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The Effect of Ownership Structure and Board Independence Towards Overinvestment Behavior of Family Firm in Indonesia

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Abstract

Firms with concentrated ownership structures are commonly found in Southeast Asia. In Indonesia, the biggest control of the firm comes from the family. Concentrated ownership can lead to agency problem between controlling shareholders and non-controlling shareholders where, controlling shareholders together with management, can make decisions which bring personal benefit at the expense of non-controlling shareholders for example by investing on projects with negative NPV or known as overinvestment. This study explains the effect of the presence of directors and independent commissioners on relationship between family ownership and overinvestment. Using firms listed on Indonesia Stock Exchange from 2011 to 2017 as research samples, the presence of independent director is negatively related to overinvestment. From the regression results, only independent directors were found to have a moderating effect in weakening the positive relationship between family ownership and overinvestment. This effect is seen more clearly if family ownership in the company is low. This is because if family ownership in the company is low the process of selecting a board of directors can be more objective so that the possibility of a number of independent directors sitting on the board of directors is much greater. Thus the effect of moderation by independent directors will be greater in companies with lower family ownership.

Keywords: ownership structure, board independence, overinvestment, corporate governance, Indonesia

1. Introduction

A company is generally classified as a family company if the majority of the voting rights are in the hands of the founder and at least one family representative is involved in the management or administration of the company. A large number of companies are actually controlled by families, either through direct control of shares or through indirect control mechanisms such as pyramidal structures [1–4]. The evidence collected so far shows that the main control of the corporate sector in East Asia as a whole is family-based. Claessens, Djankov and Lang found that 16.6% and 17.1% of the total market capitalization in Indonesia and the Philippines can be traced to the final control of one family, the Suhartos and the Ayalas. Claessens' study also shows that the top 15 families in Indonesia control 61.7% of the total value of assets listed in the study sample representing 21.5% of Gross Domestic Product (GDP). In the latest survey conducted by Price Waterhouse Cooper (PWC) in 2014 around 0.2 percent of the total population of Indonesia was rich people who run family businesses with total assets reaching 134 trillion Rupiahs or controlling around 25 percent of Indonesia's Gross Domestic Product (GDP).

In a recent study, in the case of a concentrated ownership structure, the ownership of corporate families eliminated agency conflicts between managers and owners. In all countries, family members are responsible for the majority of CEOs and Chairpersons in family-controlled companies, and almost all of these companies have significant family representatives on their boards. The separation between management and company ownership, the basis of what is called the type I agency problem, is therefore weak. However, these companies are noted for other types of agency problems - which are referred to as Type II agency problems, namely conflicts between controlling shareholders (or families) and minority shareholders [3, 4].

The main source for this type of agency problem is concentrated equity ownership and substantial control of families in companies that give families the opportunity to take personal benefits at the expense of other shareholders. This personal benefit can be in the form of monetary and non-monetary benefits from running a company[5]. As a result, shareholders can make inefficient investment decisions such as canceling projects that benefit the company or even conducting negative NPV projects to make a profit by transferring resources to themselves or their own company [6–8]. This activity is called overinvestment. This practice is a phenomenon that is quite common in Indonesia. Kwik Kian Gie in Tabalujan, a well-known economic commentator who is also the former Minister of National Development Planning in President Megawati's cabinet, once criticized prominent Indonesian businessmen who had a tendency to steal their company's assets because there was no clear boundary between ownership with management so that they view company assets as their own. In the same vein, Daniel Fitzpatrick refers to the tycoons of large Indonesian tycoons who use their banks as a source of personal finance or cash cows during the early years of Indonesian banking deregulation. These activities in the long run certainly harm minority shareholders [9].

This problem will get worse if the family has active control of the company or is involved in daily operational activities of the company. Cai (2012) uses a sample of companies in China showing family companies prefer to give CEO positions to their family members to ensure control and protect the interests of family groups. This can make a family business misallocate resources where the desire to maximize family (personal) welfare leads to the sacrifice of business interests (Jaffe, 2005). In this situation, family members can show myopic behavior, such as additional income and privileges, which benefit the immediate family at the expense of shareholders (Schulze. 2001). Other studies argue that some family CEOs may not be eligible and incompetent. Even competent family CEOs, if not supported by disciplinary assistance from the governance system, can deviate from the company's goals and harm the interests of minority shareholders (Carpenter, 2003; Gomez-Meija, 2003). In the end, if family members serve as CEOs, the expropriation of minority shareholders will become easier and will worsen type two agency problems.

