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Independent Director, Independent Commissioner, Product Market Competition, and Firm Performance

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The purpose of this study is to examine the effect of the independent director and independent commissioners on firm performance with moderating variable of product market competition in manufacturing companies listed on the Indonesia Stock Exchange. This study used multiple linear regression models and Moderated Regression Analysis (MRA). Data were obtained from the company's financial and annual reports published in the period from 2014 to 2018. The dependent variable in this study is firm performance proxied by return on assets (ROA). Independent variables in this study are the independent director and independent commissioners. Moderating variable is product market competition proxied with 1-Herfindahl Hirschman Index. The results of this study showed that the proportion of independent director and independent commissioners have significant positive effect on firm performance. In a moderating relationship, product market competition does not significantly influence the relationship between independent directors and firm performance. However, the moderating relationship in product market competition reinforces the positive influence of the proportion of independent commissioner on firm performance. The results of this research are able to provide an overview of the influence of independent directors and independent commissioners on company performance with product market competition as a moderating variable.

Keywords: *Independent director, Independent commissioners, Firm performance, Product market competition.*

Introduction

The topic of the relationship between independent directors, independent commissioners and company performance with product market competition as a moderating variable is an interesting topic to study. However, some previous studies provided different results, such as

research conducted by Singla et al., (2018) that board supervision has a significant effect on firm value, and product market competition has no significant impact as a moderating variable. In the previous research, this study specifically discusses the relationship between independent directors and company performance by adding the independent commissioner variable as a novelty. This research is adapted to the conditions of companies in Indonesia that use the two-tier system, which there is a separation of the implementation functions carried out by the board of directors and the supervisory function performed by the board of commissioners. However, in relation to the growing focus on relationships between various governance mechanisms, several studies have analysed the effectiveness of various governance mechanisms concerning other factors (Ali et al., 2019; Larasati et al., 2019; Sari et al., 2018; Nasution & Jonnergard, 2017; Nurlaila et al., 2017; Wardhana, Tjahjadi, & Permatasari, 2017; Selarka, 2014; Pant &Pattanayak, 2010). This study fills the gap by analysing the effectiveness of board monitoring in relation to product market competition.
Today, most organisations are aware of the important role played by independent directors and independent commissioners since the fall of large companies such as Enron and WorldCom. The important role of non-executive directors was discussed in the 1992 Cadbury Report. The Cadbury report has raised attention to the effectiveness of the board of directors as an important corporate governance mechanism. The problem of corporate governance has been developing since the 16th century and has begun to receive attention from academics to be investigated since the 1930s (Daily et al. 2003). Board monitoring has become the most discussed governance mechanism in the corporate governance literature. The board of directors represents the interests of shareholders and monitors the management of various agency problems. Board independence remains an important aspect of board oversight. Failures in large companies such as the Enron case, as well as companies in Asian countries when the crisis occurred in 1997, this phenomenon shows the important role of the board in a good corporate governance system in the company.

According to Brook and Dun (2011), Enron's management manipulated financial statements. This is reflected in policies carried out by uncontrolled management such as delaying the recording of accounts receivable, marking up revenues, and recording accounts. Lower expense while the asset account is higher, Enron committed this fraud with Arthur Anderson Public Accountant Firm. The aim of Enron's company is Enron's stocks become much sought after by investors, as a result of this event, the public's trust in corporate liability through financial statements fades. The research shows that the main cause of the decline of companies during an economic crisis is poor corporate governance (Leng, 2004; Daily et al., 2003; Facio et al., 2001; Scott, 1999).

Sukrisno (2004) explained that poor company management would have an impact on the poor performance of the company because of many frauds that occur within the company. As in the case of PT Garuda Indonesia (Persero) Tbk recorded a brilliant performance in 2018 in

which the company posted a net profit of US $ 809.84 thousand or Rp11.33 billion (Rp14,000 per US dollar). However, two Garuda Indonesia commissioners, Chairal Tanjung and Dony Oskaria refused to sign the Garuda 2018 annual book report. Both were representatives of PT Trans Airways and Finegold Resources Ltd as the owner and holder of 28.08 per cent of Garuda Indonesia shares. They did not agree with one of the cooperation transactions with PT Mahata Aero Teknologi, which was recorded as revenue by management.

