

The Characteristics of Top Management in Indonesia Manufacturing Company

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Abstract

This study aims to describe the characteristics of the Board of Commissioners in Indonesia. In this study the characteristics studied include Independence, Expertise, age and tenure of the Board of Commissioners. This research is a descriptive research. The sample of this study is 104 manufacturing companies listed on the Indonesia Stock Exchange in the year of 2013-2016. The results of this study show that the independence of the Board of Commissioners shows an increase. The Board of Commissioners' expertise in this study shows improvement. The average age of the Board of Commissioners in this study is 54.9 years. The average tenure (term of office) of the Board of Commissioners is 6.8 years. These four characteristics show an increasing trend over the years.

Keywords: Independence, expertise, age, tenure, board of commissioners.

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INTRODUCTION

This study aims to describe the Characteristics and Diversity of top management in Indonesia. The top management terminology in this study is used to represent the Board of Commissioners, the Board of Directors. Board of commissioners and board of directors are also part of the upper echelon, this theory has been widely used in corporate governance research [1]. Characteristics and diversity in this study were assessed by size, independent proportion, proportion of accounting / finance education, proportion of foreign citizenship, gender proportion, average age.

This study is motivated by the need to gain an adequate understanding of the characteristic conditions and diversity of top management in Indonesia, which has so far not been mapped. A number of studies have suggested that companies with a relationship of trust between top management and employees are considered to have an advantage over companies without such relationships [2-4]. This is related to the important role of the Board of Commissioners as the supervisor and the role of the Board of Directors as the manager of the company. One of the emerging issues on board diversity, the International Labor Organization / ILO 2009 [5] suggests that the trend of diversity in the company has increased worldwide.

One interesting phenomenon regarding top management is that according to the above ILO

publications is that the participation of women in developed countries and the EU 50.4%, higher than the previous study ten years earlier was 48.3%. Similar studies by Catalyst 2011 on the Fortune 500 female board of directors, women hold 15.7% in some directors there in 2010, representing a 0.5 percentage point increase from 15.2% in 2009. In Indonesia, the research of Syamsudin, Setiany and Sajidah [6] showed the average percentage of female directors was 8.39% and 5.19% for the percentage of the Board of Commissioners.

One of the characteristics examined in this study is skill, DeZoort-Salterio [7] argues that financial experts in an audit committee increase the likelihood of finding material misstatement, so it can be communicated and corrected in a timely manner. Support for DeZoort-Salterio [7] opinion was stated by Pomeroy [8] that members with adequate accounting backgrounds are the most critical commissioners. Therefore, the Financial Services Authority (OJK / formerly Bapepam) since 2004 has stipulated that at least one member of the audit committee should have an accounting or financial education background, and other members should be able to read and understand the financial statements. This is closely related to the importance of accounting and financial understanding for the Board of Commissioners.

Hermann and Datta [9] argue that age represents the level of experience and risk taking. The

statement was supported by Hambrick and Mason [1] stating that young managers are more likely to take risky strategic steps, and companies led by younger managers will experience higher growth than companies headed by older managers. This is in line with the opinion of Barker and Mueller [10] who stated that older managers have a tendency to avoid risk.

Top management education background is one of the important demographic characteristics [1, 11]. According to Kimberly and Evanisko [11], a highly educated person may have greater ability to handle more complex tasks. Previous research has shown that a director's educational background has a significant influence on firm behavior and performance [12].

In the context of Indonesia as a developing country, Board of Commissioners has a central role as a form of Corporate Governance. The Board of Commissioners becomes a mechanism of protection against investors. Considering a number of studies, the company's market performance can also be seen from the perspective of the company's ability to reduce cost of capital [13-16]. Through the mechanism of investor protection is adequate investors are expected to lower the rate of return on investment.

In addition, the current competitive consumer and workforce market environment forces companies to adopt diversity management of labor policies and strategic and practical practices of reason. A meta-analysis by Joshi and Roh [17] identifies the contextual factors that influence the diversity management of demographic, cultural, and leadership managerialities as a way of future investigation. In a literature review of diversity, van Knippenberg and Schippers [18] demonstrated empirically that characteristics and diversity can develop or impede the organization.

