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Board of Commissioner's Effectiveness on Politically Connected Conglomerates: Evidence from Indonesia

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ABSTRACT

This paper aims to examine the effect of political connection and board of commissioners (BOC) effectiveness on the performance of conglomerates. The sample of this research is all 66 conglomerates listed on Indonesia Stock Exchange from 2006 to 2014. Regression panel data with General Least Square was used for analysis. It was found that the effectiveness of the BOC as measured by independence, activity, the number of commissioners and competency have a different effect on the conglomerate's performance. Findings show that independence does not affect market and accounting performance, activities of the board of commissioners have a negative effect on the market performance and accounting performance, the number of commissioners has positive effect on the market performance and accounting performance, whereas education and experience of commissioner have a positive effect on market and accounting performance. However, the results of the board of commissioners' effectiveness on politically connected conglomerates show they have a positive and significant effect on market performance and accounting performance. The presence of independent board of commissioners and their activities in the conglomerate is not so effective, but the presence of commissioners, especially ones who are officials (both active and inactive) and their activities in the conglomerate are very effective and have a positive impact on the conglomerates' performance both in short and long term. Conglomerates that ignore good corporate governance practices are heavily monitored by their BOC and serves as a means of political rent-seeking.

Keywords: Board of commissioners' effectiveness, conglomerates' performance, political connection

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INTRODUCTION

Conglomerates in Indonesia contribute substantially to the country's GDP. They represent only 0.01% of the total companies

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in Indonesia, but contribute 44.4% to Indonesia's GDP. In fact, of the total 510 companies listed on the Indonesia Stock Exchange in 2014, the 116 conglomerates control more than 70% of the total market capitalisation of the Stock Exchange (Wati, Rachmat, & Erie, 2016a).

Faccio (2006) documented that political connections are more common in countries like in Indonesia which are very corrupt and impose restrictions on foreign investments. Goldman, Jorg and Jongil (2009) on their analysis of the US economy showed that after the announcement of a Republican victory, there were differences between companies connected to the Republican Party and those connected with the Democratic Party. There was a positive return for the portfolios related to the Republican Party, and a negative one for the Democratic portfolio. Goldman et al. (2009) refuted the findings Faccio (2006), where political connections are not only common in developing countries with high levels of corruption, but can be observed in countries with strong rule of law.

Political connections can offer preferential treatment and services such as access to funds (Boubakri, Guedhami, Mishra, & Saffar, 2012; Claessens et al., 2008; Faccio, 2006; Johnson & Mitton, 2003; Khawaja & Mian, 2005; Leuz & Gee, 2006; Tian & Cheung, 2013; Yeh et al., 2010) access to government procurement contracts (Goldman et al., 2009), public policy (Bunkanwanicha & Wiwattanakantang, 2009), trade licensing (Mobarak & Purbasari, 2005) as well as access to the company's IPO (Francis, Hasan, & Sun, 2009). Studies have shown that political connections affect the performance and value of companies (Ang, Ding, & Thong, 2013; Boubakri, Cosset, & Saffar, 2008; Do, Lee, & Nguyen, 2013; Faccio, 2006; Fan, Wong, & Zhang, 2007; Fisman, 2001; Goldman et al., 2009; Leuz & Gee, 2006; Wong, 2010).

Wati, Primiana and Sudarsono (2016b) report political connections possess adverse effects on the company, namely, high leverage, followed by overinvestment (Wu et al., 2012) a decline in stock prices and stock returns (Fan et al., 2007; Fisman, 2001), a decline in the company's performances (Leuz & Gee, 2006; Li & Xia, 2013; Xu & Zhou, 2008), and poor quality financial reports (Chaney et al., 2011).

According to Wati et al. (2016a), there is strong evidence that former Indonesian president Soeharto sought to protect companies that had political connection with his regime, especially the conglomerates. Strong political connections and the role of the family controlling the conglomerates in Indonesia become an indication of poor corporate governance, so it is not surprising that many people have attributed the 1997 economic crisis that engulfed Indonesia and other Asian countries to their poor corporate governance practices (Johnson, Boone, Breach, & Friedman, 2000).

The global financial crisis began to be felt in the US in the summer of 2007 (sub-prime mortgage crisis) and by mid-2008, it had spread to most countries in the world. It was also touted as evidence of disruption to the stability of the financial system as a result of weak implementation of corporate governance (Kirkpatrick, 2009).