Theoretically, an independent director is an internal governance mechanism that can reduce agency conflicts between shareholders and managers arising from the separation between ownership and control, thereby contributing to improve company's performance (Hermalin &Weisbach, 2003). The main contribution of the council that was formulated was the company's strategy and carried out an appropriate supervisory function throughout the company's operations (Zinkin, 2010). Independent directors can contribute their independent views and participate actively in board discussions. They will represent shareholders on the company's board. As independent people, they must ensure their presence and performance are free from insider influence or management.

The positive relationship between independent directors and company performance is found in developing countries and may be a consequence of the substitution effect between internal and external governance mechanisms (Liu et al., 2015). Therefore, the independent director becomes an important internal governance mechanism that reduces agency conflict and improves company performance (Ferreira and Matos, 2008). In contrast, research conducted by Mai Thi Thuyet Nguyen (2017), 217 non-financial companies registered in Vietnam, showed that independent directors negatively affect a company's performance. This finding is due to information asymmetry, expertise disadvantage and the dominance of concentrated ownership that prevents independent directors from fulfilling the monitoring function in governance.

This study uses manufacturing companies as most manufacturing companies are related to various products, thus encouraging manufacturing companies always to increase the product competition. This study uses manufacturing companies listed on the Indonesia Stock Exchange (IDX). The research period is the period 2014-2018, as in the year 2014, the Government of the Republic of Indonesia started to provide facilities for foreign investors to invest in Indonesia. This is reinforced by data from the Indonesian Investment Coordinating Board (BKPM) that there was an increase in investment by foreign investors during the years 2014 - 2018. The information generated in this period is the latest and with the hope that this research can present the current state of the company using data from the latest annual report.
The results of this study indicate that independent directors and independent commissioners have a significant positive relationship with company performance. In a moderating

relationship, product market competition influences the relationship between independent directors and company performance. On the contrary, product market competition strengthens the positive relationship between the proportion of independent directors and company performance. The results of this study contribute to literature related to corporate governance. The results of this research can also provide input and more appropriate consideration in the supervision of independent directors and independent commissioners in order to improve company performance.

The structure of this paper is as follows: part 2 is a literature review and hypothesis development; part 3 is the description of the sample and research variables; part 4 is results and discussion; part 5 is conclusions, limitations, and suggestions of this research.

Literature Review

Indonesian Setting

Independent commissioners are members of the board of commissioners who are not affiliated with management, other members of the board of commissioners and controlling shareholders. They are free from business relationships or other relationships that can affect their ability to act independently or act solely in the interests of the company (National Committee on Governance Policy, 2006). The existence of an independent commissioner has been regulated in the Jakarta Stock Exchange through the JSE regulation on July 1, 2000. The independent board of commissioners is the core of corporate governance tasked with ensuring the implementation of corporate strategy, overseeing management in managing the company and requiring the implementation of accountability (Sam'ani, 2008). Several previous studies have shown that the presence of independent commissioners has a positive influence on performance, such as research conducted by Hapsoro (2008), Maryanah and Amilin (2011), and Abbasi et al. (2012). On the contrary, the results of research by Wulandari (2006), Dervish (2009), and Romano et al. (2012) stated that the proportion of independent commissioners had no effect on the company's financial performance.

The decision of the board of directors of PT Jakarta Stock Exchange No. 305 of 2004 also explained that companies that went public must have an independent commissioner of at least 30% of the board of commissioners who can be elected first through the General Meeting of Shareholders (GMS) prior to listing and starting to effectively act as a commissioner independently after the shares are listed. It is to maintain the independence and balance of decision making so as not to harm other parties. Independent Commissioners have been regulated on the Indonesia Stock Exchange through KEP / 305 / BEJ / 07-2004 regulations regarding the criteria of independent commissioners.