Given that overinvestment can destroy corporate value and harm external shareholders, a supervisory system is needed to protect outside shareholders. External shareholders rely on the board of directors to monitor opportunism in family companies when there are few governance mechanisms implemented within the company. This tendency for opportunism is greater in family companies than in non-family companies. Independent directors remain one of the main lines of defence that can be used by outside shareholders to protect their rights from the influence and power of the controlling family (Anderson and Reeb. 2003). Unfortunately, the functions of the board of directors can be compromised if the board is not independent when fulfilling its supervisory and advisory duties. Kuo and Huang (2011) and Chen and Nowland (2010) show empirically that increasing the independence of the board can mitigate the problem of overinvestment and underinvestment that occurs within the company through better monitoring and control functions.

However, existing research focuses on the influence of board independence on corporate investment behavior (Chen and Nowland. 2010; Kuo and Huang. 2011; Lu and Wang. 2015) and ownership structure with corporate investment behavior (Connely. 2016) but has not proven empirically whether board independence has a moderating effect in weakening the tendency of family firms to overinvest. The same research has been carried out by Anandha (2018) to examine the relationship of multiple large shareholders (MLS) to family ownership and abnormal investment. It was found that MLS has monitoring effects so that the tendency of overinvestment in the company can be reduced. As one of the factors of corporate governance other than MLS, board independence are expected to have the same effects as MLS.

From the regression results, only independent directors were found to have a moderating effect in weakening the positive relationship between family ownership and overinvestment. This effect is seen more clearly if family ownership in the company is low. This is because if family ownership in the company is low the process of selecting a board of directors can be more objective so that the possibility of a number of independent directors sitting on the board of directors is much greater. Thus the effect of moderation by independent directors will be greater in companies with lower family ownership.

The remainder of the paper is organized as follows. Section 2 provides a literature review and hypothesis development, section 3 explains the research design and elaborates the results of empirical tests, while section 5 contains conclusion and implications of the study.

2. Hypothesis Development

2.1. The Impact of family ownership on overinvestment

Previous literature shows that agency problems and information asymmetry between owners (shareholders) and managers can influence investment efficiency including the possibility of overinvestment (Stein, 2013; Lai & Liu, 2017). Overinvestment began to be the focus of research since Jensen (1986) showed the existence of agency problems arising from the separation of ownership and control that could lead to over-utilization of managerial power possessed by managers which resulted in overinvestment. In other words, managers who try to maximize personal profits tend to make investments that are not in the interests of shareholders. For example, with abundant capital, managers can invest excessively, expand the company beyond the optimal size as long as t heir activities bring personal benefits. However, the problem between shareholders and managers is proven to occur in companies with scattered ownership structures, namely the structure in which the company is owned by many individuals or organizations with relatively small ownership. Empirical research proves companies with a ownership structure spread not as much as companies with a concentrated ownership structure where the ownership and control of the company is generally located on one side. In Indonesia, the ownership and control of the largest companies is held by the family (Claessens, 1999; PWC Report, 2014; Utama, 2017).

However, several studies highlight the negative side of family ownership which can influence the decision making process. Indeed, family ownership reduces type I agency problems because company owners (owner families) generally place their family members in the company's strategic position so that at the same time they also act as managers. So Jensen's initial assumption of separation between owners and managers is no longer fulfilled. La Porta (1998; 1999) argues that greater access to corporate information held by controlling shareholders can be dangerous for minority shareholders. The controlling shareholder works with company managers can expropriate or take over the wealth of minority shareholders by taking actions that benefit them but harming other shareholders. The conflict of interest between the majority shareholders and minority shareholders is called the type two agency problem. Many strategies can be carried out as a form of expropriation, for example canceling projects that benefit the company or even agree to carry out projects with negative NPV (Connely, 2016; Jiang, 2018; Anandha, 2018). This is done to gain personal benefits by transferring resources to other companies that are also owned by themselves (He & Kyaw, 2018). Such actions include examples of overinvestment. Thus it can be said that the problem of overinvestment in family companies is the cultivation of the agency problem between the majority shareholders and minority shareholders or agency type II problems. Based on the argument above, our hypothesis is as follows:

H1. *Family ownership increases the tendency to overinvest*

2.2. The impact of family CEO on overinvestment

At the level where family ownership is high enough to be able to control the company, founding families can abuse their power to waste company resources for their own interests (Claessens, 2002; Mcconnel & Servaes, 1990) or in other perspectives, family coalitions or family representatives serving as CEO in the company serves as a bad "agent" for minority shareholders (Miller 2006). Cai (2012) uses a sample of companies in China showing family companies prefer to surrender CEO positions to their family members to ensure control and protect the interests of family groups. Other studies argue that some family CEOs may not be eligible and incompetent. Even competent family CEOs, if not supported by disciplinary assistance from the governance system, can deviate from the company's goals and harm the interests of minority shareholders (Carpenter, 2003; Gomez-Meija, 2003). In the end, if family members serve as CEOs, the expropriation of minority shareholders will become easier and will worsen type II agency problems.

High control on companies, on the other hand, can result CEOs suffer from overconfidence that will affect the perspective of corporate investment decisions. In many financial literatures, one of the theories that can be used to explain this is that overconfidence can result in the CEO being wrong in estimating the return of the chosen investment. This situation will get worse if the company has excessive free cash flow and weak monitoring and disciplinary functions by the market and corporate governance mechanisms (Tate, 2004). The CEO overconfidence theory is based on social psychology literature on "effects better than average" which states that when individuals are asked to assess their relative skills, they tend to overestimate their scores above average (Larwood & Whitaker, 1977; Svenson, 1981; Alicke, 1985). This view also influences causality. Because individuals expect their behaviour to produce success, they tend to associate good results with their actions and poor outcomes are associated with bad luck (Miller & Ross, 1975).

The Camarer and Lavallo experiment (1999) proves that the effects of better than average are also found in economic decision making. In the context of investment, company CEOs are vulnerable to show excessive self - confidence because the CEO has the power to determine the investment the company will take. The company's CEO believes that he can control the results and underestimate the possibility of failure. This phenomenon is called the illusion of control (March & Saphira, 1977). Heaton (2002) empirically shows that overconfident managers rate projects and their equity too high and invest in projects with negative NPV values that they mistakenly consider as investments with positive NPV values. In line with Heaton, Malendier and Tate (2005; 2008) found an overconfident manager involved in many merger and acquisition activities that destroyed the value of the company. Based on the above arguments, our hypothesis is as follows:

H2. *The tendency of higher overinvestment is found in companies led by CEOs who come from families*

2.3. The moderating effect of independent director on ownership and overinvestment relationship

Anderson and Reeb (2003) found that the founding family of the company generally placed one or more members of their family in strategic positions within the company included in the board of directors. This is done to ensure that the company's control remains with the family and protects the interests of the family group (Cai, 2012). In Indonesia it is common to find cases where a young sister acts as a commissioner while older brother, usually an MBA from overseas university) sits as one of the executive directors or as the CEO of the company. It has been known that the Asians emphasis on family hierarchy, in such a situation there is scepticism whether the younger sister could effectively discharge her duty to advise and supervise her older brother (Tabalujan, 2002). With their high ownership in the company and family members placed in strategic positions, the company's decisions, including investment decisions, are in the hands of the family. On this basis, the idea was developed to place independent directors in the composition of the board of directors. Independent directors are individuals who do not have ties to both family and business with controlling shareholders, management, or other board members. Because of this characteristic, the existence of independent directors on the board is to represent the interests of minority shareholders or to be a representative of minority shareholders within the company (Tulung, 2018). Thus, independent directors are one of the main lines of defense that can be used by outside shareholders to protect their rights from the influence and power of the controlling family. The inherent nature of family companies makes independent directors even more important to reduce the problems of Type II agencies (Anderson & Reeb, 2003, 2004).