Indonesia is classified as a model user in the Continental European corporate governance practices that adopt a two-tier board system. In such a system, the company has two separate bodies, namely the board of commissioners and board of directors. The board of directors is authorised and fully responsible for the management of the company in accordance with its purposes and objectives, whereas the board of commissioners aim to supervise the general or special counsel to the board of directors.

Commissioners have an important role in the implementation of good corporate governance to oversee policy and implementation carried out by the management. They also give value to the company and benefits to stakeholders. The effectiveness of BOC is influenced by several factors, namely their independence, activities, size and competences (education and experience).

There are a number of studies on conglomerates but to the best of the present author's knowledge, there is a lack research on conglomerates in Indonesia. The result of this research showed that political connection has a positive and significant effect on firm value (Tobin's Q and Return on Assets). The BOC's effectiveness on conglomerates that are politically connected shows more effect on their value than those which are not (BOC Activity).

The rest of this paper is structured as follows: After the introduction, Section 2 discusses important literature on this topic while Section 3 is an examination of relevant theories as well as hypotheses development. Section 4 elaborates on the research methodology whereas Section 4 discusses major findings of the study. The paper is summarised and concluded in Section 5.

LITERATURE REVIEW

Political Connection

The theory of political connections was originally developed by North (1990) and Olson (1993) who proposed that politicians or government leaders establish relationships with companies to achieve their agenda that benefits their supporters. As a recognition of their contributions via their votes, the politicians who successfully won their seats provide the companies with benefits, such as profitable contracts or subsidies. This however, result in the firms with political networks to be inefficient because of their "protected" status. Shleifer and Vishny (1994) found that government intervention in the economy is driven by the need to provide jobs, subsidies and other privileges to its supporters, who are expected to return the favour in the form of votes, funding and bribery.

Political connections also support the logic of resource dependence theory (Hillman, 2005) where companies overcome interdependency and uncertainty by establishing connections to sources of the interdependency and uncertainty, namely the government. Thus, by creating a political connection, they can provide benefits for the company and impact on the firm's value.

Political connections would be more valuable in situations where there are high levels of corruption and weak regulations (Do et al., 2013; Faccio, 2006). A review of literature found more positive influence of political connections on firm value (Ang et al., 2013; Boubakri et al., 2007; Cooper, Gulen, & Ovtchinnikov, 2010; Do et al., 2013; Faccio, 2006; Goldman et al., 2009; Johnson & Mitton, 2003; Wong, 2010). This is confirmed by Li, He, Lan and Yiu (2012) which showed a strong positive correlation between political connections and company diversification.

Cooper et al. (2010) examined the political contributions of public companies in the United States from 1979 – 2004. Using data from the Federal Election Commission (FEC), they found that companies which contributed to politics positively and significantly earned a good return. Similarly, Wong (2010) in Hong Kong found political connection improved the performance of the company. Wong found that the company had increased their ROE and MBV (Market to Book Value) ratios after joining the Electoral Committee.

Furthermore, Li et al. (2012) examined the influence of political connections on diversification of Chinese public enterprises in 2002 – 2005. The results showed a strong positive relationship between political connections and the diversifying companies. The results of this study indicate that political connections in conglomerate companies are more significant than non-conglomerate ones. Findings of Li et al. (2012) was consistent with those of Deng, Tian, Li and Abrar (2012) who examined the diversification effect of companies which are politically connected and its influence on corporations in China. They found that political connections have a positive and significant effect on companies' performance.

Board of Commissioner's Effectiveness

Corporate governance monitoring can be carried out through internal and external mechanisms. Internal control mechanism reduces agency problem where corporate governance is expected to improve the monitoring of management actions. Internal mechanisms of control are via by BOC.

Zhou and Chen (2004) report the effectiveness of BOC is influenced by several factors, namely independent boards, board activities, board size and board competence (Zhou & Chen, 2004). Yeh and Woidtke (2005) found that an independent board has positive effect on firm value. Similarly, Lefort and Urzua (2008) documented that an independent and professional board has a positive effect on firm value. These was confirmed by Vania and Supatmi (2014) who examined the financial institutions in Indonesia and found a growing number of independent directors which meant the company's value in the proxy by Tobin's Q was higher. Ma and Tian (2014) affirmed that an independent board will be able to improve the company's performance effectively. Nevertheless, Bhagat and Black (2000) did not see a link between independent boards' number on company performance measured by Tobin's Q and ROA. There is a strong correlation between poor performances and an increase in independent boards. Hermalin and Weisbach (1991) also did not find any effect of the proportion of independent board on Tobin's Q as a measure of market performance. Their finding was supported by Agrawal and Knoeber (1996), who showed a negative and insignificant effect of the independent boards on corporate performance.

