considering, or transferring prices with other entities they own. Therefore, it can be concluded that family ownership has an influence on company performance.

Busy Directors and Company Performance

Attributed to board reputation, Fama and Jensen (1983) put forward the reputation hypothesis, which states that if one board member has concurrent positions in several listed companies, then his quality will be more visible, because only competent people can be recognized by people and employed by many companies as board members (Lu et al, 2013). In addition, according to Lu et al (2013) board members serving multiple companies can diversify the experience of a board and be more helpful in improving the efficiency of corporate decision-making. Pandey et al (2015), argue that companies with better growth opportunities should be managed by boards that do not hold many positions in other companies at the same time (Mukherjee & Sen, 2022).

Busyness leads to boards not having enough time and energy to focus on the main tasks of overseeing the company (Harymawan et al, 2019); they often tend to miss more board meetings (Jiraporn et al, 2009). Lack of commitment on the part of the board can undermine the strategic choices and actions of top management which can ultimately miss many potential business opportunities (Ahn et al. 2010; Inti et al. 1999). Therefore, the presence of busy directors can affect company performance.

METHOD

The first research model used in the first and second hypotheses, uses linear regression which tests the relationship between the dependent variable ROA, Risk Management Committee (KMR/RMC) as the first independent variable, family ownership (FAMOWN) as the second independent variable, firm size (*FIRM*) and *leverage* (LEV) as control variables.

$$ROA = \alpha + \beta_1(RMC)_{i,t} + \beta_2(FAMOWN)_{i,t} + \beta_3(FIRM)_{i,t} + \beta_4(LEV)_{i,t} + e_{i,t} \quad (3.1)$$

The second research model uses linear regression to test the third and fourth hypotheses and adds *busy directors* (BUSY) as a moderating variable.

$$ROA = \alpha + \beta_1 (RMC)_{i,t} + \beta_2 (FAMOWN)_{i,t} + \beta_3 (RMC) \cdot (BUSY)_{i,t} + \beta_4 (FAMOWN) \cdot (BUSY)_{i,t} + \beta_5 (FIRM)_{i,t} + \beta_6 (LEV)_{i,t} + e_{i,t} \quad (3.2)$$

Dependent variables are defined as values influenced by other variables and this research uses *Return On Assets* (ROA), which is a form of financial performance measurement. ROA is the ratio between profit after tax and total assets. A higher ROA value means that the company's asset management is getting better, resulting in profits. To calculate ROA, use the formula:

$$ROA = \frac{\text{Net Income}}{\text{Average Total Assets}} \quad (3.3)$$

The author used Microsoft Excel software to prepare data and sort companies as research samples, and *Eviews 12* software was used to carry out a series of panel data regression analysis.

RESULTS

Normality test

Table 2 shows the results of the Jarque-Bera test in regression model 1 and regression model 2.

Table 2. Normality Test Results Using Jarque-Bera

Regression Model	Jarque-Bera	Prob.	Results
1	1873115	0.000000	Not normally distributed
2	1864304	0.000000	Not normally distributed

Source: *Eviews 12 output* processed by the author

Heteroscedasticity Test

Testing for heteroscedasticity uses the Breusch-Pagan-Godfrey test with the results in both regression models there is a heteroscedasticity problem, because the probability of $p_{Obs^*R-squared}$ is 0.0000, this value is <0.05 . The existence of heteroscedasticity problems means that there are deviations and in linear regression these deviations are not allowed. To overcome the problem of heteroscedasticity, the *Generalized Least Squares* (GLS) method is used.

Table 3. Results of the Breusch-Pagan-Godfrey Heteroscedasticity Test

Regression Model	Obs*R-squaredp	Prob.	Results
1	237.9249	0.000000	There is heteroscedasticity
2	239.3255	0.000000	There is heteroscedasticity

Source: *Eviews 12 output* processed by the author

Autocorrelation Test

The autocorrelation test uses *Eviews 12* software which can be concluded that in both regression models there is an autocorrelation problem which means there is a correlation between each observation. This problem can be overcome by using the Cochrane-Orcutt method. Table 4 shows the Durbin-Watson values before and after *treatment*.

Table 14. Comparison of Durbin-Watson Values

Regression Model	Durbin-Watson Statistics	Results
1	2.713582 (Initial)	There is autocorrelation
1	2.017673 (Final)	There is no autocorrelation
2	2.714469 (Initial)	There is autocorrelation
2	2.017543 (End)	There is no autocorrelation

Source: *Eviews 12 output* processed by the author

After *treatment*, the Durbin-Watson value is between the d_U and $4-d_U$ values ($1.926 < 2.018 < 2.074$), so it can be concluded that there is no autocorrelation in regression model 1. The same thing is done in regression model 2 with the results of the Durbin-Watson value between

the dU and 4-dU values ($1.926 < 2.018 < 2.074$), it can be concluded that there is no autocorrelation.

