**PROGRAM (Final Version)**

| | DAY 1 (June 7, 2012) | DAY 2 (June 8, 2012) | DAY 3 (June 9, 2012) |
|---|---|---|---|
| Registration 8:30-16:00 (Day 1-3) | 9:00-10:35 Sessions **A1, B1** | 9:00-10:35 Sessions **A2, B2, J2** | 9:00-10:35 Sessions **A3, B3** |
| | 10:35-10:50 Tea break | 10:35-10:50 Tea break | 10:35-10:50 Tea break |
| | 10:50-12:00 **Keynote Speech*** | 10:50-12:15 Sessions **C2, D2, K2** | 10:50-12:15 Sessions **C3, D3, K3** |
| | 12:00-13:25 Lunch (Am café) | 12:15-13:25 Lunch (Am café) | 12:15-13:25 Lunch (Am café) |
| | 13:25-15:00 Sessions **E1, F1** | 13:25-15:00 Sessions **E2, F2, M2** | 13:25-15:00 Sessions **E3, F3, M3** |
| | 15:00-15:15 Tea break | 15:00-15:15 Tea break | 15:00-15:15 Closing & Tea gathering |
| | 15:15-16:40 Sessions **G1, H1** | 15:15-16:40 Sessions **G2, H2, N2** | |

*** Entrepreneurial Education – A Catalyst for Economic Well Being, by Prof. Sulaiman Sajilan, Dean of Universiti Kuala Lumpur Business School (Venue: Orchid 1).**

**Session A1: BUSINESS ETHICS & LAW (venue: Orchid 1)**
Chair: Marc-Antoine Carreira da Cruz (Université Libre de Bruxelles)

The Influence of Environmental Performance on Financial Performance with Corporate Social Responsibility Disclosure as a Moderating Variable: Evidence from Listed Companies in Indonesia (2012-088)
Speakers: Pek Karin Purnomo & Luky Patricia Widianingsih (Universitas Pelita Harapan)

Environmental Issues in Law (2012-096) **Best Paper Award**
Speaker: Clifford Fisher (Purdue University)

Exploring Spirituality Values in Accounting (2012-235)
Speaker: Kurnia Ekasari (Polytechnic State Malang)

Computer Crimes Encountered among the Selected Companies in Metro Manila, Philippines (2012-172)
Speaker: Harvey Ong (De La Salle University)

Corporate Social Responsibility as a New Field of the Expertise of the International Organization of Standardization: Causes and Consequences of a Maturation (2012-169)
Speaker: Marc-Antoine Carreira da Cruz (Université Libre de Bruxelles)

**Session B1: INTERNATIONAL TRADE & FINANCE (venue: Orchid 3)**
Chair: Tatre Jantarakolica (Thammasat University)

Financial Integration Among The ASEAN 5+3 Stock Markets: Looking at the First 10 Years of The Millenium (2012-265)
Speaker: Leila Kabigting (University of Guam)

Curse or Blessing? The Dynamic Linkages between Remittances and Macroeconomic Variables (2012-162)
Speaker: Joseph French (University of Northern Colorado)

Impact of Inclusion of Aviation in European Union Emissions Trading Scheme on the EU Carbon Market (2012-258)
Speaker: Manish Goswami (Indian Institute of Technology Bombay)

Guam Exports: Price and Income Elasticity Estimation (2012-264)
Speaker: Leila Kabigting (University of Guam)

Thai Export Forecast under Europe and US Crisis (2012-003)
Speaker: Tatre Jantarakolica (Thammasat University)

**Session E1: ACCOUNTING & FINANCE (venue: Orchid 1)**
Chair: Rataporn Deesomsak (Durham Business School)

Bad Debts Practices of Selected Small and Medium Enterprises in the Philippines (2012-166)
Speaker: Venus Ibarra (University of Guam)

Trading with Sentiment: Evidence from the US and European Markets (2012-078)
Speaker: Frankie Chau (Durham Business School)

Factors Affecting Efficiency of Accounting Information System in SMEs in Vietnam (2012-138) **Best Paper Award**
Speakers: Nigel Finch (The University of Sydney Business School), Phan Duc Dzung (University of Economics Law) & Pham Anh Tuan (University of Food Technology)

The Determinants of Working Capital Management: Evidence from Thailand (2012-079)
Speaker: Rataporn Deesomsak (Durham Business School)

**Session F1: CORPORATE GOVERNANCE (venue: Orchid 3)**
Chair: Gurmeet Singh Bhabra (University of Otago)

The relationship between governance on sustainability and performance (2012-241)
Speaker: Siti Musyarofah (Trunojoyo University)

Factors Influencing the Performance of Family-controlled Publicly-listed Firms in Malaysia (2012-167)
Speaker: Sin Huei Ng (INTI International University)

Board Governance under the Two-tier Regime and Family Ownership: the Indonesia's Experience (2012-159)
Speaker: Lukviarman Niki (Andalas University)