In article 1, paragraph 6 of Company Law No. 40 of 2007, the Board of Commissioners is an organ of the Company which is in charge of supervising publicly and / or specifically in accordance with the articles of association and giving advice to the Board of Directors. The number of members of the Board of Commissioners is regulated in Article 108 paragraph 5 of the Company Law. 40 in 2007, a company whose business activities are related to collecting and / or managing public funds, a company that issues debt certificates to the public or a Public Corporation must have at least 2 (two) members of the Board of Commissioners. As the culmination of the company's management system, the Board of Commissioners has a role to supervise activities. The monitoring function undertaken by the Board of Commissioners is influenced by the number or size of the Board of Commissioners [19]. The Board of Commissioners may perform its own duties as well as by delegating its authority to the committees responsible to the Board of Commissioners. The Board of Commissioners should

monitor the effectiveness of good corporate governance practices [20].

The role of the Board of Commissioners in a company is more emphasized on the monitoring function of the implementation of the policies of the Board of Directors. This commissioner role is expected to minimize agency issues arising between the Board of Directors and shareholders. Therefore, the Board of Commissioners should be able to oversee the performance of the Board of Directors, so that the resulting performance is in line with the interests of shareholders [21]. Thus, the diversity of the Board of Commissioners is expected to perform this function better.

Based on the above explanation it can be shown that this kind of research needs to be done considering the importance of in-depth review of the development of Top Management Team (TMT) in Indonesia. This certainly can not be separated from the view of upper echelon theory which explains that every leader has a leadership model determined by his demographic background [1]. Thus understanding of the background of TMT is expected to provide a sufficient picture of accounting decisions and the information it releases. Given this research mapping the characteristics of the Board of Commissioners, and the Board of Directors because no similar research has been found in Indonesia.

This research is conducted in manufacturing sector that listed in Indonesia Stock Exchange during year 2013-2016. This research limits only to the characteristics of the Board of Commissioners, so this research formulated research questions about how are the characteristic maps of the Board of Commissioners include, independence, accounting / financial expertise, average age, and average tenure of the Board of Commissioners in listed manufacturing sector companies in the Exchange Indonesia Securities?

Upper Echelons Theory

The upper echelons theory was first introduced by Hambrick and Mason [1]. This theory assumes that what will happen to a company can be learned from a company's top management team (TMT), this theory considers top management concepts to be the ultimate strategic decision maker within the organization. Thus, strategic decisions made by leaders have a direct impact on organizational outcomes. Because executives who have responsibility for the organization as a whole, their characteristics, what they do, and how they do it, specifically affect the organization's outcomes [22].

According to Upper Echelon Theory that the characteristics of managerial background explain the choice of strategy, and consequently, affect the company's performance [1]. The characteristics of senior management or upper echelons of the

organization can influence the decisions made and practices adopted by the organization. This theory offers that top executives can influence the outcomes of their organizations. The choice of strategy and level of company performance reflects managerial or directoristic characteristics [1].

In an editorial review of 23 years of research on Upper Echelon Theory [23] notes that many characteristics are found that are related to strategic decisions and company performance results. In view of the Upper echelons theory using the individual characteristics of which include; age, education, tenure, and gender with organizational performance. Carpenter *et al.*, [24] suggests that gender is a characteristic focused on Upper Echelon research.

The educational background is one of the top management characteristics, according to Finkelstein and Hambrick [22] the individual values are in education as an indicator of their cognitive complexity. The educational level of each member of management and the board provides effective contributions that signal investors about their abilities.

This may indicate that investors consider the educational prestige of top management and board of commissioners especially those who get a postgraduate degree from a top university and from a foreign university, as well as a higher level of education is crucial in determining the company's assessment [25]. The upper echelon theory states that firm outcomes that include strategic choices and half the performance levels can be predicted from the background characteristics of the directors [1].

Syakhroza [26] in Puspita and Lukviarman [27] said in establishing a good corporate governance model, the company must have a credible board of commissioners and board of directors. The board of commissioners and the board of directors shall have such composition, enabling effective, prompt, and prompt decision-making [28]. In addition, organizational governance will be better if board composition is heterogeneous so that it will complement each other's competence and credibility. Thus, board governance is one of the key input factors to deliver optimal resource management to achieve organizational goals [27].