Multicollinearity Test

Table 5 shows that there is no p value > 0.9 . Therefore, it can be concluded that in this study there were no problems with multicollinearity. In regression model 2, a multicollinearity test was not carried out because this mode is a function of interactions between several variables, so it will have an impact on multicollinearity problems.

Table 5. Multicollinearity Test Results for Model 1 Regression

VARIABLES	ROA	RMC	FAM	LEV	FIRM	BUSY
ROA	1	0.015	-0.054	-0.575	0.257	-0.020
RMC	0.015	1	-0.025	-0.022	0.053	0.022
FAM	-0.054	-0.025	1	0.016	0.029	-0.009
LEV	-0.575	-0.022	0.016	1	-0.106	0.025
FIRM	0.257	0.053	0.029	-0.106	1	-0.024
BUSY	-0.020	0.022	-0.009	0.025	-0.024	1

Source: Eviews 12 output results processed by the Author

Analysis of Best Model Selection

After the descriptive analysis and classical assumption tests have been completed, the panel data model is selected between *the Common Effect Model (CEM)*, *Fixed Effect Model (FEM)* or *Random Effect Model (REM)*. Determining the best research model is carried out through a series of statistical tests, namely the Chow test, Hausman test and Lagrange Multiplier test.

Chow Test Results

Because this research uses two regression models, Chow testing will be carried out twice.

Table 6. Chow Test Results in Model 1 Regression

<i>Effect Test</i>	<i>Statistic</i>	<i>df</i>	<i>Prob.</i>
<i>Cross Section F</i>	3,514799	-601,1200	0,0000
<i>Cross Section Chi-Square</i>	1833,721708	601	0,0000

Sumber: Output Eviews 12 yang diolah Penulis

Table 7. Chow Test Results in Regression Model 2

<i>Effect Test</i>	<i>Statistic</i>	<i>df</i>	<i>Prob.</i>
<i>Cross Section F</i>	3,507881	-601,1198	0,0000
<i>Cross Section Chi-Square</i>	1833,373475	601	0,0000

Sumber: Output Eviews 12 yang diolah Penulis

Table 7 shows that the Cross Section Chi-Square value is 0.0000, at a confidence level of $\alpha = 0.05$, so it is concluded that FEM is the best model for model 1. Table 4.8 also shows the Cross Section Chi-Square value is 0.0000, at the confidence level $\alpha = 0.05$, it is concluded that FEM is also the best model for model 2.

Hausman Test Results

Based on the Chow test results, it was concluded that FEM was the best model for both regression models. Next is to determine the best model between FEM and REM. Because this research uses two regression models, two Hausman tests will be carried out.

Table 8. Hausman Test Results in Model 1 Regression

Effect Test	Statistics	df	Prob.
Random Cross Section	287.582311	4	0.0000

Source: *Eviews 12 output* processed by the author

Table 9. Hausman Test Results in Model 2 Regression

Effect Test	Statistics	df	Prob.
Random Cross Section	286.652363	6	0.0000

Source: *Eviews 12 output* processed by the author

Table 9 shows that the *Cross Section Random value* is 0.0000, at a confidence level of $\alpha = 0.05$, so it is concluded that FEM is the best model for model 1. Table 10 also shows the *Cross Section Random value* of 0.0000, at the confidence level $\alpha = 0.05$, so it can be concluded that FEM is the best model for model 2. Because the Chow test and Hausman test for both regression models show that FEM is the best model, the Lagrange Multiplier test was not carried out.

Hypothesis Test Results

After testing the classical assumptions and testing the selection of the best estimation model, the next step is to test the research hypothesis and the direction of its influence. In this research, a statistical F test, coefficient of determination (R-Square) test and statistical T test were carried out.

F-Statistics Test

This research uses two regression models, each of which has the same best model, namely FEM. The F-Statistics test aims to see the level of accuracy of the previously determined regression model. The significance value of the regression model can be known from the Prob value. If the *p-value* < 0.05 then the regression equation model can be used.