Since independent directors do not have any personal interests in the company, the placement of independent directors on the company's board of directors can challenge other board members by providing a more objective view of the day-to-day decisions that the company will take, such as investment decisions, so that projects investments taken are aligned with the company's goals and do not benefit only one party. Therefore the presence of independent directors can weaken the positive relationship between family ownership and overinvestment. Thus, we postit our hypothesis as follows:

H3. *The presence of independent directors in family companies weakens the positive relationship between family ownership and overinvestment*

2.4. The moderating effect of independent commissioner on ownership and overinvestment relationship

In many financial literature, especially with a sample of companies in countries such as America and Europe, the board's independence variable describes the structure of a one-tier board where supervisory and managerial functions are carried out by a single board. Unlike the US and Europe, public companies in Indonesia adhere to a two-tier system where there is a clear separation of functions between the supervisory functions carried out by the board of commissioners and managerial functions carried out by the board of directors. The b oard of commissioners, like a board of directors, also has an important role in corporate governance. Herwidiyatmo (2000) stated that one of the causes of the 1997 crisis in Indonesia was due to the weak supervision carried out by the board of commissioners towards the company's directors. Even at that time, the board of commissioners was not only less effective and helpless, but also played a role in decision making that was not in the interests of the company and minority shareholders (Muntoro, 2006).

This phenomenon occurs because most Indonesian companies have ownership that is concentrated and controlled by individuals or groups of family members (Achmad, 2008; Husnan, 2001). In determining the composition of the board of commissioners, the position of the commissioner is given to people of trust and this assignment is not based on the competence and professionalism of the person concerned, but on the basis of respect or loyalty. (Tulung & Ramdani, 2018). The absence of a clear separation between ownership and management can cause the company to run in accordance with the interests of the controlling shareholders. As a result, this is not in accordance with the company's objectives and harms minority shareholders. (Saiful et al., 2012; Hidayat & Utama, 2016). The level of control of the controlling shareholders can be neutralized by the presence of an independent supervisory board (independent commissioner). Independent commissioners are expected to protect minority shareholders from expropriation of assets by majority shareholders. The interests of minority shareholders are most protected when they have "strength" in dealing with people who control the company, through independent commissioners (Anderson & Reeb, 2004). Thus, our hypothesis is as follows:

H4. *The presence of independent commissioners in family companies weakens the positive relationship between family ownership and overinvestment*

3. Research Methods

3.1. Sample

The company used in this study is all companies which are listed on the Indonesian stock market in the period 2011 to 2017. The exception is the financial industry because the financial industry has very different characteristics compared to other industries. In addition, the company did not take corporate action in the form of joint ventures or acquisitions during the research period of 2011 to 2017. Companies with incomplete data were also excluded from the sample. From a total of 534 companies listed on the

Indonesia Stock Exchange (IDX), a final sample of 204 samples was obtained with a total observation of 1524 observations.

3.2. Empirical model

Model estimator used in this study is fixed effect method with two model equation as follows:

$$\text{AI} = \alpha + \beta 1\text{famown} + \beta 2\text{famceo} + \beta 3\text{dirind} + \beta 4\text{komind} + \beta 5\text{size} + \beta 6\text{age} + \beta 7\text{profitability} + \beta 8\text{debtratio} + \beta 9\text{ceoage} + \varepsilon i \quad (1)$$

$$\text{AI} = \alpha + \beta 1\text{famown} + \beta 2\text{famceo} + \beta 3\text{dirind*famown} + \beta 4\text{komind*famown} + \beta 4\text{size} + \beta 5\text{age} + \beta 6\text{profitability} + \beta 7\text{debtratio} + \beta 8\text{ceoage} + \varepsilon i \quad (2)$$

Overinvestment in this study is proxied by abnormal investment. It was used by Titman (2004) in his research on the effect of capital spending with stock returns as follows:

$$CI(t-1) = \frac{CEt-1}{(CEt-2+CEt-3+CEt-4)/3} - 1 \quad (3)$$

Equation 1 is used to see the effect of independent variables individually on dependent variables. Meanwhile, equation 2 is used to see the moderating effects of board independence. Komind and dirind variables are omitted from equation 2 to avoid high correlations that can affect the regression results and their interpretations.

Referring to H1 and H2, β1 and β2 in equations 1 and 2 are expected to be positive. Whereas for H3 and H4 to be empirically proven, the values of β3 and β4 in equation 2 are expected to be negative. The selection of control variables is based on previous research. The definition of variables is provided in table 1.