Every company should ensure that CG principles are applied to every aspect of the business and across all levels of the company. One of the GCG principles needed to achieve business continuity of the company with regard to stakeholders according to the National Committee on Governance Policy 2006 [29] is fairness and equity. Where in carrying out its activities, the company should always pay attention to the interests of shareholders and other stakeholders by providing opportunities for stakeholders to provide

input and convey opinions for the interests of the company and open access to information in accordance with the principle of transparency within the scope of their respective positions. Companies should provide equal opportunities in employee recruitment, careers and professional duties regardless of race, religion, race, class, gender, and physical condition.

The relationship between corporate governance and financial accounting arises from the assumption that management can take advantage of information asymmetries to act in ways that conflict with the interests of shareholders. According to Surya & Yustiavananda [30], the existence of corporate organs (Board of Commissioners and Directors) is a proof of the application of good corporate governance principles in a minimal level. Although the provisions concerning the company's organs have been regulated in the Law of Limited Liability Company Number 40 of 2007 and subsequently reinstated in the Company's Articles of Association, in practice this organ has not been able to guarantee the implementation of sound corporate governance. This is because the nature of the law only regulates the provisions in outline only, so there must be provisions in the law that require further guidance of implementation (guidance) or technical guidelines (technical guidelines) in the form of rules or guidelines issued by authorized government agencies and relevant professional institutions or organizations [31].

Daniri [32] says that the composition of the commissioners in the two-tier board system, it is recommended that the Independent Commissioners be dominated, so as to be more effective in carrying out its functions to protect the interests of shareholders. The independent board leadership structure of the two-tier board system is very effective in reducing agency problems due to segregation in the field of management policy with supervisory policy.

The effectiveness of the Board of Commissioners in balancing the CEO's strength is strongly influenced by the independence of the Board of Commissioners. Independent Board of Commissioners are expected executives will act on behalf of the owner [33]. In addition, the existence of Independent Board of Commissioners from outside the company is expected to be reacted positively by the market (investors), because the interests of investors will be more protected [34].

The existence of Independent Board of Commissioners is regulated in Bapepam Regulation No: KEP-315 / BEJ / 06-2000 which is enhanced by Decision Letter No: KEP-339 / BEJ / 07-2001 stating that every public company must establish Independent Board of Commissioners whose members are the fewest 30% of the total members of the Board of Commissioners. The board structure comprising the

larger Independent Board of Commissioners has strong control over managerial decisions.

Surya & Yustiavananda [30] mentioned at least four additional organs to complete the implementation of good corporate governance: Independent Commissioner, Independent Director, Audit Committee and Corporate Secretary. The corporate governance structure used in this study is the Board of Commissioners, the Board of Independent Commissioners, and the Audit Committee.

Htay *et al.*, [35] indicates that a conflict of interest between shareholders and management but also keeps the insiders firm in charge. Good governance structure in line with increased transparency [36]. Zajac and Westphal [37] argue that a person's age is related to his openness to new ideas. Thus the younger age is less attached to current positions and more receptive to change [1]. This is in line with the opinion of Barker and Mueller [10] who stated that older managers have a tendency to avoid risk.

Previous studies have examined the characteristics of board of commissioners and directors from different theoretical point of view. The studies have also tested it with other variables. A number of studies have suggested that a director's time has an effect on his ability to manage the organization [11, 38, 39]. The argument argues for the importance of experience, competence, and commitment determined by the term of office [40]. This is certainly related to a deeper knowledge of the company's condition and the business environment.

Naranjo-Gil, Maas, and Hartmann [41] argue that characteristics exhibit cognitive characteristics and

individual tendencies in decision-making to predict the direction and purpose of the firm. One of the important demographic characteristics of the individual is his educational background [1, 11]. Kimberly and Evanisko [11] suggest that a highly educated person tends to be better able to handle complex tasks. Thus, of course, the educational background of a CEO has a significant influence on the behavior and performance of the company [12].