Table 10. F-Statistics Test Results

Regression Model	Sum Squared	F-Statistics	Prob(F-statistic)
1	26.84182	99.39739	0.000000
2	26.77927	103.6189	0.000000

Source: *Eviews 12 output* processed by the author

Enterprise Risk Management (ERM) variable which is represented by the KMR/RMC and family ownership variables simultaneously is capable of explains its influence on company performance in Indonesia. In the second regression model, the Prob(F-statistic) value is also $0.000000 < 0.05$, so it can be concluded that the simultaneous presence of KMR/RMC and family ownership variables is able to explain the influence on company performance in Indonesia which is moderated by busy *directors*.

Adjusted R2 Test

This research uses two regression models, each of which has the same best model, namely FEM. The coefficient of determination test aims to see the suitability of the independent variables and moderating variables to explain the dependent variable.

Table 11. Coefficient of Determination Test Results

Regression Model	R2	Adjusted R2	F- Statistics
1	0.980435	0.970572	0.000000
2	0.981309	0.971839	0.000000

Source: *Eviews 12 output* processed by the author

Based on Table 11, the coefficient of determination value in the first regression model is 98.04%. This shows that ERM, which is represented by the KMR/RMC variable and the family ownership variable, can explain 98.04% of the behavior of company performance variables in Indonesia, while the remaining 1.96% is explained by other variables outside the research. Table 4.11 also shows that the coefficient of determination value for the second regression model is 98.13%. This shows that ERM, which is represented by the KMR/RMC variable and the family ownership variable with the *busy directors moderating variable*, is able to explain 98.13% of company performance in Indonesia, while the remaining 1.87% is explained by other variables outside the research. The high value of *Adjusted R2* can be influenced by the use of the GLS method.

T-Statistics Test

Table 12 shows the partial test results in the first regression model.

Table 12 Test Results of the Effect of Risk Management Committee and Family Ownership on Company Performance

Variable	Hypothesis	Coefficient	Std. Error	t- Statistics	Prob
C		-3.10937	0.100749	-30.86260	0.0000
RMC	Reject H0	0.01385**	0.000986	14.04992	0.0000
FAMOWN	No Reject H0	-0.07805	0.199768	-0.390676	0.6961
FIRM		0.11149	0.003271	34.08488	0.0000
LEV		-0.01703***	0.001057	16.11185	0.0000
Total Observations: 1806					
*Significant at $\alpha = 10\%$ or 0.1					
**Significant at $\alpha = 5\%$ or 0.05					
***Significant at $\alpha = 1\%$ or 0.01					

Source: *Eviews 12 output* processed by the author

Table 12 shows that the KMR/RMC coefficient value is 0.013852. The existence of KMR/RMC has a probability value of $0.0000 < 0.05$, so it is significant. The conclusion is to reject H0. This can be interpreted that ERM, represented by KMR/RMC, has a positive and significant influence on company performance (ROA).

Furthermore, the coefficient value for the percentage of share ownership by family (FAMOWN) is -0.078045. Family ownership has a probability value of $0.6961 > 0.05$, so it is not significant. The conclusion is not to reject H0. This can be interpreted that family ownership (FAMOWN) does not have a significant effect on company performance (ROA). In the second

regression model with a moderating variable, Table 4.14 shows the partial test results in the second regression model by adding a moderating variable.

Test Results of the Moderating Effect of *Busy Directors* on the Risk Management Committee and Family Ownership on Company Performance

Variabel	Hasil	Coefficient	Std. Error	t-Statistic	Prob
C		-3,109373	0,100749	30,86260	0,0000
RMC		0,01385**	0,000986	14,04992	0,0000
FAMOWN		-0,07805	0,199768	0,390676	0,6961
BUSYxRMC	Tidak menolak H₀	0,003399	0,003350	1,014643	0,3105
BUSYxFAMOWN	Tidak menolak H₀	0,002213	0,003521	0,628577	0,5297
FIRM		0,111488***	0,003271	34,08488	0,0000
LEV		-0,017031***	0,001057	16,11185	0,0000
Total Observasi: 1806 *Signifikan pada $\alpha = 10\%$ atau 0,1 **Signifikan pada $\alpha = 5\%$ atau 0,05 ***Signifikan pada $\alpha = 1\%$ atau 0,01					

Sumber: Output Eviews 12 yang diolah Penulis

Table 12 shows the coefficient value of multiplying the moderating variable for commissioners who hold concurrent positions in other companies or *busy directors* (BUSY) with the presence of KMR/RMC on company performance (ROA) is 0.003399. This test has a probability value of 0.3105 > 0.1 or can be concluded as not significant. Meanwhile, the coefficient value of multiplying the moderating variable BUSY with family share ownership (FAMOWN) on ROA is 0.002213. This test also has a probability of 0.5297 > 0.1 and can be concluded as not significant.

