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Do monitoring agents strengthen the impact of founder and family boards on firm performance?

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Abstract
Research aims: This research aims to test the moderating effect of monitoring agents on the effect of the founder-board of directors (founder-BOD) and family-board of directors (family-BOD) on firm performance. Monitoring agents are represented by independent directors and commissioners. In this case, the age, size, and industrial type of the firms are the control variables.
Design/Methodology/Approach: This quantitative research employed secondary data from 489 firms registered in the Indonesia Stock Exchange from 2018 to 2022. In this case, the observation data were 2,445, which were tested using a panel regression method.
Research findings: Hypothesis test results show that monitoring agents strengthen the negative effect of founder-BOD on firm performance. Another result shows that family-BOD does not have a significant effect on firm performance, and monitoring agents do not show a moderating effect on the relationship.
Theoretical contribution/Originality: This research provides new insights into the role of monitoring agents within Indonesia's two-tier governance system, enhancing our understanding of corporate governance in emerging economies. It offers a novel perspective on how independent directors and commissioners influence firm performance, contributing to the literature on corporate governance.
Practitioner/Policy implication: The findings underscore the importance of enhancing the independence and effectiveness of monitoring agents to improve firm governance. These insights are relevant for policymakers and corporate governance reforms in Indonesia and similar emerging economies.
Research limitation/Implication: Further research could consider the quality of monitoring agents, such as regulation, culture, social relationships, and knowledge.
Keywords: CEO; Family; Firm Performance; Founder; Governance; Monitoring Agents

Introduction

The quality of a firm's management is the responsibility of the board of directors (BOD), who occupy the highest position in a management structure (Harymawan et al., 2019). Management is the main material in assessing the long-term prospects of the firm, yet effective, especially independent monitoring, is still necessary (Akyol, 2020). Jensen and Meckling (1976) stated that monitoring of monitoring agents can be effective in reducing conflict between the shareholders and agent or BOD. Monitoring Agents contributes to ensuring the transparency and accountability of financial statements, which can further reduce the agents' costs and improve firm performance (Al-Jaifi et al., 2023; Duru et al., 2016).

implementing their monitoring (Arifai et al., 2018). A two-tier system divides its tasks and authority between the BOD and the board of commissioners (BOC) so that mixing responsibilities between the two can be avoided. Previous research carried out by Douma (1997) shared that the BOD in a two-tier system is responsible for consulting and monitoring the decisions made by the BOD. However, several shortages emerge, such as time delay cost for the approval of decisions and significant participation from the BOC, that further can affect the monitoring effectiveness. According to Pearce and Patel (2018), independent BOD and BOC are more effective in monitoring. Such independence can avoid conflict of interest that can further decrease the quality of monitoring.

The BOD plays an essential role in firm management to improve the effectiveness and efficiency of the firm's operations, which can further affect firm performance (Arora & Sharma, 2016). However, the BOD also tends to make decisions in their interest in weak management conditions (Chrisman, 2019; Chandra & Junita, 2021). Research concerning the BOD and firm performance still shows inconsistent results. This can be explained through the upper echelons theory (Hambrick & Mason, 1984), which states that varied characteristics of upper management (BOD) are related to the decision-making process. The variety of BOD's characteristics, in this case, including age, functional path, career experience, education, socio-economic background, financial position, group attributes, social relationship, business capabilities, and knowledge, can result in various understanding that can affect the dynamics of decision making and improve the performance of the firm.

The firm employs a BOD with varied characteristics in accordance with their expertise in order to improve the firm's value from shareholders' perspectives (Harymawan et al., 2019). Most of the firm founders in Indonesia occupy the position of the BOD or BOC and have a significant effect on the firms' operational process (Rajabalizadeh, 2023). The founder has a weakness in the knowledge of operating the firm, so they have an optimistic level of tolerance in making high-risk decisions (Ullah & Zhang, 2019). Harymawan et al. (2019) conducted a study on a Fortune 500 firm. They discovered that the position of the BOD occupied by the founder tends to experience changes, so the quality of management decreases and further affects the firm's performance.

Such a phenomenon in Indonesia indicates that family-BOD occupy the shareholders, often called family firms (Muawanah, 2014). The family firm is identical to inheriting the firm position and firm ownership from the founder directors to the next generation (Yopie et al., 2019). The inheritance or designation of position from the founder forms a BOD in a firm occupied by those related to the family of the founder. Therefore, the BOD is occupied by individuals who cannot operate the firm (Muawanah, 2014; Basco, 2013).

Previous research frequently had more focus on the effect of founder-BOD on the firm's performance, while the number of research projects concerning the monitoring element of monitoring agents on firms applying a two-tier system is low (Abebe & Anthony Alvarado, 2013; Bhawe et al., 2017; Fahlenbrach, 2009; Kumar et al., 2021). Previous research obtained various results related to the role of monitoring the agents affecting firm performance. Fariha et al. (2011), Agyemang (2020), and Dakhlallh et al. (2020) state that the role of monitoring on the BOD has a negative effect on firm performance, while research carried out by Zulfikar et al. (2021) and Rizka and Handoko (2020) discovered that monitoring element positively contributes to the performance of the firm. In addition, previous research also used audit committees as the monitoring agents and emphasized that the BOD has a financial effect on payroll. Hence, the quality of monitoring decreases, and agency costs increase.