RESEARCH METHODS

The population in this study are all manufacturing companies listed on the Indonesia Stock Exchange in 2013 and 2016, while this study is classified as a comparative descriptive study. This study uses all manufacturing companies listed on the BEI as a sample. The data used in this study are secondary data taken from the company's annual report from 2013 and 2016. This period of year were selected for data stability after macroeconomic environment changes as the impact of global economic crisis in 2007-2009 [42]. In addition, the election period is also based on changes in rules and regulators of companies listed on the Indonesia Stock Exchange. Since 2013 the Financial Services Authority became a new authorizer replacing Bapepam's role in the previous year.

RESULTS

Sample Company Characteristics

This research was conducted on three industry sectors belonging to manufacturing industry. The three industries are the Basic Industry, Miscellaneous Industry, and Consumer Goods Industry sectors. The distribution of the industrial sector used as the sample of this study is presented in Table-1.

Table-1: Sample Distribution by Industry Sector

Industry Sector	Population	Sample	Representation
Basic Industry	60	46	76,67%
Miscellaneous Industry	42	30	71,43%
Consumer Goods Industry	38	28	73,68%

Based on Table-1 it can be seen that the sample of this research is relatively evenly distributed and not tend to one industry sector only. The Basic Industry sector is the most sampled sector with 46 companies or 44.23% of the total sample. The population of the Basic Industry sector consists of 60 companies by 2016. When compared with the population, the sample of this study represents 76.67% of the population.

The second sector used as sample in this research is Miscellaneous Industry sector with 30 companies or equal to 28,85% from total sample. The population of the Miscellaneous Industry sector consists of 42 firms by 2016. When compared with the

population the sample of this study represents 71.43% of the population.

The Consumer Goods Industry sector is the third sector used as a sample with 28 companies or equivalent to 26.92% of the total sample. The population of the Consumer Goods Industry sector consists of 38 companies by 2016. When compared with the population, the sample of this study represents 73.68% of the population.

Characteristics of Research Variables

In the previous chapter it is explained that in this study using independence board data (INDP), voluntary disclosure (DISC) and earnings quality (LABA) as the mediating variable. Meanwhile, the

dependent variable in this study is the cost of equity capital (CAPM). The following descriptive statistics

data are presented, including drinking value, maximum, mean (mean), median and standard deviation.

Table-2: Descriptive Statistics

Variable	Minimum	Maximum	Mean	Median	Std. Dev
INDP	0,380	0,750	0,537	0,500	0,076
EXPT	0,230	0,680	0,414	0,400	0,071
AGED	0,080	0,275	0,059	0,048	0,051
TENR	0,070	0,750	0,256	0,233	0,152

Variable Description:
 INDP: Proportion of Board of Commissioners' independence,
 EXPT: The proportion of the Board of Commissioners with an accounting or financial background,
 AGED: Age of the Board of Commissioners, and
 TENR: The term of office of the Board of Commissioners.

Characteristics of Board Independence

The independent variable of board (INDP) in this study is measured by the proportion of independence of the Board of Commissioners. The results show that the highest level of independence is 0.75 equivalent to 75% and the lowest value of this variable is 0.380 or 38%. The higher the INDP value indicates the more independent members of the Board of Commissioners, so that it can be interpreted the higher the oversight by the Board of Commissioners of the company which will result in better disclosure quality and reduced agency costs [43]. In this study the mean INDP value shows a value of 0.537. The value means the mean of the independence level of the Board of Commissioners of the sample company is 54%. The standard deviation value of 0.076 is small, indicating

that the variations contained in this INDP data are small. When compared to the minimum value (0.380), the maximum value (0.750) with the median value (0,500) and the mean value (0.537), then indicates that the data points are not too far from the mean.

Distribution of independence per year can be seen in Figure-1. In Figure-1 it is seen that the development of independence level every year since 2013 until 2016 is relatively stable. From the figure it is seen that there is a slight decrease of the average level of board independence. In 2013 it was seen that the average of board independence was 0.536, then in 2014 it increased to 0,537 and in 2015 it was recorded its mean of 0,535. The average value increased again in 2016 to 0, 538.