In accordance with Table 4.13 and Table 4.14, the following is the panel data regression equation that is formed:

$$\text{ROA} = -3.109373 + 0.013852 \text{ RMC} - 0.078045 \text{ FAM} + 0.111488 \text{ FIRM} - 0.017031 \text{ LEV}$$

$$\text{ROA} = -3.110439 + 0.011320 \text{ RMC} - 0.076446 \text{ FAM} + 0.003399 \text{ BUSY} \cdot \text{RMC} + 0.002213 \text{ BUSY} \cdot \text{FAM} + 0.111493 \text{ FIRM} - 0.016894 \text{ LEV}$$

Sensitivity Analysis

With the aim of seeing the influence of each independent variable on the dependent variable and moderating variable, separate testing was carried out for 2019, namely before the pandemic. In 2019, the existence of KMR/RMC had no effect on company performance. The existence of KMR/RMC has a probability value of 0.5121 > 0.1. Family ownership also has a probability value of 0.1388 > 0.1 or has no effect on company performance. The existence of a commissioner holding a concurrent position in another company at the same time has a probability value of 0.6772 > 0.1, thus indicating that the results are not significant. Likewise, the presence of commissioners who hold concurrent positions in other companies at the same time on the relationship between the existence of family ownership and company performance has a probability value of 0.2670 > 0.1, thus indicating that the results are not significant.

Then a separate test was carried out for 2020-2021 where there was an increase in companies that had negative ROA values. The results of this test are that the existence of

KMR/RMC and family ownership have no effect on company performance. The existence of KMR/RMC has a probability value of $0.9139 > 0.1$, while family ownership has a probability value of $0.9989 > 0.1$. The existence of a commissioner holding a concurrent position in another company at the same time has a probability value of $0.6231 > 0.1$, thus indicating that the results are not significant. Likewise, the presence of commissioners who hold concurrent positions in other companies at the same time on the relationship between the existence of family ownership and company performance has a probability value of $0.1302 > 0.1$, thus indicating that the results are not significant.

Based on the test results, it was found that the existence of KMR/RMC and family ownership when the 2019 and 2020-2021 periods were separated consistently showed insignificant results on company performance. Likewise, the presence of commissioners who hold concurrent positions in other companies is consistently insignificant in the relationship between the existence of KMR/RMC and family ownership with company performance. Based on tests by separating observation periods, the determining variables that influence company performance change because all relationships become insignificant.

Analysis of Hypothesis Testing Results

KMR and company performance

Based on the results of the T-statistics in the first regression model which tests the first hypothesis, it shows that ERM, represented by the presence of KMR/RMC, has a positive and significant influence on company performance. The coefficient value of the KMR/RMC variable is 0.013852, which means that companies that have KMR tend to perform higher. The existence of KMR/RMC has a probability of $0.0000 < 0.05$. According to these results, the first hypothesis is proven. These results are in accordance with research conducted by previous researchers, namely Malik *et al* (2020); Subraniam *et al* (2009), which concluded that the existence of KMR as a form of implementing ERM in companies has a positive effect on increasing company performance.

Family ownership and company performance

Referring to the T-statistic test value in the first regression model which tests the second hypothesis, it shows that family ownership in the company, represented by shares owned by the family, has a negative but not significant influence on company performance. Therefore, the second hypothesis of this study was not proven. These results support research conducted by previous researchers, namely Pranata *et al* (2019). This research states that company performance is not influenced by family share ownership. The research sample was companies outside the financial sector for the 2015-2017 period with a total of 576 observations.

The results in this study are also in accordance with the research results of Rouyer (2016) and Mathova *et al* (2017) which state that company performance is not influenced by family share ownership in the company. The reason it is not significantly influenced is that companies that have family shares in them are operated like other companies where all companies registered on the IDX must comply with the regulations that have been set so that the company's business decisions are taken more rationally and responsibly.

The moderating effect of *busy directors* on the relationship between KMR and family ownership on company performance

Based on the results of the T-statistical test in the second regression model which tests the third hypothesis, it shows that the presence of commissioners who hold concurrent positions in other companies at the same time (*busy directors*) has no significant effect on the relationship between KMR and company performance and rejects the third hypothesis.

Meanwhile, based on the results of the T-statistical test in the second regression model which tests the fourth hypothesis, it also shows that the presence of commissioners who hold

concurrent positions in other companies at the same time (busy directors) does not have a significant effect on the family ownership *relationship* which is represented by the existence of share ownership by family on company performance and reject the fourth hypothesis.