García-Ramos and García-Olalla (2011) found that board meetings have positive effect on the company's performance, but this effect is weakened when the family business is run by its founder. Brick and Chidambaram (2010) found that the activity of the board through board monitoring increased the firm value (Tobin's Q). Vafeas (1999) had different results, where the number of annual board meeting is inversely proportional to the firm value. He noted increasing activity as measured by the frequency of board meetings decreased stock price.

Yermack (1996) observed that the board's ability to monitor will be reduced by its large size due to problems in coordination, communication and decision-making. The company with a smaller board shows better financial performance. Jensen (1993) and Beasley (1996) concluded that a smaller board would be more effective in monitoring and their findings are supported by Cheng, Evans and Nagarajan (2008); Eisenberg, Sundgren and Wells (1998) who found a negative relationship between the size of the board with the company's performance. Cheng et al. (2008) said the smaller the board, the better, and these conditions further improved the company's performance. Guest (2009) also documented that a large board size at big companies has a negative relationship with the company's performance.

However, Chtourou, Bedard and Courteau (2001) reported that larger boards provide better and effective financial reporting. Dalton, Daily, Johnson and Ellstrand (1999) showed that there is a positive relationship between board size and corporate performance. Large board size is expected to perform better advisory functions for the CEO. Large companies such as conglomerates have a high complexity and hence, the function of advising and monitoring requires a larger board size (Coles et al., 2008). García-Ramos and García-Olalla (2011) found a positive effect between board size and company performance in the family company which is not led by its founder, and found a negative effect between the size of the board and company performance when the company is managed by its founder.

Beasley (1996) showed that the competence of the board members is affected by their experience, knowledge, and understanding of the financial statements and the financial information of other companies. Their competence will affect the ability of the board of commissioners in performing their control function optimally.

Jeanjean and Stolowy (2009) found that accounting expertise on average adversely affected the type of board (two-tier versus one-tier) and growth opportunity, but positively affected the independence of the board, ownership concentration and institutional ownership.

Many officials who are both active and non-active functioning as board of commissioners of conglomerates have political connections with the authorities in order to obtain access to various benefits, and ease of access to funding, government procurement contracts, large subsidies and waivers of tax rates, trade licence, security guarantees on investment companies among others. All these conveniences will ultimately affect firm value.

Government officials who function as independent commissioners or commissioners can also provide useful information related to government policies, especially during regime changes that can result in insider trading.

Research Hypotheses

Literature review of previous studies on mechanisms of corporate governance showed no study has been undertaken that focuses on the role and influence of political connection and effectiveness of the board of commissioners on the performance of conglomerates. Therefore, the following hypotheses are proposed:

H_1: Political connections affect positively the value of the conglomerates;

H_2: There is positive effect of board of commissioners' effectiveness, namely independence, board size, board meeting, board experience and board education on the conglomerate's value;

H_3: The effectiveness of board of commissioners (independence, board size, board meeting, board experience and board education) on conglomerates which are politically connected has greater effect on their value.

METHODS

The sample of this research is all conglomerates listed on the Indonesia Stock Exchange between 2006 and 2014 and who have published their financial reports every year and have never been delisted from the capital market. Based on these criteria, the total conglomerates are 66 companies (2006 – 2014). A total of 594 companies were studied.

The variables used in this research were conglomerate performance consisting of accounting and market performance as dependent variable, and political connection, and board of commissioners' effectiveness as independent variables. Market performance indicators used Tobin's Q as proxy and accounting performance used Return on Assets as proxy.