This study contributes to the literature by introducing the independent variable founder and family-BOD and exploring its unique role in the context of corporate governance in Indonesia. This market is underrepresented in global research. Agency theory suggests that conflicts of interest between shareholders and directors can negatively impact firm outcomes, making monitoring agents crucial to aligning these interests and enhancing governance (Jensen & Meckling, 1976). However, prior studies have largely focused on the direct effects of monitoring agents on firm performance without thoroughly examining how monitoring agents interact with family-related governance structures (Pearce & Patel, 2018; Fernández-Temprano & Tejerina-Gaite, 2020). This study addresses this gap by investigating how monitoring agents moderate the relationship between family-BOD and firm performance, providing a novel perspective on this underexplored interaction.

The novelty of this research lies in its focus on the cultural and governance context of Indonesia, where family ties exert significant influence on corporate governance practices. While previous studies by Basco (2015) and Makhlouf et al. (2018) have explored the dynamics of family relationships in corporate governance, they often needed a detailed examination of how these dynamics function within the agency theory framework and in the presence of monitoring agents. This study expands the literature by integrating updated measurements and a more in-depth methodological approach within Indonesia's relatively heterogeneous corporate environment. Moreover, this research performs additional tests to examine the behavior of founder-BOD and family-BOD in the pre and post-COVID-19 period, offering insights into how external shocks like the pandemic affect the governance-performance relationship in family-owned firms.

The theoretical contribution of this study extends agency theory by examining the influence of founder-BOD, family-BOD, and the moderating role of monitoring agents in a developing country context. Furthermore, it highlights the relevance of the often-overlooked two-tier governance system in Indonesia, which involves both independent directors and commissioners, and its critical role in enhancing governance within family-run firms. By considering the impact of the COVID-19 pandemic, this research also introduces an additional layer of understanding about how external crises shape governance practices in family-owned firms.

From a practical perspective, this research offers valuable insights for firm management, particularly in family-owned firms. It demonstrates how strengthening the independence and effectiveness of monitoring agents can mitigate agency problems and improve firm outcomes, especially in developing economies like Indonesia. The results from the pre-and post-pandemic analysis further inform corporate leaders on the resilience and adaptability of family governance structures under crisis conditions.

Furthermore, the structure of this article consists of five parts. The first part discusses the introduction, followed by a literature review and hypothesis development concerning the relationship between the founder-BOD, family-BOD, monitoring agents, and the performance of the company. The third part explains the research method, while the fourth part presents the results of data testing and its discussion. Last, the conclusion, implication, and limitation of the research are presented, followed by recommendations for the next researchers.

Literature Review and Hypotheses Development

Agency Theory

Research carried out by Jensen and Meckling (1976) claimed that the BOD of a firm acts in the name of the firm's shareholders in making decisions. Agency theory assumes that the agency has strength in the case of information compared to the shareholders so that the agency can harm the shareholders (Tan & Lee, 2015). Lack of information provides a chance for the BOD to make decisions for personal interest, so the company needs to apply a monitoring system to the BOD (Akyol, 2020). Agency theory emphasizes the conflict issue between the shareholders and the BOD for their respective interests. This indicates the importance of the implementation of monitoring agents on the BOD in the firm. Monitoring agents in this research include independent directors and independent commissioners. Pearce and Patel (2018) stated that the monitoring of the BOD should be done by an external party or independently. Such independence can improve the quality of a firm's management and affect firm performance.

Effect of Founder-BOD on Firm Performance

The role of the founder-BOD is a supporting aspect in the firm's management because it can increase the spirit of developing the firm's future vision and mission (Wei et al., 2018). However, according to the research carried out by Jensen and Meckling (1976), founder-BOD is more concerned with their interest than the firm's interests and has sacrificed the firm's performance. Kim and Kiymaz (2023) show that the BOD of the founder is more optimistic and tolerant in making high-risk decisions that can contribute to personal income. The issue of this agency frequently occurs in firms managed by the founders because they have quite strong control and effect on the firm's management. According to Mork and Yeung (2003), such agency issue makes the manager act only for the founder and not for the other shareholders. Furthermore, Ullah and Zhang (2016) and Palia et al. (2001) argued that founders are concerned more with control and personal income from the firm's business rather than maximizing the firm's performance. Previous research carried out by Palia et al. (2001), Mork and Yeung (2003), Ullah and Zhang (2016), and Kim and Kiymaz (2023) stated that the BOD of the founder has negative effects on firm performance.

H₁: Founder-BOD has a negative effect on firm performance.