4. Empirical Results

It can be seen from table 2 that the value of the percentage of family ownership in 231 sample companies has an average of 30.53% with the lowest ownership value of 0% and the highest value of 99.8%. This shows that family ownership in Indonesia is quite high, almost twice that of family ownership in companies in the S & P 500 (Chen, 2008). Then it can be seen from the table, an average of 37.93% of the overall sample of companies led by CEOs who come from families. This is often found in countries with concentrated ownership structures. Whereas for independent directors it

Table 1: Definition of variables

Variables	Definition
AI	Calculated using Capital Investment scaled by sales at t-1. See equation 3
Famown	Percentage of family ownership divided by total outstanding shares
Famceo	Dummy one if the CEO comes from family; zero otherwise
Dirind	Percentage of ratio of independent commissioners to the number of board of commissioners
Komind	Percentage of ratio of independent directors to the number of board of directors
Size	Natural Logarithm of Total Assets
Age	Natural Logarithms of total years since the establishment of the company
Profitability	Company profit / total company assets
Debtratio	Long-term debt / total assets of the company
Ceoage	CEO's age during the time of research

is still lower than the independent commissioners. This means that there are still many family companies that have not implemented OJK regulations regarding the presence of independent directors in the company as evidenced by the minimum value reaching zero. The average value of abnormal investment for 231 sample companies is 0.37011 with the highest value reaching 9.638. This shows that the sample companies have a tendency to overinvest.

Table 2: Descriptive statistics of variables

Variable	Mean	SD	Min	Max
AI	0.226	0.660	-0.994	9.638
FAMOWN	0.305	0.326	0	0.998
FAMCEO	0.386	0.487	0	1
KOMIND	0.389	0.140	0	1
DIRIND	0.125	0.146	0	0.913
SIZE	28.381	1.620	21.504	33.320
AGE	3.471	0.662	1.098	7.609
PROFITABILITY	0.045	0.297	-1.805	0.955
DEBTRATIO	0.174	0.209	0	5.095
CEOAGE	3.971	0.180	3.401	4.477
Source: Author own work (2019)				

From the table above it can be seen that the percentage of family ownership does not have a significant effect so that it can be said that from the existing results there is not

Table 3: Correlation matrix of variables

	AI	FP	FCEO	KOM	DIR	SZ	AGE	PR	DT	CA
AI FP	1.00									
FCEO	0.105***	1.00								
KOM	0.056*	0.594***	1.00							
DIR	0.067**	0.004	0.016	1.00						
SZ	-0.006	-0.002	-0.025	0.168***	1.00					
AGE	0.033	-0.078**	-0.056**	0.084**	-0.098***	1.00				
PROF	-0.173***	0.043	0.096***	-0.031	-0.115***	0.062**	1.00			
DEBT	0.002	0.120***	0.061**	0.044*	-0.051*	0.019	-0.002	1.00		
CAGE	0.065**	-0.044*	-0.067**	0.024	-0.037	0.114***	-0.068**	0.105***	1.00	
	-0.119***	0.04	0.130***	-0.002	-0.002	0.023	0.125***	0.002	-0.064	1.00

Table 4: Regression results

Variable	**Model 1**		**Model 2**	
	Coefficient	**P-Value**	**Coefficient**	**P-Value**
Intercept	-1.092	0.401	-2.887	0.301
Famown	0.215	0.341	0.305	0.527
Famceo	0.042	0.374	0.007	0.980
KOMIND	1.126**	0.021		
DIRIND	-0.933*	0.035		
KOMIND.FAMOWN			1.232	0.130
DIRIND.FAMOWN			-2.174**	0.002
SIZE	0.583***	0.000	0.564***	0.000
AGE	-3.335***	0.000	-3.356***	0.000
PROFITABILITY	2.891***	0.000	2.970***	0.000
DEBTRATIO	0.670	0.013	0.689*	0.066
CEOAGE	-0.864	0.716	-0.821*	0.090
ADJUSTED R-SQUARE	0.2273		0.1580	
F-STATISTIC	16.72	0.000	7.73	0.000

Source: Author's own work (2019)

enough evidence to support the hypothesis one in this study which is family ownership increases the tendency of companies to overinvest.