Political connection as used in this study is defined by Faccio (2006); Fisman (2001); Leuz and Gee (2006); Wati et al. (2016b). Thus, politically connected is when a shareholder of the company or the top management is a member of parliament, minister or head of state, or who have a close relationship with them as political party officials, army and police officials. The former members of parliament, ministers, or heads of state are included because they still have political connection with the government. Table 1 below explains the operationalisation of the variables:

Table 1
Description of variables

Variables	Description
Performance measure (Dependent):	
Return on assets	Ratio of profit after tax to total assets
Tobin's Q	Ratio of the market capitalisation plus debt divided the total assets.
Independent: Political connection	The shareholders of the companies (ownership 10%) or the top management of the company is a member of parliament, ministers or heads of state, or who have a close relationship of them as political party officials, the army and police officials. The member of parliament, ministers, or heads of state former
	Dummy Variable:
	1 = politically connected
	0 = not politically connected
Board of commissioners effectiveness variables:	
Independence board	The number of independence commissioners in the board
Board activity	The number of board meetings
Board size	The number of commissioners in the board
Experience	The proportion of commissioners' experience
Education	The proportion of commissioners' education
Control variables:	
Firm size	Log of total assets
Growth	Ratio of Δ total sales to total sales
Firm age	Number of years since incorporation

Source: Literature

To test the hypotheses of the study, we used the following regression model:

$$Tobin'sQ_{it} = \alpha_1 + \beta_1 Pol_{it} + \beta_2 Indep_{it} + \beta_3 Actv_{it} + \beta_4 BdSize_{it} + \beta_5 Exprc_{it} + \beta_6 Educ_{it} + \beta_7 Pol * Indep_{it} + \beta_8 Pol * Actv_{it} + \beta_9 Pol * BdSize_{it} + \beta_{10} Pol * Exprc_{it} + \beta_{11} Pol * Educ_{it} + \beta_{12} Size_{it} + \beta_{13} Growth_{it} + \beta_{14} Age_{it} + \varepsilon_1 \quad (1)$$

$$ROA_{it} = \alpha_2 + \beta_{15} Pol_{it} + \beta_{16} Indep_{it} + \beta_{17} Actv_{it} + \beta_{18} BdSize_{it} + \beta_{19} Exprc_{it} + \beta_{20} Educ_{it} + \beta_{21} Pol * Indep_{it} + \beta_{22} Pol * Actv_{it} + \beta_{23} Pol * BdSize_{it} + \beta_{24} Pol * Exprc_{it} + \beta_{25} Pol * Educ_{it} + \beta_{26} Size_{it} + \beta_{27} Growth_{it} + \beta_{28} Age_{it} + \varepsilon_{it2} \quad (2)$$

RESULTS AND DISCUSSION

Data from 2006 to 2014 is shown in Table 2 as below.

Table 2
Descriptive statistic of the variables from 2006 – 2014

Variable	Panel A			Panel B		
	Politically Connected N=406			Not Politically Connected N=188		
	Min	Max	Mean	Min	Max	Mean
Independence	1	7	2.60	1	4	1.85
Activity	1	123	12.25	1	46	5.63
Board Size	2	12	5.84	2	8	4.42
Experience	0,5	1	0,94	0,67	1	0,99
Education	0	1	0,82	0,5	1	0,90
Tobins Q	0,11	17.94	1.91	0,07	11.13	1.77
ROA (%)	- 30.35	82.25	8.15	-29.37	46.49	5.65
Size (Log)	5.2	8,9	7.09	4.3	8.2	6.41
Growth (%)	-90	1071	32.7	-90	34830.9	1993.7
Age	3	32	15.91	1	64	16,41

Source: Data IDX processed, 2016

Based on Table 2 above, mean of independent commissioners in politically connected firms is 2.6 and 1.85 for those which are not. The results indicate the number of independent commissioners and board of commissioners in a politically connected firm is greater than the number of commissioners in firm which is not. The number of meetings in a firm politically connected is more frequent while the experience and education of the commissioners are lower than firms which do not have political connections. This result is not surprising because there are a lot of active and non-active officials who are commissioners without relevant educational background and experience.

The average of Tobin's Q, Return on Assets and firm size of firm politically connected are larger while the average of firm growth which is indicated by sales performance is lower. Firms which are politically connected also tend to be younger and the higher value of Tobin's Q and Return on Assets in conglomerate politically connected indicates that political connections are beneficial to the company.