An independent director is one of the directors from the board of directors, who is not affiliated with the controllers of listed companies, the board of commissioners, and other directors as stipulated in the IDX Directors' Decree No: Kep-00001 / BEI / 01-2014. According to Lara et al., (2007), the existence of an independent board of directors at a company helps ensure the independence of the company board from management. Independent directors can contribute to resolving disagreements between internal managers. Thus, a board consisting of independent directors will provide a balance so that the company's internal managers do not take advantage of their position and sacrifice shareholder wealth (Al Sraheen et al., 2014).

Theoretical Framework

Agency theory (Jensen and Meckling, 1976) states that companies are legal contractual relationships between shareholders (principal) and management (agents). In agency relations, there are one or more people (management) who order other people (agents) to provide services for management to provide input in economic decision making (Arifudin, Hanafi, & Usman, 2017). Information needs between agents and investors are not balanced due to the unequal distribution of information between the principal and agent, causing a lack of transparency in the performance of agents and can lead to manipulation by agents. Principals and agents tend to maximise benefits and positions by using their individual interpretations (Fitri et al., 2019).

La Porta et al. (1999) shows that public companies in Indonesia have ownership concentration or are controlled by large shareholders. Therefore, the agency problem in public companies in Indonesia is the conflict between majority and minority shareholders. Shleifer and Vishny (1997) state that one way to overcome agency conflict as mentioned above is through good corporate governance. One of the applications of good corporate governance to overcome agency conflicts is the existence of an independent commissioner. Independent commissioners are an important corporate governance mechanism and can affect company performance (Moradi et al., 2017). Independent commissioners can provide objective oversight because they are not affiliated with major shareholders, members of the board of directors or other members of the board of commissioners so as to prevent the company from opportunistic behaviour of managers.

To overcome agency problems, and the case above the way to minimise poor management practices is to increase oversight of management, so there is no information bias in the financial statements. In addition to the existing oversight mechanism and the mechanism of good corporate management of its operations, independent elements are needed within the ranks of the company, because the presence of certain independent parties is important in monitoring the company. Daniri (2005) explains the separation of functions, duties and

authority of the company management board from the company supervisory board on the two-tier board system will strengthen the implementation of good corporate governance. The separation of functions in the two-tier board system produces two boards with different functions, namely (Kurniawan and Indriantoro, 2000) The Board of Commissioners who functions as supervisors and advisors, and the Board of Directors (including management) who functions as an executive. The results of Baggs and Bttignities (2007) show that competition causes agency costs to fall. Hart (1983) claims that the product competition market reduces management lags. It is assumed that directors pay attention to the objectives set. In this way, competition can affect management incentives and ultimately lead to improved company performance.

Independent Director and Firm Performance

Agency theory assumes that individuals are more selfish and opportunistic, rather than altruistic, that is, helping behaviour arises not because of pressure or obligation, but rather that the action is voluntary. Agency conflicts will be more common when the board is dominated by executive directors (Bathala & Rao, 1995; Nicholson & Kiel, 2007; Zahra and Pearce II, 1989). In this matter, an independent director is needed. According to agency theory, the independence of the board will balance the power between managers and shareholders. In the absence of an independent director, an insider-dominated council can gather and abuse enormous power; on the other hand, without the expertise of independent directors, the board may not be effective (Dalton & Daily, 1999). Independent directors play an important role in increasing the efficiency of the board of directors as well as reducing agency costs in the company through increased management monitoring (Hermalin and Weisbach, 2003). Hereby, directors help improve efficiency results and firm performance (Aguilera et al. 2008).

Board independence can act as a balancing force between the board and management (Hillman & Dalziel, 2003; Kula, 2005; Zahra and Pearce II, 1989). The main contribution of the formulated board is the company's strategy and carrying out the supervisory function that is appropriate throughout the company's operations (Zinkin, 2010). Independent directors can contribute their independent views and participate actively in board discussions. They will represent shareholders on the company's board. As independent people, they must ensure their presence and performance are free from insider influence or management. The company appoints an independent director to monitor the performance of the executive director and top management. Therefore, they will pursue the interests of shareholders by maximising shareholder value. Zinkin (2010) has stated that several fields must be handled by independent directors who will contribute to the formulation of an effective corporate strategy.