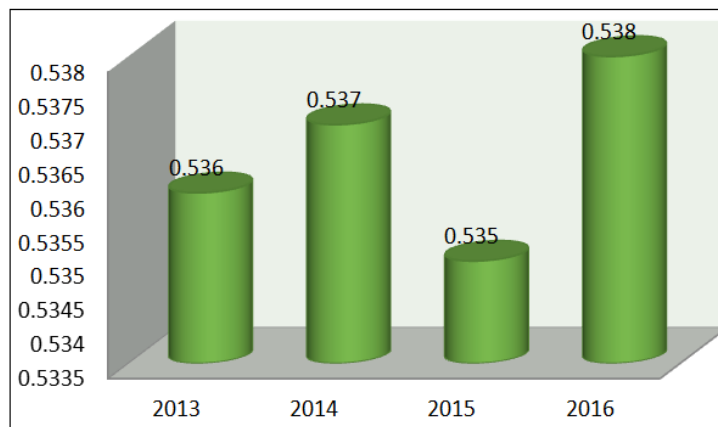


Fig-1: Level of Independence of the Board of Commissioners

Expertise of the Board of Commissioners

Variable of expertise of Board of Commissioners based on Figure-2. it is seen that in the year 2013 the average of the sample companies was

0.053. The value increased in 2014 to 0.060 and again rose in 2015 to 0.073. Furthermore, in 2016 the value of discretionary accruals indicates a lower rendering of 0,050.

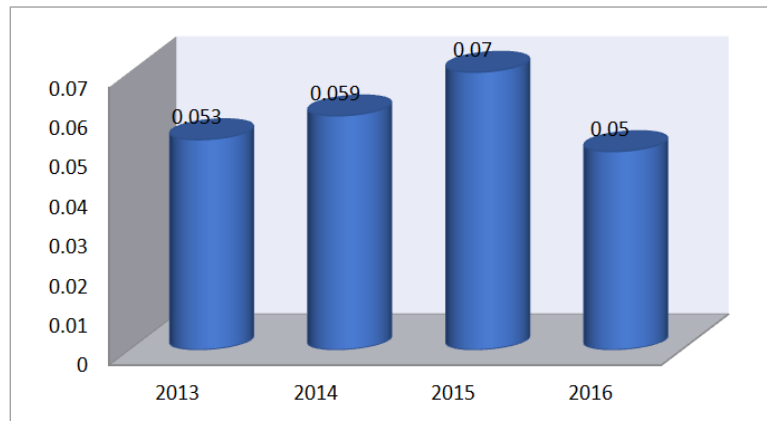


Fig-2: The Board of Commissioners

The higher proportion of accounting / finance expertise within the Board of Commissioners demonstrates the level of ability to oversee the board's business decision better. This result indicates that in this period of research, the tendency of increasing the quality of supervision by the Board of Commissioners increases, especially in the range of 2013 to 2015, otherwise in 2016 there is a decline. Improvement of expertise during the period of 2013-2015 demonstrates the enhancement of the Board of Commissioners' capacity in carrying out supervisory functions on the management of the company.

Age of the Board of Commissioners

The age of the Board of Commissioners in this study not only shows the level of maturity of thought and experience owned by the commissioner, on the other hand the average age of the Board of Commissioners shows the mastery of technology by the Board of Commissioners. The younger the average age of the Board of Commissioners shows that the Board of

Commissioners is better able to take advantage of technology in conducting surveillance, as evidenced by a survey by Zickuhr [44] which shows that technology utilization by each generation is different.

The results of this study show that the average age of the Board of Komisar is 54.9 years. Figure-3 shows that the average age of the Board of Commissioners in 2013 is 54.6 years. In 2014 the average after the Board of Commissioners is 54, 8 years, while in the year 2015 the average is 55, 15 years old. In the year 2016 the average age to 55, 2 years. The increase in the age of the Board of Commissioners demonstrates the increasing age of members who are naturally increasing. Nevertheless we need to give attention to the fact that the average age of the Board of Commissioners in Indonesia is relatively old. This shows that the Board of Commissioners in Indonesia is still more dominant in relying on the experience it has in supervising rather than relying on technological supervision.