The Effect of Family-BOD on Firm Performance

The phenomenon of family-BOD is one of the general characteristics found in Indonesia firms (Yopie et al., 2019). Family-BOD can increase the investor's doubt with the assumption that family-BOD will have more concentration on their personal or family interest rather than maximizing the firm's performance (Razak & Palahuddin, 2017). According to Sciascia et al. (2013), family-BOD focuses more on maintaining the control position, thereby inhibiting the management of external parties that have the capabilities to be involved in operating the firm in order to improve the performance of the firm. Duran and Ortiz (2020) revealed that the coordination cost will increase together with the increase in the number of family-BOD in a firm. The reason is that not all family-BODs also have kinship relationships. Research carried out by Duran and Ortiz (2020) also found that the phenomenon in which the heirs occupying the BOD position from the family can increase the agency issue and depravity, particularly in neglecting, riding, and consuming the forms' resources due to the sense of ownership and personal meaning on the firm. Furthermore, research done by Razak and Palahuddin (2017), Sciascia et al. (2013), and Duran and Ortiz (2020) stated that family BOD has a negative effect on firm performance.

H₂: Family-BOD has a negative effect on firm performance.

Moderating Effect of Independent Director on the Effect of Founder-BOD and Family-BOD on Firm Performance

Independent directors are a BOD who are independent in monitoring the management of the firm, aiming to protect the shareholders' interest (Al-Jaifi et al., 2023). Independent directors emphasize the benefits of duality and reduce agency costs, thus achieving a favorable balance between strong leadership and effective monitoring (Duru et al., 2016). Fuzi et al. (2016) found that independent directors can provide a balance in management relationships and contribute to independent thinking, which helps mitigate the risk of "groupthink" in decision-making processes. The lack of involvement of independent directors in company operations allows them to offer independent thought, which can generate fresh perspectives to enhance firm performance (Qadorah & Fadzil, 2018). Zaman et al. (2018) showed that independent directors are more committed to transparent financial reporting and disclosure, thereby improving the quality of financial reporting. The studies by Duru et al. (2016), Fuzi et al. (2016), and Qadorah and Fadzil (2018) found that independent directors, as supervisors within the company, can influence the performance of the BOD. Effective monitoring and transparency in financial reporting reduce agency costs and positively impact performance (Duru et al., 2016). The presence of independent directors is expected to mitigate the negative influence of founder-BOD and family-BOD on firm performance by introducing impartial decision-making and reducing agency conflicts. As external parties, independent directors contribute new perspectives and act as neutral advisors, which can counterbalance the personal interests of founders and family members (Pearce & Patel, 2018; Zaman et al., 2018).

H_{3a}: Independent directors weaken the negative effect of founder-BOD on firm performance.

H_{3b}: Independent directors weaken the negative effect of family-BOD on firm performance.

Moderating Effect of Independent Commissioners on the Effect of Founder-BOD and Family-BOD on Firm Performance

Independent commissioners are responsible for monitoring the operations and decisions made by the BOD (Ali, 2018). The independence of the independent commissioners aims to provide strict monitoring in order to decrease agency issues and the cost to the firm. A larger and more knowledgeable number of independent commissioners is more effective in monitoring decisions made by the BOD. Strict oversight of the board can reduce agency problems and agency costs within the company. Hsu et al. (2023) found that independent commissioners can provide oversight and contribute valuable advice in decision-making. Utama and Utama (2019) discovered that independent commissioners from external parties have less access to company information compared to internal directors. However, independent commissioners are able to carry out their supervisory role objectively, mitigating risks that could harm shareholders' profits. The studies by Hsu et al. (2023) and Utama and Utama (2019) found that independent commissioners, in their supervisory role, can moderate the BOD’ influence on firm performance. Independent commissioners are responsible for ensuring that board decisions align with shareholder interests. They provide oversight and strategic advice, which can limit self-serving behavior by founder-BOD and family-BOD. By maintaining objectivity, independent commissioners help mitigate agency problems and enhance governance quality (Utama & Utama, 2019; Hsu et al., 2023).

H_{4a}: Independent commissioners weaken the negative effect of founder-BOD on firm performance.

H_{4b}: Independent commissioners weaken the negative effect of family-BOD on firm performance.

Based on the hypotheses development, the research framework of this study is presented in Figure 1.