These results do not support the opinion of Fama & Jensen (1983) which shows that the presence of a busy board in a company will provide positive performance for the company because it is related to better reputation, skills and quality or the reputation *hypothesis*. The results of this research also do not support research conducted by Yasmin & Utama (2019) stating that a busy board strengthens the influence of family ownership on company performance. Research conducted by Elyasiani & Zhang (2015) found that board members holding concurrent positions in other companies did not affect their performance within the company. This research shows that the limited time the board has does not cause problems.

DISCUSSION

In the 2019-2021 research year, there were several companies that had negative ROA values. However, in 2020-2021, the number of companies with negative ROA increased from 2019. This is due to the Covid-19 pandemic which paralyzed the economy not only in Indonesia but also globally so that most companies experienced a decrease in profits in that year. In addition, in the observation year, there was an increase in the company's equity value which was negative. One of the reasons for the increase in negative equity is the company's increasing inability to generate profits in the 2020-2021 period. Companies with negative equity values are still included in this study to provide an up-to-date picture of the company's condition.

Based on the results of the T-statistic test on the first regression model that tests the first hypothesis, it shows that ERM represented by the presence of RMC has a positive and significant effect on company performance. The coefficient value of the RMC variable is 0.013852 which means that companies that have RMC tend to perform higher. The existence of RMC has a probability of $0.0000 < 0.05$. According to these results, the first hypothesis is proven. These results are in accordance with the research conducted by previous researchers, namely Malik et al (2020); Subraniam et al (2009), which concluded that the existence of RMC as a form of ERM implementation in the company has a positive effect on improving company performance.

Referring to the T-statistic test value in the first regression model that tests the second hypothesis shows that family ownership in the company, represented by the existence of shares owned by the family, has a negative but insignificant effect on company performance. Therefore, the second hypothesis of this study is not proven. These results support research that has been conducted by previous researchers, namely Pranata et al (2019). The study states that company performance is not affected by family ownership of shares. The research sample was companies outside the financial sector for the period 2015-2017 totaling 576 observations.

Based on the T-statistic test results in the second regression model testing the third hypothesis, it shows that the presence of commissioners who hold concurrent positions in other companies at the same time (busy directors) has no significant effect on the relationship between the presence of RMC and company performance and rejects the third hypothesis. Meanwhile, the T-statistic test results in the second regression model testing the fourth hypothesis also show that the presence of commissioners who hold concurrent positions in other companies at the same time (busy directors) has no significant effect on the relationship of family ownership represented by the presence of family share ownership to firm performance and rejects the fourth hypothesis. These results do not support the opinion of Fama & Jensen (1983) which shows that the presence of a busy board in the company will provide positive performance for the company because it is related to reputation, skills and better quality or reputation hypothesis.

CONCLUSION

Using a sample of 602 companies outside the financial sector listed on the Indonesia Stock Exchange for the 2019-2021 period, the aim of this research is to empirically test the relationship between the existence of a stand-alone Risk Management Committee (KMR/RMC) and shares owned by the family on performance. The company and the role of commissioners who hold concurrent positions in the company as variables that can weaken or strengthen each relationship. The test results show that the first hypothesis, namely the existence of a KMR that is separate from other committees, is proven to have a positive and significant relationship with company performance. This influence indicates that the existence of KMR can improve company performance. These results support research that has been conducted, including by (Bates and Leclerc (2009) and Minton et al., (2010). Meanwhile, the second hypothesis, namely family ownership as represented by shares owned by the family, is not proven to have a significant relationship with company performance. These results support research conducted by previous researchers, namely Pranata et al (2019). Insignificant results were also found in the presence of commissioners who held concurrent positions in other companies as a moderating variable in the relationship between the existence of KMR and family ownership and company performance. These results do not support the opinion of Fama & Jensen (1983) which shows that the presence of a busy board in a company will provide positive performance for the company because it is related to better reputation, skills and quality. However, this research is in accordance with research conducted by Elyasiani & Zhang (2015) found that board members holding concurrent positions in other companies did not affect their performance within the company. So for investors, it is best to take into account *the entrenchment effect* in the company ownership structure, especially in *family owned firms* in order to make the best investment decisions considering that the majority of companies in Indonesia are family companies. Prospective investors can also choose companies that have implemented a good risk management and corporate governance system to invest.

SUGGESTION

Future research can compare the effect of ERM implementation with company performance on the structure of family owned firms with non-family owned firms. In the application of ERM, it can use the ERM index in addition to the existence of RMC. Measurement of family ownership can add the proportion of family members who serve as members of the board of directors. In addition, another proxy that can be used in performance measurement is Tobin's Q. In the busy directors variable, it can use the ratio of the number of commissioners who hold concurrent positions in other companies to the total commissioners.

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