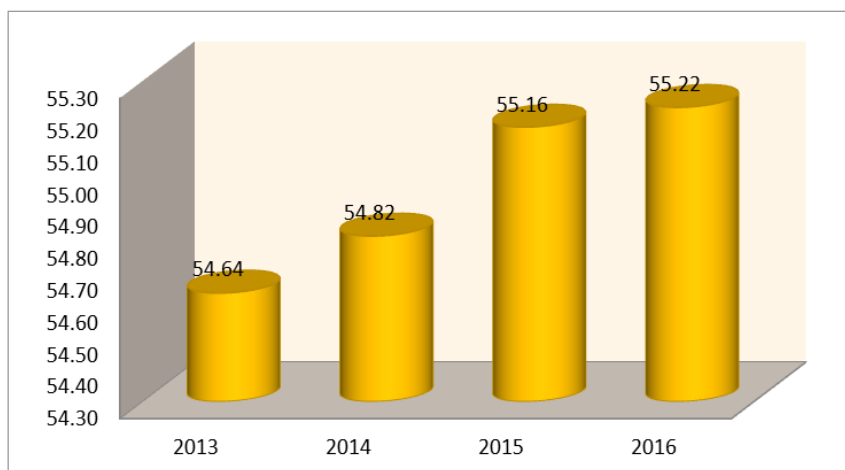


Fig-3: Average Age of Board of Commissioners

Tenure of the Board of Commissioners

The tenure (term of office) of the Board of Commissioners in this study shows the level of understanding of the Board of Commissioners of the company in which it is assigned. The results of this

study show that the tenure of the Council of Kosaris is 6.8 years. Figure-4 shows that the average term of office of the Board of Commissioners in 2013 is 6.4 years.

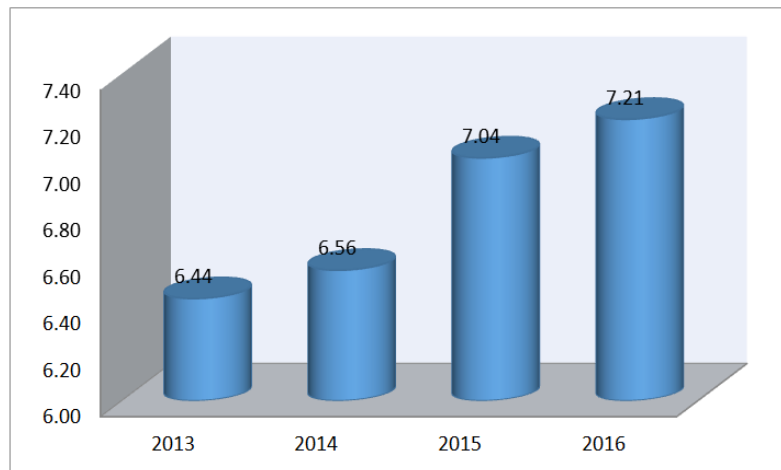


Fig-4: Average Tenure of the Board of Commissioners

In 2014 the average tenure of the Board of Commissioners is 6.6 years, while in 2015 the average period of tenure becomes 7.0 years. In 2016 the average tenure becomes 7.2 years. This increase in term of office of the Board of Commissioners may be characterized as an increase in the member's tenure which increases naturally. This shows that the Board of Commissioners in Indonesia generally takes twice the term of office.

CONCLUSIONS AND SUGGESTIONS

Conclusion

- The independence of the Board of Commissioners in this study shows an increase. The level of Board of Commissioners' independency of more than 50% is a fairly high figure considering that the regulation in Indonesia only requires one independent member in the Board of Commissioners.
- The Board of Commissioners' expertise in this study shows improvement. Improvement of expertise during the period of 2013-2015 demonstrates the enhancement of the Board of Commissioners' capacity in carrying out supervisory functions on the management of the company.
- The average age of the Board of Commissioners in this study is 54.9 years. An average age of more than 50 years shows that the Board of Commissioners relies on the experience it has in supervising rather than relying on technological supervision.
- The average tenure (term of office) of the Board of Commissioners is 6.8 years. This shows that the Board of Commissioners in Indonesia generally takes twice the term of office

Suggestions

Characteristics of top management in this study can only be done on companies that publish the required data. Hence this research suggests companies listed on the Indonesia Stock Exchange to extend

information on the characteristics of the Board of Commissioners and the Board of Directors.

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