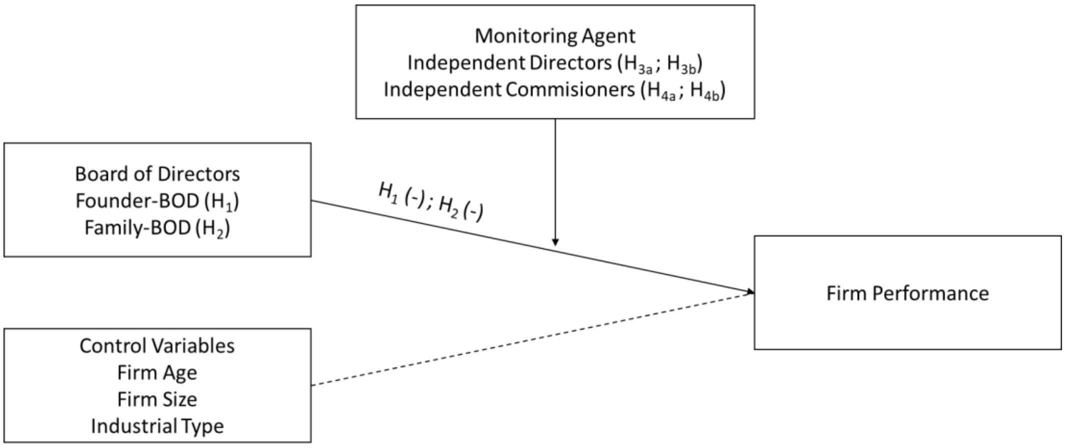

Figure 1 Research Framework

Research Method

The current research used secondary research data that were collected from the annual reports of the firms registered in the Indonesia Stock Exchange from 2018 to 2022. The data were retrieved directly from the official site of the Indonesia Stock Exchange and the official site provided by the firms to publish the data. In this case, 2,445 research data were collected using *the purposive sampling technique*. The criteria to collect the data were presented in Table 1.

Table 1 Sample Selection Procedure

Criteria	Total
Firms registered in IDX per 31 December 2022	813
Firms that go public in IDX from 2019 to 2022	(288)
Data provided on the official site of the Indonesia Stock Exchange and Firm are incomplete.	(36)
Total firm samples	489
Total data (489 firms x 5 years)	2,445

Table 2 presenting the measurement of each variable in this research. According to Qureshi and Siddiqui (2020), return on equity is the measurement of a firm’s performance by dividing the net profit by the firm’s equity. A firm’s equity is the assets reduced by liability, so that return on equity can be considered as the firm’s net profit and reflects the capabilities of the BOD more in affecting the firm’s performance. Return on equity is also a matrix for evaluating the level of investment return from the shareholders (Naknok, 2022).

Data on founder-BOD and family-BOD were obtained from data presented in the annual report, such as the firm’s information and history, ownership structure, and profile of the BOD and commissioners, as well as searching on the websites that provide such information.

Table 2 Measurement of Research Variable

Variable	Measurement	Source
Dependent Variable		
Firm performance (Firm_Perfo)	Return on Equity	Qureshi and Siddiqui (2020)
Independent Variable		
Founder-BOD (Founder_BoD)	Percentage of number of BOD with founder status on the number of BOD	Barosso-Castro et al. (2020)
Family-BOD (Family_BoD)	Percentage of number of BOD with family relationship status on the number of BOD	Wei and Chen (2023); Zhang and Cao (2016)
Moderating Variable:		
Independent Directors (BoD_Ind)	Percentage of independent directors on the number of BOD.	Fajarwati and Witiastuti et al. (2023)
Independent Commissioners (BoC_Ind)	Percentage of independent commissioners on the number of BOC.	Zulfikar et al. (2021)
Control Variable		
Firm's Age (Age)	Years since the firms are established	Ali et al. (2021)
Firm's Size (Size)	The logarithm of their total assets	Rizka and Handoko (2020)
Industrial Type (Ind_Type)	Agriculture = 1 Mining = 2 Chemical industry = 3 Other industries = 4 Consuming goods industry = 5 Property, *Real estate*, and Building = 6 Infrastructure, Utility, and Transportation = 7 Financial = 8 Trading, Service, and Investment = 9	Rexon and Chu (2020)

This research also conducted the least square regression analysis test to test founder-BOD and family-BOD on firm performance, as well as the moderating effect of the application of monitoring agents. The testing method of this research was similar to the research carried out by Shirokova et al. (2021) and Sial et al. (2018). To address the potential impact of the COVID-19 pandemic on firm performance, this study also conducted an additional analysis by dividing the sample into two periods: pre and post-pandemic. This additional analysis was carried out to ensure that the findings of this study are not influenced by the economic changes that occurred during the pandemic. The variable data on this research before conducting the test needed to be analyzed because the data distribution of this research possibly had a large outlier. Data winsorizing can change the data and remove the issues due to the outlier data, such as biased data, bad data transcription, and others, such as what has been done by the research carried out by Aini et al. (2023). This test had conducted data winsorizing by 1% and 99%. This research further winsorized all control variables except for the dummy variable in order to overcome the outlier.