In addition, from the table it can also be seen that the famceo variable does not have a significant effect on overinvestment. So, similar to family ownership variables, in this study there was not enough evidence to support the second hypothesis, namely the presence of family-derived CEOs to strengthen the tendency of companies to overinvest. To see whether there are differences between companies led by CEOs who come from families and companies led by non-families towards overinvestment, the mean difference test can be seen in Annex 9. From the table it can be seen that the p-value is greater than critical limit so that it can be interpreted that there is no significant mean difference between companies headed by family and non-family CEOs. This means that a professional CEO, as well as a CEO from a family, has the possibility of overinvestment. In fact, professional CEOs should be able to help reduce agency problems which in turn will reduce the tendency to overinvest.

According to the resourced-based view, professional CEOs provide valuable insights because of the business experience and knowledge gained from a variety of companies outside the family company (Naecsu, 2015; Garcia Sanchez, 2018). Thus, the performance of the professional CEO itself is questionable.

Khurana (2002) describes the CEO search process as a process that is full of many other parties' interventions such as the influence of the media, the interests of third parties, and backroom transactions where these factors allow the possibilities of best candidates to emerge and serve as CEOs are small. Even if the selection or appointment of a professional CEO in a family company meets the qualifications, then the second question arises, is the basis of the CEO's decision regarding company investment changing along with CEO tenure? Pan (2016) proves the existence of variations in investment cycles throughout the CEO's tenure. Disinvestment is quite common during the initial CEO term, while investment, on the other hand, is relatively low in the early years of the CEO's tenure and increases over time. But unfortunately, this increase was accompanied by a decrease in the quality of investments measured using market reaction to the announcement of acquisitions throughout the CEO's related tenure. If the relevant CEO is qualified to become a CEO, investment efficiency should not decrease throughout the CEO's tenure. Pan attributed the decline in the quality of this investment to the agency problems faced by the CEO. Especially if along with his tenure, the CEO has a portion of ownership in the company as one form of compensation he receives (Yim, 2013; Pan, 2016). This has the potential to lead to deviant behavior from the CEO where the CEO sacrifices the interests of shareholders for his own sake. Indeed, existing financial literature recognizes that CEO attitudes and psychologies evolve over time so that CEOs show different investment tendencies (Hambrick & Fukutomi, 1991; Ahuja, 2008). To the best of our knowledge, there has not been much research in Indonesia that addresses the topic of the influence between the tenure of the CEO and overinvestment. This can be explored deeper for further research.

The presence of independent commissioners and directors has a different influence on the behavior of corporate overinvestment. Independent commissioners have a significant positive effect at the level of 10% while independent directors have a significant negative effect at the 5% level. This result raises a separate question about the independence of the board of commissioners in family companies in Indonesia. In fact, the IDX requires listed companies to have independent commissioners whose amounts are proportional to the number of shares held by non-controlling shareholders or at least 30% of the total number of the board of commissioners.

This regulation was predetermined compared to regulations regarding the presence of independent directors on the board of directors. In addition, the amount stipulated is greater than the regulation that requires listed companies to have at least one independent director in the board of directors. Contemplating at the strict and detailed regulations applied in Indonesia, the viewpoint in interpreting the weak influence of independent commissioner's supervision may be due to the weak competence and integrity of the commissioner and the possibility of multiple positions outside the company making the commissioner negligent in carrying out his supervisory functions (Corbetta, 2004). This possibility needs to be further proven in order to get a comprehensive picture of the relationship between independent commissioners and the behavior of overinvestment of family companies in Indonesia.

In contrast to independent commissioners, independent directors negatively affect overinvestment. This means that empirically the presence of independent directors can reduce type II agency problems by c arrying out its function as a supervisor to prevent the majority shareholder, who is also the family of the company's founder, from pursuing personal benefits at the expense of the interests of minority shareholders. This implies that if the proportion of independent directors is higher, the board can be encouraged to be more effective in monitoring corporate governance practices (Khanchel, 2007). In addition, studies of independent directors cited the reasons behind independent directors can function as an effective monitor of corporate governance practices because they did not have personal or financial interests in the company. Independent directors also do not have family relations with organizational management (Boo & Sharma, 2008) so they are in a better position to challenge management objectively (Klein, 2002). The results of this study support previous studies of Kuo and Hung (2011), Lu (2015).