Table 3
Regression analysis of market and accounting performance

	Prediction	Research Model		Robust Model	
		Tobin's Q	ROA	Tobin's Q	ROA
Constant		2.633***	-0.776***	2.076	-0.559***
PC	(+)	2.740**	0.841***	2.330*	0.759***
INDP	(+)	0,003	-0.011	-0.0001	-0.002
ACT	(+)	-0,024***	-0.002***	-0.023**	-0.002**
BS	(+)	0.20***	0.024***	0.243***	0.024***
EXPR	(+)	0.998	0.382**	2.09	0.454***
EDUC	(+)	1.048**	0.098***	0.507	0.064**
SIZE	(+)	0.193**	0.039***	-	-
GROWTH	(+)	0.001***	0.001	-	-
AGE	(+)	0.005	0.001***	-	-
*PC*INDP*	(+)	-0.053	0.004	-0.025	-0.016*
*PC*ACT*	(+)	0.033***	0.004***	0.027**	0.002***
*PC*BS*	(+)	-0160**	-0.019***	-0.238***	-0.017***
*PC*EXPR*	(+)	0.413	-0.372**	-0.815	-0.599***
*PC*EDUC*	(+)	-1.048**	-0.098***	-0.507	-0.065**
*PC*SIZE*		-0.292***	-0.057***	-	-
*PC*GROWTH*		-0.057	0.005	-	-
*PC*AGE*		0.029***	0.004***	-	-
R^2		20.03%	39.96%	13.40%	23.16%
Adjusted R^2		17.66%	38.18%	11.76%	21.71%
Fstat		8.442***	22.434***	8.161***	15.897***

Source: Data IDX processed, 2016
***Significance at 1%, ** 5%, and * 10%

The table above is summary of test result on the effectiveness of board of commissioners to firm value which was proxied by *Tobin's Q* and *Return on Assets*. *Tobin's Q* is ratio of the market capitalisation plus debt divided by total assets. *Return on Assets* is Ratio of profit after tax to total assets. Political Connection used dummy variables, 1 = political connected and 0 = non-political connected. *Indep* is the number of Independent commissioners, *Actv* is the number of commissioners' board meeting. BS is the number of commissioners' board. *Exprc* is the commissioner's experience, *Educ* is commissioner's education. Size is Log of Total Assets, *growth* is Ratio of ΔTotal Sales to total sales, and *age* is number of years since incorporation.

Based on Table 3 above, political connections have positive effect on the conglomerates performance both at the market and accounting level. The results of this test support the political connection theory proposed by North (1990) and Olson (1993). They developed the theory that politicians or government leaders build relationships with the company to achieve an agenda favourable to government or to support politicians or such government, as well as resource dependence theory (Hillman, 2005). He company will overcome the interdependency and uncertainty to establish a connection to the source of interdependency and uncertainty of such government. Results of this study are consistent with that of previous studies whereby companies with political connections have a positive effect on firm value (Ang et al., 2013; Boubakri et al., 2008; Cooper et al., 2010; Do et al., 2013; Faccio, 2006; Goldman et al., 2006; Johnson & Mitton, 2003; Wong 2010). The results of this study are also in agreement with Li et al. (2012) and Deng et al. (2012), who indicate that there is a strong positive influence between political connections and conglomerate.

The existence of political connections in the conglomerate indicates level of corruption in Indonesia is considered high[1], and political connection provides lubrication to achieve the objectives of the company. Therefore, they will make significant efforts to foster political connections in order to achieve the company's growth and they also realise that political connections are valuable for the company.

[1]Indonesia ranks 107 out of 174 countries in 2014 (Corruption Perception Index, 2015)

The influence of independent board does not support the hypothesis either on market performance or accounting performance. Board of independent commissioners in politically connected conglomerate has no significant effect either on the market or accounting performance. This shows that the number of independent commissioners has no effect neither on the short-term nor long-term performance both on the company politically connected and the conglomerate as a whole. These results are consistent with those of Agrawal and Knoeber (1996); Bhagat and Black (2000); Hermalin and Weisbach (1991) who found that an independent commissioner has no effect on the company's performance. This indicated independent commissioners on the conglomerate failed in representing the interests of other stakeholders other than the interests of the majority of shareholder. Independent commissioners in carrying out their duties must truly be independent and always pay attention to the interests of the company and other stakeholders above personal or group interests. The existence of a majority of independent boards in the company is only as a rubber stamp for decisions already made by the management.

Commissioners' activities are proxied by the number of meetings which have significantly negative effect both on market and accounting performance. These results indicate that the meetings held by the board of commissioners of the conglomerate as a function of the monitoring of the management has not been effective. However, activities of BOC in the company which is politically connected has different outcome in which the commissioners' activities in those companies has significantly positive effect both on market and accounting performance. These results indicate that the presence of the commissioners as well as meetings conducted by the board of commissioners are effective and has a positive impact on the company. This could be an indication that the various issues and lobbying discussed at meetings have served mutual interests. The results of this study are consistent with that of García-Ramos and García-Olalla (2011) as well as Brick and Chidambaram (2010) who found that monitoring activities of the board has increased the value of the company.