The following formula is the regression equation model of this research:

$Firm\_Perfo_{it} = C + \beta_1 Founder\_BoD_{it} + \beta_2 Family\_BoD_{it} + \beta_3 Size_{it} + \beta_4 Age_{it} + \beta_5 Ind\_Type_{it} + \varepsilon_{ij}$ … (1)

$Firm\_Perfo_{it} = C + \beta_1 Founder\_BoD_{it} + \beta_2 Size_{it} + \beta_3 Age_{it} + \beta_4 Ind\_Type_{it} + \varepsilon_{ij}$ … (2)

$Firm\_Perfo_{it} = C + \beta_1 Founder\_BoD_{it} + \beta_2 BoD\_Ind_{it} + \beta_3 Size_{it} + \beta_4 Age_{it} + \beta_5 Ind\_Type_{it} + \varepsilon_{ij}$ … (3)

$Firm\_Perfo_{it} = C + \beta_1 Founder\_BoD_{it} + \beta_2 BoD\_Ind_{it} + \beta_3 Founder\_BoD{*}BoD\_Ind_{it} + \beta_4 Size_{it} + \beta_5 Age_{it} + \beta_6 Ind\_Type_{it} + \varepsilon_{ij}$ … (4)

$Firm\_Perfo_{it} = C + \beta_1 Founder\_BoD_{it} + \beta_2 BoC\_Ind_{it} + \beta_3 Size_{it} + \beta_4 Age_{it} + \beta_5 Ind\_Type_{it} + \varepsilon_{ij}$ … (5)

$Firm\_Perfo_{it} = C + \beta_1 Founder\_BoD_{it} + \beta_2 BoC\_Ind_{it} + \beta_3 Founder\_BoD{*}BoC\_Ind_{it} + \beta_4 Size_{it} + \beta_5 Age_{it} + \beta_6 Ind\_Type_{it} + \varepsilon_{ij}$ … (6)

$Firm\_Perfo_{it} = C + \beta_1 Family\_BoD_{it} + \beta_2 Size_{it} + \beta_3 Age_{it} + \beta_4 Ind\_Type_{it} + \varepsilon_{ij}$ … (7)

$Firm\_Perfo_{it} = C + \beta_1 Family\_BoD_{it} + \beta_2 BoD\_Ind_{it} + \beta_3 Size_{it} + \beta_4 Age_{it} + \beta_5 Ind\_Type_{it} + \varepsilon_{ij}$ … (8)

$Firm\_Perfo_{it} = C + \beta_1 Family\_BoD_{it} + \beta_2 BoD\_Ind_{it} + \beta_3 Family\_BoD_{it}{*}BoD\_Ind_{it} + \beta_4 Size_{it} + \beta_5 Age_{it} + \beta_6 Ind\_Type_{it} + \varepsilon_{ij}$ … (9)

$Firm\_Perfo_{it} = C + \beta_1 Family\_BoD_{it} + \beta_2 BoC\_Ind_{it} + \beta_3 Size_{it} + \beta_4 Age_{it} + \beta_5 Ind\_Type_{it} + \varepsilon_{ij}$ … (10)

$Firm\_Perfo_{it} = C + \beta_1 Family\_BoD_{it} + \beta_2 BoC\_Ind_{it} + \beta_3 Family\_BoD_{it}{*}BoC\_Ind_{it} + \beta_4 Size_{it} + \beta_5 Age_{it} + \beta_6 Ind\_Type_{it} + \varepsilon_{ij}$ … (11)

Result and Discussion

The results of descriptive testing from Table 3 showed that the firm's performance received a mean value of 0.04 within the range of -2.59 to 1.34. This result shows that public firms in Indonesia can utilize the equity of firms to produce profit. Furthermore, the mean values of founder-BOD and family-BOD are 9.20 and 7.90, respectively.

Table 3 Descriptive Statistic for Selected Variables

Variable	Minimum	Maximum	Mean	Median
Firm_Perfo	-2.59	1.34	0.04	0.06
Founder_BoD	0.00	50.00	9.20	0.00
Family_BoD	0.00	75.00	7.90	0.00
BoD_Ind	0.00	50.00	8.70	0.00
BoC_Ind	10.00	75.00	40.00	0.42
Size	6.43	14.33	11.52	12.09
Age	7.00	93.00	37.54	36.00

The mean value of independent directors in public firms in Indonesia is 8.70 (Table 3). Indonesia firms have assigned independent directors as the supervisors of the BOD. The regulation of Financial Service Authority No. 33/POJK.04/2014 does not obligate firms to have independent directors, so the level of independent directors in Indonesia firms has a minimum value of 0.00. Furthermore, on average, public firms in Indonesia have independent commissioners by 40.00 and at least 10.00. Public firms in Indonesia still adhere to the regulation of Financial Service Authority Number 55/POJK.03/2016, which states that public firms are obligated to have at least 1 (one) independent commissioner.

The mean age of firms in this research is 37.54 years old (Table 3). This shows that the firms registered in the Indonesia Stock Exchange (IDX) are considered young since the IDX was established in 1912. The firm size in IDX has a mean score of 11.52, higher than the requirement of asset value for the main board of IDX, which is 11.00. Furthermore, based on Table 4 the most preferable industrial type in IDX is trading, service, and investment, while the least preferable is agriculture.