Empirical research also shows a positive relationship between independent directors and company performance in developing countries. According to Liu et al. (2015), there is a positive relationship between an independent board and company performance in China. They argue that independent directors have a positive impact because of the role of the director to limit tunnelling insiders and to improve investment efficiency. Choi et al. (2007) investigated the effect of the assessment of independent directors in Korea after the Asian financial crisis. They indicated that the influence of independent directors on company performance was significantly positive, using a sample of 347 companies in 1999. Cho and Kim (2007) analysed the relationship between independent directors and company performance during the governance reform movement carried out in Korea. The results showed that the independent director had a significant direct impact on company performance. Based on the results and arguments shown in the previous study discussed above, agency theory underscores the positive effect of a higher proportion of independent directors on company performance. In other words, there is a positive corporate performance effect associated with the appointment of an independent director for a company, which shows the following hypothesis:

H1: Independent director in a company positively affects firm performance.

Independent Director, Product Market Competition, and Firm Performance

High product market competition can reduce agency costs to improve company performance (Leventies et al., 2011; Baggs and Bettignies, 2007; Moradi et al., 2017). Product competition in the high market will motivate independent directors to carry out their functions properly and carry out effective operational mechanisms so that agency problems can be reduced. This will have an impact on improving performance. High product market competition will increase the chance of bankruptcy for inefficient companies. This fear of bankruptcy is a strong incentive for managers to remain competitive in the product market (Chen et al., 2012; Schmidt, 1997; Hart, 1983. Managers have a strong drive to reduce the waste of resources so as to maximise company profits. Product market competition puts high pressure on managers in making the best decisions (Mnasri and Ellouze, 2015).

Hart (1983) indicated that product market competition reduces management lags. It is assumed that directors pay attention to the objectives set. In this issue, independent directors are required to improve their functions and roles so that the company's performance increases. Independent directors can contribute their independent views and participate actively in board discussions. As independent people, they must ensure their presence and performance are free from insider influence or management. The company appoints an independent director to monitor the performance of the executive director and top

management. Therefore, they will pursue the interests of shareholders by maximising shareholder value.

Teng and Li (2010) studied the relationship between product competition in the market and the structure of the board of directors and the quality of disclosure. The results of their research showed that product competition in the market has a significant influence on the quality of disclosure and strengthen the relationship between the structure of the board of directors and the quality of disclosure. Januszewski et al. (2002) stated that companies experience higher productivity growth when they work in markets with higher competition. They also show that competition and strict control are complementary so that the positive effects of competition increase despite the strong final owner. Considering the theoretical concepts and the results obtained, the relevant hypothesis for this section is presented as follows:

H2: Product market competition moderates the relationship between independent directors and firm performance.

Independent Commissioner and Firm Performance

The separation between ownership and control in a company can lead to agency conflict. The agency conflict occurs because of differences in interests between shareholders as owners of the company and the interests of managers as managers of the company, where there is a possibility that managers act in their own interests and ignore the interests of shareholders. Fama and Jensen (1983) state that an independent commissioner can act as a mediator in disputes that occur between internal managers and oversee management policies and provide management advice. The greater number of independent commissioners in the board of commissioners will reduce agency conflict, then it can improve company performance.

Independent commissioners are needed in the supervisory function of the board of commissioners to avoid conflicts of interest that ignore the interests of public shareholders (minority shareholders) as well as other stakeholders. Beasley, 1996; Dahya and McConnell, 2005; Fama and Jensen (1983) showed that the existence of an independent board of commissioners can improve monitoring and decision on managerial activities. The exclusive monitoring can help management control the company's condition so that it can improve firm performance.

Research by Leung et al. (2014), Ibrahim and Samad (2011) shows that there is a positive relationship between company performance and the presence of independent commissioners. Thus, the independent commissioner is the best position in carrying out the monitoring function in order to create good corporate governance that will have an impact on improving

company performance as measured by ROA. Based on the results and arguments shown in the previous study discussed above, the application of one of good corporate governance, namely, independent directors gives a positive effect of a higher proportion of independent directors on company performance. In other words, there is a positive corporate performance effect related to the proportion and supervision of independent commissioners for the company, which shows the following hypothesis:

H3: Independent commissioners in a company positively affect firm performance.