The number of commissioners has significant positive effect on market and accounting performance. This means the more the number of commissioners, the greater the performance of the company. The results of this study are consistent with those of Dalton et al. (1999) and Chtourou et al. (2001), who show a positive relationship between board size and corporate performance. These results indicate that the ability to monitor the company's board of directors will increase with corresponding with the size of the BOC. The number of commissioners in politically connected conglomerate showed different outcome where the number of commissioners in politically connected conglomerate has significantly negative effect both on market and accounting performance. This means that the bigger the board size, the less effective is the performance of the company. The results of this research support the findings of Guest (2009) who showed the board size affect negatively the company's performance. Likewise, Cheng et al. (2008); Eisenberg et al. (1998) and stated the board size, the better and this would further improve the company's performance. These results indicate that the ability to monitor the commissioners will be reduced if the BOC size is larger as it will cause problems in coordination, communication and decision-making.

The commissioners' experience has insignificant effect on market performance, while the commissioners' experience has significant positive effect on accounting performance. These results indicate that the commissioners' experience has no significant effect on long-term performance of the company but has significant effect on short-term performance of the company. The more experienced the commissioners, the better the short-term performance of companies. The commissioners' education has significant positive effect both on market and accounting performance. The results of this study show educated commissioners will lead to better both short term and long term performance of the company. The result of the commissioners' competence test on the political connected company is contrary to prior commissioners' competency testing. However, analysis on education and experience of the BOC in politically connected conglomerates showed different result. Education has positive effect but insignificant to company's long-term performance. Education has a significantly negative effect on the company's short-term performance, and so does experience of the commissioners on the company's performance both short term and long term. This is not surprising because, there are many commissioners who have experience and educational background which are incompatible, where commissioners are much politically connected with the military, police or others who lack appropriate experience in their respective field.

Control variables in this research have positive effect on short-term and long-term conglomerate performance. Meanwhile, only age of the firm has positive effect on the politically connected conglomerate. On the other hand, firm size on has a negative effect on the company's performance.

From the findings of this research model, it can be concluded that the presence of independent board and the activities of the board of commissioners in conglomerate is not adequately effective but the activities of the board of commissioners in the conglomerate politically connected is sufficiently effective and have an impact on company's value both short term and long term.

CONCLUSION

The results of this suggest the activities of politically connected conglomerates have positive and significant effect on market and accounting performance. Meanwhile, it is found that the size of BOC and the individual commissioner's competence have negative effect on market and accounting performance.

From the findings of this research, it can be concluded that the presence of officials as in the BOC benefits the conglomerates since it can be a source of information about government policies. They ignore good corporate governance in which the board of commissioners should perform monitoring functions for management instead of acting as a political rent-seeking. It is proven by the presence of officials. So, it is not surprising that good corporate governance in Indonesia persistently has the lowest score in Asia in terms of law enforcement (ACGA, 2016).

The low rating of good corporate governance in Indonesia and the lack of effective control functions of the BOC as the company's internal control mechanisms demonstrate the ineffectiveness of good governance.

The results of this study provide useful information for investors, corporate and government management. The existence of a positive influence of political connections on the value of conglomerate companies in Indonesia means the investment in the company is profitable. Yet, investors are advised to take it into consideration about the negative consequences of politically connected conglomerates. For corporate management, the positive influence of political connections on corporate performance does not necessarily mean that the companies are there to establish political connections. There are benefits gained by having political connections, but there is also a tremendous cost to it.

For the government, the positive influence of political connections on the performance of the company should be seriously taken into account since it can adversely impact the reputation of the country in various aspects. The existence of political rent-seeking results in poor corporate governance. The activities of the BOC have been proven to improve the value of the company. Therefore, it is necessary to revise the existing regulations, namely Law of Limited Liability Companies (*Undang-undang Perseroan Terbatas*) and the laws which regulate the business or the law that regulates the dual position of officials as board of commissioners both in public companies and state companies. The government is also advised to revise existing laws and regulations concerning the qualifications of the BOC so that the company appoints only truly professional BOC for the benefit of the company and its stakeholders. It is expected the company's tendency to seek political rents with the ruler can be minimised and thus it is able to compete fairly.

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