Table 4 Descriptive Statistic for Dummy Variable (Ind_Type)

Industrial Sector	Frequency	%
Agriculture	19	3.89
Mining	44	9.00
Chemicals Industry	45	9.20
Other Industry	21	4.29
Consuming goods industry	74	15.13
Property, Real estate, and Building	44	9.00
Infrastructure, Utility, and Transportation	44	9.00
Financial	77	15.75
Trading, Service, and Investment	121	24.74

Discussion

Effects of Founder-BOD and Family-BOD on Firm Performance

Research results and Table 5 show that the founder-BOD has a negative effect on firm performance with a coefficient value of -0.122 and a *p-value* below 5%. Thereby, H_1 is supported. The same results were also obtained in the previous research carried out by Lee and Ko (2022), Palia et al. (2001), Ullah and Zhang (2016), and Kim and Kiymaz (2023). Palia et al. (2001) and Ullah and Zhang (2016) state that the BOD tends to be more concerned with control and personal income rather than the firm's business and tends to waste the performance of the firm.

Furthermore, Jensen and Meckling (1976) argued that the founder-BOD prioritizes their personal interest more when there are different interests among the shareholders, and it can further decrease the performance of the firm. The results of this research show that the founder-BOD in Indonesia has significant control over the firm's management and tends to make decisions that prioritize personal interest. Indonesian business culture tends to be patronage, so it strengthens the personal control behavior of the founder-BOD, which directly harms the performance of the firm. Such results are different from the results obtained in the research done by Abebe and Anthony Alvarado (2013), Jaskiewicz et al. (2017), and Wei et al. (2018) that founder-BOD has expertise in the technical terms and understanding related to the industry, so they can give convincement to the managerial and shareholders to develop the performance of the firms.

Table 5 Regression Test Result

Variable	Coefficient	T-statistic
Founder_BoD	-0.122**	-2.572
Family_BoD	0.046	1.237
Size	0.013***	4.075
Age	0.000	0.376
Constant	-0.112**	-1.983
Ind_Type	Yes	
Year	Yes	
R2	0.030	
R2_Adjusted	0.027	
N	2.445	

Note: * Significant at 10%, ** Significant at 5%, *** Significant at 1%

Table 5 shows that family-BOD does not affect firm performance with a coefficient value of 0.046 and *p-value* above 10%, so H_2 is not supported. The results of this research are not in line with the results of previous research carried out by Rienda et al. (2020), Hasnan et al. (2019), Taras et al. (2018), Al-Nasser (2020), and Srivastava and Bhatia (2022), that found that family-BOD have several similar aspects so the communication between the BOD become more effective and further affect the performance of the firm. In addition, Muawanah (2014) and Basco (2013) stated that family-BOD occupies a position in a firm due to internal or ownership recommendations in the firm. Therefore, the individual who occupies the BOD does not have sufficient operational and leadership capabilities.

Business culture in Indonesia is often dominated by family interest and centered ownership, causing a decision that needs to be more objective and based on personal or group interest. Family-BOD might tend to maintain the existing condition and avoid significant strategic changes. Therefore, the presence of Family-BOD does not affect the performance of the firm.

Moderating Effects of Monitoring Agent on Founder-BOD and Firm Performance

Based on the research results and Table 6, the coefficient value obtained is 0.579, with a value below 5%. These results show that independent directors strengthen the relationship of the negative effect of founder-BOD on firm performance, so H_{3a} is not supported. These results are in accordance with the research conducted by Fajarwati and Witiastuti (2022) and Rashid (2018), who said that individuals outside the firm often occupy independent directors in Indonesia.

However, they are independent, have limitations in understanding the business more, and do not have formal authority in giving instructions. This inhibits the effectiveness of their monitoring of the founder-BOD. The Indonesian business culture is affected by personal relationships and family ownership structure, making the role of independent directors more ineffective. The need to maintain such personal or group relationships often causes independent directors to weaken their monitoring role towards the founder-BOD, strengthening the negative effect of founder-BOD on firm performance. This is not in accordance with the research carried out by Duru et al. (2016), Zaman et al. (2018), Fuzi et al. (2016), and Qadorah and Fadzil (2018). Independent directors emphasize the benefits of duality and reduce agency costs, thereby producing a beneficial balance between strong leadership and effective monitoring (Duru et al., 2016). Furthermore, research conducted by Zaman et al. (2018) showed that the effectiveness of monitoring the BOD can increase the transparency of financial reporting. Hence, it decreases the agency's cost and affects the performance of the firm.