Independent Commissioner, Product Market Competition, and Firm Performance

Product market competition or what can be known as high product market competition can reduce agency costs so as to improve company performance (Leventies et al., 2011; Baggs and Bettignies, 2007; Moradi et al., 2017). High product market competition will encourage independent commissioners to be more stringent in conducting supervision; this is because product market competition can cause company failure and agency problems. There is strong supervision from independent commissioners when high product market competition produces products that meet the needs of the community and in accordance with the company's internal resources. This will encourage increased company performance due to good process efficiency. High product competition will increase the chance of bankruptcy for inefficient companies. Managers have a strong drive to reduce the waste of resources to maximise company profits. If managers do not reduce the waste of resources, the companies they manage will lose out in competing products in the market and disappear from the market (Moradi et al., 2017). This makes the independent commissioner as a corporate governance mechanism believe that managers have worked well and tried optimally in improving company performance with high competition so that supervision by the independent commissioner is reduced.

H4: Product market competition moderates the relationship between the independent commissioners and firm performance.

Research Design

Sample and Data Source

The population used was all manufacturing companies listed on the Indonesia Stock Exchange (IDX). The period of observation was from 2014 to 2018. This research chose manufacturing companies because it consists of various industrial sub-sectors. In addition, most manufacturing companies are related to various products, and somehow, it leads to a

frequent increase in the competition between their products to fulfil the market. Financial statement data were obtained from the Indonesia Stock Exchange website (www.idx.co.id).

Operational Definition and Variable Measurement

The dependent variable in this study is firm performance. Firm performance is a complete view of the state of the company for a certain period of time which is the result or achievement that is influenced by the company's operational activities in utilising the resources owned (Helfert, 1996). Firm performance in this study was measured using accounting-based measurement, namely, ROA (Nasution & Rafiki, 2018).

The independent variables in this study were independent directors (INDDIR), independent commissioners (INDCOM) and product market competition (PMC). In the Decree of the Board of Directors of BEI No: Kep-00001 / BEI / 01-2014, an independent director is one of the directors of the board of directors who has no affiliation with the controllers of listed companies, the board of commissioners, and other directors. Independent directors in this research are measured using proportions that can be calculated by calculating the percentage of members of the board of directors from outside the company who have no affiliation with the company to all directors (Nguyen, 2017). According to KNKG (2006), an independent board of commissioners is a member of the board of commissioners that is not affiliated with management, other members of the board of commissioners and controlling shareholders, and is free from business or other relationships that can affect its ability to act independently. The proportion of independent commissioners can be calculated by the percentage of members of the board of commissioners who come from outside the company and have no affiliation with the company to all sizes of the board of commissioners (Ujiyanto, 2007).

Product market competition is the level of product competition in a company's market as measured by the ratio of the company's sales to the number of sales of all companies in one industry (Abdoh and Varela, 2017: 212). Product market competition in the study of Moradi et al. (2017) and Liu et al. (2018) was measured using the Herfindahl Hirschman Index (HHI). The value of HHI ranges between 0 and 1. If the value of HHI gets closer to 1, the lower the level of product market competition. Conversely, if the value of HHI gets closer to 0, the higher the level of product market competition. Thus, there is a reverse interpretation between the value of HHI and the level of product market competition. Therefore, to facilitate the analysis in hypothesis testing, referring to Chen et al. (2012) and Selarka (2012), product market competition (PMC) in this study was measured by the 1-Herfindahl-Hirschman Index (1 - HHI) as shown in the following equation:

$HHI_{j,t}$: $\sum_{i=1}^{Nj} S_{i,j,t}^{2}$

$S_{i,j,t}$: $\frac{Fsales_{i.t}}{IndSales_{j,t}}$

$PMC_{j,t}$: $1 - HHI_{j,t}$

$HHI_{j,t}$: Herfindahl Hirschman Industry index j in the year t

$S_{i,j,t}$: The market share of company i in the industry in the year t

$PMC_{j,t}$: Product market industry competition j in year t

$Fsales_{i,t}$: Sales of company i in the year t

$IndSales_{j,t}$: Industrial sales j during the year t

This study also used a control variable consisting of leverage (LEV), firm size (SIZE), and firm age (AGE). Companies with high leverage ratios require more intense monitoring activities in order to avoid financial risks from market risks so as to increase monitoring costs (Zaman, Hudaib & Hanifa, 2011). Leverage is calculated by total debt divided by total assets. Firm size is calculated using the natural logarithm of the company's total assets. Firm age is calculated by subtracting the year of the observation (study) from the year the company was founded.

Methodology

This study used multiple linear regression analysis techniques with the software SPSS 20.00. The regression equations used to test a hypothesis are as follows:

$ROA = \alpha + \beta_1 INDDIR + \beta_2 INDCOM + \beta_3 SIZE + \beta_4 AGE + \beta_5 LEV + e$ .... (1)

$ROA = \alpha + \beta_1 INDDIR + \beta_2 INDCOM + \beta_3 PMC + \beta_4 SIZE + \beta_5 AGE + \beta_6 LEV + e$ .... (2)

Results and Discussion

Descriptive Statistics

Based on Table 1, company performance variables measured using ROA of manufacturing companies in Indonesia have an average of 0.04078105 and a standard deviation value of 0.044858919. The proportion of independent directors has the lowest value of 0 and the highest of 0.6667. The proportion of independent directors has the lowest value of 0 and the highest of 0.8000. Product Market Competition (PMC) variables measured by the formula measured by 1-HHI in the manufacturing sector have an average of 0.12145394. Company size variable (SIZE) measured by natural logarithm (ln) of total company assets has an average value of 28.48191628. The variable Leverage (LEV), which is measured using the

ratio of debt to total assets of the company, has an average of 0.44861350. The age variable of the manufacturing company (AGE) of the manufacturing company has an average of 18.51 and a standard deviation value of 9.745.

Table 1: Descriptive Statistics

	N	Minimum	Maximum	Mean	Std. Deviation
ROA	506	-.097058	.198898	.04078105	.044858919
INDDIR	506	.000000	.666667	.20995134	.134005888
INDCOM	506	.200000	.800000	.39471362	.091373587
PMC	506	.000000	.999997	.12145394	.243283153
SIZE	506	24.414157	33.473728	28.4819162	1.564407750
AGE	506	0	41	18.51	9.745
LEV	506	.000437	.941667	.44861350	.183447999
Valid N (listwise)	506				

Independent Director and Firm Performance

Hypothesis 1 states that independent directors are positively related to company performance. Statistical test results show that the proportion of independent directors is positively related significantly to the company's performance. Therefore, H1 is accepted. This shows that the higher the ratio of independent directors to the number of directors in a company, the higher the performance of a company.

Research results show that the presence of independent directors in a company will effectively monitor the performance of top management and executive directors to improve company performance. Board independence can act as a balancing force between the board and management (Hillman & Dalziel, 2003; Kula, 2005; Zahra and Pearce II, 1989). The main contribution of the formulated board is the company's strategy and carrying out the supervisory function that is appropriate throughout the company's operations (Zinkin, 2010). Independent directors can contribute their independent views and participate actively in board discussions. They will represent shareholders on the company's board.

According to agency theory, the independence of the board will balance the power between managers and shareholders. In the absence of an independent director, a board dominated by executive directors can abuse enormous power; on the other hand, without the expertise of independent directors, the board may not be effective (Dalton & Daily, 1999). Independent directors play an important role in increasing the efficiency of the board of directors as well

as reducing agency costs in the company through increased management monitoring (Hermalin and Weisbach, 2003). Hereby, directors help improve efficiency results and improve company performance (Aguilera et al., 2008).

The results are in line with the research of Li et al. (2015) and Liu et al. (2015) showing that the proportion of independent directors has a significant positive effect on company performance in China. Thus, the independent director is the best position in carrying out functions in monitoring the performance of executive directors and top management in order to create an effective performance. As a result, it will have an impact on improving company performance as measured by the ROA, as shown in the supported hypothesis 1 that independent directors are significantly related to company performance.