It can be inferred from the table that independent director variables have a moderating effect, weakening the positive relationship between family ownership and overinvestment. The interaction variable *dirind.famown* has a significant negative effect at the

5% level. So there is enough evidence to support hypothesis 3, namely the presence of independent directors in family companies weakens the relationship between family ownership and overinvestment. This is reflected in the comparison of the coefficients between the *famown* variable and *dirind.famown*. The *dirind.famown* variable coefficient has a greater value than when the *famown* variable is regressed as the main effect. This change is followed by changes in signs and significance which means that the entry of independent directors can weaken the positive influence between family ownership and overinvestment. However, so that the coefficient has a higher deduction value, there is an inverse relationship between family ownership and the percentage of independent directors. If family ownership is assumed to reach maximum value, in accordance with Anderson and Reeb's (2003) study, families may not put independent directors into the board of directors to ensure that the company's control remains in their hands. Conversely, if family ownership is lower, the process of selecting a board of directors can be more objective so that the possibility of a number of independent directors sitting on the board of directors is much greater. Thus the effect of moderation by independent directors will be greater in companies with lower family ownership. Anderson and Reeb (2004) find that companies with a composition of boards controlled by families have the potential to give a disproportionate vote to the family in corporate decision making, thereby increasing the likelihood of families exploiting company assets that will harm the company. This vote imbalance raises fears that independent boards cannot stand against family power in making company decisions. For example, the Rigas family dominates the Adelphia Communications board (five of the nine councils are family members) allegedly carrying out personal consumption taken from company resources (Pulliam & Frank, 2004). In addition, there is a possibility of information asymmetry between board members from the owner's family and independent board members. Family board members may monopolize information at the expense of external or independent board members (Fitzpatrick, 2002).

However, independent commissioners do not appear to have a moderating effect, so there is not enough evidence to support hypothesis 4, that the presence of independent commissioners in family companies weakens the relationship between family ownership and overinvestment. This might be caused by several factors. First, in companies with concentrated ownership structures, the design of decision-making systems is not entirely board- centered. Managerial power is distributed between the board and shareholder meetings. Urtiaga (2012) argues that a system like this allows agency conflict between majority and minority shareholders to get worse because in the presence of the majority shareholders the efficiency of the decision-making mechanism in shareholders meetings decreases dramatically (Cools, 2005). In other words, intervention in management is actively carried out by majority shareholders not by shareholder meetings (Burkart, 1997). On the other hand, the problems decided by the shareholders' meeting are more related to the configuration of company contracts, especially related to the relationship between shareholders rather than by monitoring how the company is managed, for example investment decision making. Thus, investment decisions are everyday decisions that are more closely related to the board of directors than the board of commissioners.

Second, the ownership structure of most registered companies in Indonesia is highly concentrated and many of them have a pyramid ownership structure. Thus, the majority controlling shareholders of the company effectively determine the members of the board of commissioners and also the directors. Under this arrangement, the independent supervision of the board of commissioners on the board of directors can be hampered and thus, the listed company can be managed primarily for the benefit of the controlling shareholders, which along the way can be detrimental to the controlling shareholders (Main & Main, 2016). This will worsen if the size of the board of commissioners is large, while the number of independent commissioners is low. In addition, Urtiaga (2012) argues that in companies with a large board size, it is unlikely that controlling shareholders provide enough voting power to independent parties to effectively oppose the decisions made by them.

Third, Zhou and Chen (2004) report that the effectiveness of independent commissioners is also influenced by the activities of the board. The IDX regulation only states that independent commissioners are not permitted to have concurrent positions at other companies that have affiliations with the listed listed companies. This means that independent commissioners are permitted to have multiple positions as long as the company is not an affiliate company of the company where they hold office. This dual position allows the commissioner to be negligent in carrying out his supervisory function. (Corbetta, 2004).

5. Conclusions

The purpose of this research is to find out whether independent commissioners and directors have a moderating effect in weakening the positive relationship between family ownership and overinvestment. From the regression results, only independent directors were found to have a moderating effect in weakening the positive relationship between family ownership and overinvestment. This effect is seen more clearly if family ownership in the company is low. This is because if family ownership in the company is low the process of selecting a board of directors can be more objective so that the possibility of a number of independent directors sitting on the board of directors is much greater. Thus the effect of moderation by independent directors will be greater in companies with lower family ownership.

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