Table 6 Moderation Regression Test Result on the Relationship Between Founder-BOD and Firm Performance

	(2)	(3)	(4)	(5)	(6)
Founder_BOD	-0.099^{**} (-2.268)	-0.100^{**} (-2.301)	-0.102^{**} (-2.333)	-0.105^{**} (-2.392)	-0.097^{**} (-2.221)
BoD_Ind		-0.051 (-1.180)	0.003 (0.056)		
BoC_Ind				-0.074^{*} (-1.693)	-0.030 (-0.659)
Founder_BoD *BoD_Ind			-0.579^{**} (-2.130)		
Founder_BoD *BoC_Ind					-0.291^{***} (-3.212)
Age	0.000 (0.421)	0.000 (0.268)	0.000 (0.453)	0.000 (0.350)	0.000 (0.720)
Size	0.013^{***} (4.104)	0.013^{***} (4.038)	0.013^{***} (4.015)	0.013^{***} (4.192)	0.014^{***} (4.288)
Constant	-0.113^{**} (-2.008)	-0.102^{*} (-1.781)	-0.106^{*} (-1.852)	-0.089 (-1.526)	-0.109^{*} (-1.871)
Ind_Type	Yes	Yes	Yes	Yes	Yes
Year	Yes	Yes	Yes	Yes	Yes
R2	0.030	0.030	0.031	0.030	0.032
R2_Adjusted	0.027	0.027	0.027	0.027	0.029
N	2.445	2.445	2.445	2.445	2.445

Note: T-statistics in parentheses; * Significant at 10%; ** Significant at 5%; *** Significant at 1%.

Furthermore, Table 6 indicates that the independent commissioners strengthen the negative effect of founder-BOD on firm performance with a coefficient value of -0.291 and a *p-value* below 1%. This finding confirms that independent commissioners do not moderate but instead exacerbate the negative influence of founder-BOD on firm performance. Therefore, hypothesis H_{4a} is not supported. These results are similar to those obtained by Duchin et al. (2010) and Utama and Utama (2019), in which shareholders recruited credible independent commissioners only to improve the firm's reputation. Hence, the position is occupied by individuals with less competence and knowledge.

Gati et al. (2020) further claimed that the appointment of independent commissioners in Indonesia is often carried out only to meet the regulation of the Financial Service Authority that obligates firms to have at least 1 (one) independent commissioner in the public firm. However, the business culture in Indonesia is dominated by personal relationships and shareholders' interests, causing the selection process of independent commissioners to be less transparent and not based on meritocracy. This lack of transparency further causes hidden personal relationships between the founder-BOD and independent commissioners. It further results in the capabilities of founder-BOD in deciding personal interest without objective monitoring from the independent commissioners, thus strengthening their negative effect on firm performance. The results of this research are different from the results of the research carried out by Hsu et al. (2023) and Utama and Utama (2019), who discovered that a large number of independent commissioners with good knowledge would be more effective in monitoring the decisions made. In this case, such strict monitoring can reduce agency issues and costs in the firm.

Moderating Effects of Monitoring Agent on Family-BOD and Firm Performance

Based on the research results in Table 7, the coefficient value obtained is -0.530 with a p-value below 10%, so the independent directors do not moderate family BOD on firm performance, and H_{3b} is not supported. The phenomenon in Indonesian firms shows that family BOD also acts as the shareholders of the firm (Muawanah, 2014). Their status as shareholders of the members of the BOD creates a high level of loyalty among independent directors (Nadeem et al., 2019; Randerson & Radu-Lefebvre, 2021). Such high loyalty can also reduce the effectiveness of monitoring the decisions made. Independent directors encountering issues in monitoring related to high loyalty towards family-BOD to give objective and critical evaluation towards the policy and decision made. Therefore, independent directors do not moderate the effect of family-BOD on performance.

Based on the results of the research as presented in Table 7, the coefficient value obtained is 0.285 with a p-value below 1%, showing that independent commissioners do not moderate family-BOD on firm performance, and H_{4b} is not supported. Most of the family bodies in Indonesia also act as the shareholders of the firm (Muawanah, 2014). Information equity issue delivered by agency theory is resolved with the status equity between owner and agent status owned by a BOD. The owner status of the BOD puts loyalty pressure on independent commissioners and causes the monitoring to be ineffective. Therefore, independent commissioners do not moderate the effect of the BOD with a family relationship on firm performance.

Overall, the results of this study demonstrate that agents' monitoring does not enhance firm performance. This finding contradicts agency theory, which asserts that oversight improves corporate governance quality, leading to better firm performance. The research reveals that a key factor influencing agency theory in Indonesian companies is the presence of a patronage culture. Patronage culture can exacerbate agency problems, as monitoring agents are often chosen based on relationships that provide direct support to the BOD. This cultural influence diminishes the quality of oversight, thereby impacting firm performance negatively.