Table 2: Multiple Linear Regression Results

		Model 1	**Model 2**	**Model 3**
		ROA	**ROA**	**ROA**
INDDIR	*Coefficient*	0,028**	0,026*	0,041***
	p-value	0,041	0,061	0,007
INDCOM	*Coefficient*	0,051**	0,050**	0,030
	p-value	0,011	0,011	0,176
PMC	*Coefficient*	-	0,014*	-0,38
	p-value	-	0,095	0,361
INDDIR*PMC	*Coefficient*	-	-	-0,157
	p-value	-	-	0,12
INDCOM*PMC	*Coefficient*	-	-	0,217**
	p-value	-	-	0,030
SIZE	*Coefficient*	0,006***	0,005***	0,005***
	p-value	0,000	0,000	0,002
AGE	*Coefficient*	-0,04	-0,09	0,0004
	p-value	-0,474	0,642	0,613
LEV	*Coefficient*	0,101***	-0,101***	-0,100***
	p-value	0,000	0,000	0,000
	Adjusted R^2	0,187	0,190	0,203

Independent Director, Product Market Competition, and Firm Performance

Hypothesis 2 states that product market competition moderates the positive relationship between independent directors and company performance. Statistical test results show that product market competition does not moderate the relationship between independent directors and company performance. Therefore, H2 is rejected. That is, product market competition is

not significant as a moderation in the positive relationship between independent directors and firm performance.

The limited number of independent directors in making decisions related to efforts to diversify products to win the competition in an increasingly competitive market results in a small perceived impact on policy changes within the board of directors so that the effect on financial performance is relatively small. In line with Selarka (2014) findings, the insignificant effect of moderation from product market competition initially raised some concerns about the effectiveness of external monitoring mechanisms in developing countries. The findings show that product market competition is complementary and replaces the corporate governance structure of corporate groups and independent companies. In other words, for a stand-alone company, that product market competition makes the board's supervisory role less effective. However, for companies, increased competition can spur independent directors in companies to increase firm performance by facilitating more information flow throughout the company (Khanna and Mathew, 2010).

The results are in line with the research conducted by Singla et al. (2018) that market product competition has an insignificant moderating effect on the effectiveness of council monitoring in India. However, a more in-depth analysis revealed that market competition in products complements the weakness of the monitoring board of directors in a group of business companies. Thus, product market competition do not moderate the effectiveness of independent director monitoring.

Independent Commissioner and Firm Performance

Hypothesis 3 states that independent commissioners are positively related to company performance. Statistical test results show that the proportion of independent commissioners is positively related significantly to company performance. Thus, H3 is accepted, indicating that the higher the ratio of independent commissioners to the number of boards of commissioners, the higher the performance of a company. The higher the proportion of independent commissioners, the higher the independence of the board of commissioners makes the board of commissioners more objective in carrying out the supervisory function and providing advice to managers.

Research results show that the role of the increasingly independent board of commissioners is able to conduct a more objective analysis of company management. In carrying out their duties, independence is an important factor for the board of commissioners to ensure the effectiveness of the board of commissioner's performance in carrying out supervision and providing advice to managers. The effectiveness of the performance of the board of commissioners is obtained when the board of commissioners makes decisions objectively.

The independence on the board of commissioners can be obtained by placing an independent commissioner on the board of commissioners so that the ability, willingness and work environment on the board of commissioners will lead to an independent attitude (Berghe and Baeladen, 2005; Fuzi et al., 2016). This will make the performance of the board of commissioners more optimal.

The separation between ownership and control in a company can lead to agency conflict. The agency conflict occurs because of differences in interests between shareholders as owners of the company and the interests of managers as managers of the company, where there is a possibility that managers act in their own interests and ignore the interests of shareholders. Fama and Jensen (1983) state that an independent commissioner can act as a mediator in disputes that occur between internal managers and oversee management policies and provide management advice. The greater number of independent commissioners in the board of commissioners will reduce agency conflict so that it can improve company performance.

The results are in line with research by Leung et al. (2014), Ibrahim and Samad (2011) showing that there is a positive relationship between company performance and the presence of independent commissioners. Thus, the independent commissioner is the best position in carrying out the monitoring function in order to create good corporate governance. As a results, it will have an impact on improving company performance as measured by ROA, as shown in supported hypothesis 3 that the independent commissioner is related to company performance.

Independent Commissioner, Product Market Competition, and Firm Performance

Statistical test results show that product market competition moderates the positive relationship of independent commissioners and company performance. Thus, H4 is accepted, which means that the positive relationship between the proportion of independent directors and company performance is getting stronger when product market competition is higher.

The results of the study indicate that the existence of this high product market competition will make the role of independent commissioners in supervising and giving advice through the board of commissioners increased because independent commissioners believe that the high product market competition will encourage managers to be more optimal in improving company performance. When product market competition is high, it will also pose a high risk, thus encouraging independent commissioners to be more careful in the supervision process carried out in order to meet the expectations of shareholders. Thus, the supervisory function of the independent commissioner will be more valuable when the company is in the competitive product market. Therefore, product market competition strengthens the positive relationship between the proportion of independent commissioners on company performance

because the role of independent commissioners as a corporate governance mechanism will increase by the high product market competition. Product competition depends on the company's positive performance. In other words, increasing product market competition improves company performance.

The separation between agents and principals is very susceptible to problems that are referred to as agency problems. The assumption that the agent is the party who knows better the information on the actual state of the company can motivate the agent to tend to deviate behaviour. Agency problems can be minimised but will lead to agency costs borne by the principal and agent (Jensen and Meckling, 1976). High product market competition can reduce agency conflicts that can reduce agency costs so as to improve company performance (Leventies et al., 2011; Baggs and Bettignies, 2007; Moradi et al., 2017). For inefficient companies, product market competition can increase bankruptcy opportunities. This can be a strong incentive for managers to remain competitive in the product market (Chen et al., 2012; Schmidt, 1997; Hart, 1983). The high product market competition makes managers have a strong drive to reduce the waste of resources that can maximise company profits so that companies are able to compete and survive in the product market (Moradi et al., 2017).

Conclusion

Based on the results of research conducted on 506 research observations of manufacturing sector companies listed on the Indonesia Stock Exchange in the period 2014-2018, we draw several conclusions. First, the independent director deals with company performance. This shows that the higher the proportion of independent directors, the more effective role in monitoring the performance of top management and the executive board to the higher the company's performance. Second, product market competition does not moderate the positive relationship between the proportion of independent directors and company performance. This shows that product market competition is only an intervening variable. Third, the proportion of independent directors is positively related to the company's performance. This shows that the higher the proportion of independent directors, the more effective the supervision of an independent commissioner, the higher the company's performance. Lastly, product market competition significantly strengthens the positive relationship between the proportion of independent directors and company performance. This shows that the positive relationship between the proportion of independent directors on company performance is getting stronger when product market competition is higher.

Limitations in this research are related to the position of independent directors in the company because the information of the independent directors provided in the annual report is different from the Notes to the Company's Financial Statements (CALK). This research has several suggestions that are useful for the parties concerned. For investors, in making stock

investment decisions in manufacturing sector companies on the stock exchange it is necessary to consider the proportion of independent directors, independent commissioners, and product market competition. Based on the results of this study, the proportion of independent directors and independent commissioners is proven to have a significant positive relationship with company performance and product market competition significantly strengthens the positive relationship between the proportion of independent directors and company performance. For company management, it is necessary to consider the product market competition factor in making business decisions. Based on research results, it is proven that product market competition is not significantly related to independent directors and, product market competition is proven to significantly strengthen the positive relationship between the proportion of independent directors and company performance. For shareholders, it is better to increase the proportion of independent directors on the board of commissioners. It is proven that the proportion of independent directors and independent directors is positively related significantly to the company's performance. For future researchers, it is better to use other measures besides accounting performance (ROA) in order to obtain a comprehensive result regarding the relationship between the proportion of independent directors and independent commissioners to company performance, which is moderated by product market competition.

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