Table 7 Moderation Regression Test Result on the Relationship Between Family-BOD and Firm Performance

	(7)	(8)	(9)	(10)	(11)
Family_BOD	0.009 (0.252)	0.007 (0.193)	0.007 (0.213)	0.008 (0.222)	0.001 (0.026)
BoD_Ind		-0.047 (-1.102)	-0.070 (-1.566)		
BoC_Ind				-0.066 (-1.507)	-0.092** (-2.081)
Family_BoD *BoD_Ind			0.530* (1.816)		
Family_BoD * BoC_Ind					0.285*** (3.660)
Age	0.000 (0.621)	0.000 (0.479)	0.000 (0.402)	0.000 (0.568)	0.000 (0.268)
Size	0.012*** (3.890)	0.012*** (3.828)	0.012*** (3.703)	0.013*** (3.960)	0.012*** (3.747)
Constant	-0.108* (-1.924)	-0.098* (-1.711)	-0.093 (-1.626)	-0.087 (-1.488)	-0.068 (-1.158)
Ind_Type	Yes	Yes	Yes	Yes	Yes
Year	Yes	Yes	Yes	Yes	Yes
R2	0.029	0.029	0.029	0.029	0.032
R2_Adjusted	0.026	0.026	0.026	0.026	0.028
N	2.445	2.445	2.445	2.445	2.445

Note: T-statistics in parentheses; * Significant at 10%; ** Significant at 5%; *** Significant at 1%.

Additional Analysis of Founder-BOD and Family-BOD Before and After COVID-19

Table 8 presents the additional analysis results of the study on the impact of the founder-BOD and the family BOD on firm performance before and after the COVID-19 pandemic. The findings indicate that the founder-BOD had a negative effect on firm performance prior to COVID-19, with a coefficient of -0.234 and a p-value below 5%. However, the founder-BOD had no significant effect on firm performance after COVID-19, as reflected by a coefficient of 0.054 and a p-value above 10%. Family-BOD had no significant effect on firm performance both before and after COVID-19, with coefficients of 0.008 and 0.002, respectively, and p-values above 10%.

Before the COVID-19 pandemic, the founder-BOD may have prioritized personal interests and maintained control over the company, as the business was operating stably in alignment with its predetermined strategies. However, after COVID-19, companies experienced significant shifts in operations, digitalization, regulations, and adaptation to the COVID-19 environment (Sang, 2022; Amankwah-Amoah et al., 2021; Jebran & Chen, 2021). Businesses became more focused on survival and strategic changes to cope with uncertain conditions. The COVID-19 situation rendered the role of the founder-BOD and family-BOD less significant, as they needed more specific experience or knowledge to navigate the pandemic's challenges. In contrast, companies require more flexible professional resources to address the significant changes in the business environment (Farwis et al., 2021; Zulpahmi et al., 2023).

Table 8 Regression Test Result Before and After COVID-19

	Before	After
Founder_BOD	-0.234* (-1.959)	0.054 (0.587)
Family_BOD	0.008 (0.098)	0.002 (0.024)
Size	0.015 (1.583)	0.001 (0.249)
Age	0.002** (2.028)	0.001 (0.836)
Constant	-0.150 (-1.196)	-0.065 (-0.762)
Ind_Type	Yes	Yes
Year	Yes	Yes
R2	0.025	0.024
R2_Adjusted	0.012	0.014
N	975	1.470

Note: T-statistics in parentheses; * Significant at 10%; ** Significant at 5%; *** Significant at 1%.

Conclusion

This research aims to examine the effect of founder-BOD and family-BOD on firm performance, moderated by monitoring agents. The findings indicate that founder-BOD negatively impacts firm performance, as founders tend to prioritize personal interests over shareholder interests. In contrast, family-BOD has no significant effect on firm performance. Monitoring agents, including independent directors and commissioners, need to mitigate the negative effects of founder-BOD, with limited competence and personal connections undermining effective oversight. Additionally, this study reveals that during the COVID-19 pandemic, both founder-BOD and family-BOD had no significant impact on firm performance due to limited experience and expertise in handling the challenges posed by the pandemic. As a result, companies relied more on professional resources that were more flexible and adaptive in responding to the situation.

The implications and contributions of this research are significant both theoretically and practically. Theoretically, this study enhances the understanding of how founder-BOD and family-BOD impact firm performance, specifically highlighting the moderating role of monitoring agents. By incorporating the effect of independent directors and independent commissioners, this research adds valuable insights to the literature on corporate governance in developing economies. Practically, the findings offer essential guidance for firm management, particularly in the context of reforming governance structures.

Strengthening the independence and effectiveness of monitoring agents can mitigate the negative effects of founder-BOD and improve overall firm performance, thus promoting more effective governance practices.

However, this study has certain limitations. It focused exclusively on firms in developing countries, and several factors—such as regulatory environments, cultural influences, social relationships, and knowledge—affected the quality and type of monitoring by these agents. Future research could expand the scope by including a broader range of monitoring agents, such as assurance agents, internal auditors, and regulatory institutions, to capture the full dynamics of monitoring. Additionally, qualitative aspects of monitoring, such as the process of overseeing business operations and decision-making by boards of directors, could provide deeper insights into how monitoring agents influence firm performance.

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Conflicts of Interest

The authors declare no conflict of interest. The funders had no role in the design of the study; in the collection, analyses, or interpretation of data; in the writing of the manuscript, or in the decision to publish the results.