The Influence of Institutional and Government Ownership on Firm Performance: Evidence from Kuwait (2012-188)
Speaker: Mishari Alfaraih (Public Authority for Applied Education and Training–Kuwait)

Corporate Governance and Payout Policy: The Impact of the Sarbanes-Oxley Act (2012-263)
Speaker: Gurmeet Singh Bhabra (University of Otago)

**Session G1: ECONOMIC POLICY & GROWTH (venue: Orchid 1)**
Chair: Teerawut Sripinit

Taxation of Financial Intermediation in an Endogenous Growth Model with Public Capital (2012-001) **Best Paper Award**
Speaker: Sicha Thubdimphun (Thammasat University)

Money Growth and Inflation: Evidence from post-inflation Bolivia (2012-174)
Speaker: Jonathan Fortun Vargas (Kobe University)

Evaluation of the Cohesion Policy in the Czech Republic (2012-121)
Speaker: Vera Tunkrova (University of Economics, Prague)

Are There Asymmetric Effects of Monetary Policy? An Estimated Financial Accelerator Model (2012-002)
Speaker: Teerawut Sripinit (Thammasat University)

**Session H1: EDUCATION AND BUSINESS (venue: Orchid 3)**
Chair: Sulaiman Sajilan (Universiti Kuala Lumpur)

Is a Degree a Worthwhile Investment for Everyone? The Australian Experience (2012-104)
Speaker: Phil Lewis (University of Canberra)

Educational Leadership at Laguna University's College of Education (2012-246)
Speaker: Felisa P.L Cruz (Laguna University and San Pablo Colleges)

Students' perceptions of service quality: higher education in Australia and Malaysia (2012-223) **Best Paper Award**
Speaker: Wee Ming Ong (Curtin University of Technology and RMIT)

Social Media and Civic Engagement (2012-122)

Speaker: Maryam Davodi-Far (National University)

Exploring the Terrains of the Malaysian Educational Landscape: Content Analysis of the Vision and Mission Statements of Malaysian Public Universities (2012-140)
Speaker: Sulaiman Sajilan (Universiti Kuala Lumpur)

**Session A2: ECONOMIC & SOCIAL DEVELOPMENT (venue: Orchid 1)**
Chair: Syed Rahman (University of Western Sydney)

Identifying Factors that affect Future Wealth Expectations Amongst Youth: An Assessment for the Lebanese Case (2012-161)
Speaker: Pierre Al-Khoury (Rafic Hariri University)

The U.S. Housing Market and Economic Outlook (2012-185)
Speaker: Esmael Adibi (Chapman University)

The Impact of Business Environment on Small and Medium Enterprises' Size and Employment: Preliminary Findings from a Cross-Country Comparison (2012-286)
Speaker: Erick Ariel Gonzales Rocha (Kobe University)

Community Based Tourism and Quality of Life (2012-238)
Speaker: Yusnita Yusof (Universiti Malaysia Terengganu)

Teenagers' in a Developing Country, their Social Class and TV Program Preferences in a Globalising Market (2012-141)
Speaker: Syed Rahman (University of Western Sydney)

**Session B2: INEQUALITY & DEMOGRAPHY (venue: Orchid 3)**
Chair: Philip Kavan (University of Canberra)

Investigating Income Inequality and Education Inequality in Bahrain (2012-136)
Speaker: Hisham Abdelbaki (University of Mansoura)

The Impact of Low Birthweight Child on Mother's Labor Force Participation: Evidence from Taiwan (2012-295)
Speaker: Meng-Wen Tsou (National Central University) and Jin-Tan Liu (National Taiwan University and NBER)

Does Demographic Change Affect the Current Account? A Reconsideration (2012-029) **Best Paper Award**
Speaker: Michael Graff (Jacobs University Bremen)

Educational Attainment, Gender, and Wage Inequality in Thailand: A Cohort Analysis (2012-170)
Speaker: Chih-Hai Yang (National Central University)

Factors Impacting On the Urban Informal Sector: 7 Country Studies Including PNG (2012-102)
Speaker: Philip Kavan (University of Canberra)

**Session J2: EFFICIENCY & PERFORMANCE (venue: Orchid 4)**
Chair: Norma Md Saad (International Islamic University Malaysia)

Measuring Organizational Effectiveness: An Industrial Study on Indonesia's Listed Manufacturing Firms (2012-145)
Speaker: Samuel Anantadjaya (Swiss German University)

Using Data Envelopment Analysis to Measure Ports Efficiency (2012-097)
Speaker: Chafik Abid (American University in Dubai)

Value-Based Approach on Project Management: Empirical Evidences on Indonesian Firms (2012-049)
Speaker: Samuel Anantadjaya (Swiss German University)

Opening the Black Box of the Relationship between Personality and Expatriate Effectiveness on the International Assignment (2012-171)
Speaker: Subramaniam Sri Ramalu (Universiti Utara Malaysia)

An Analysis on the Efficiency of Takaful and Insurance Companies in Manalysia: A Non-parametric Approach (2012-080)
Speaker: Norma Md Saad (International Islamic University Malaysia)

**Session C2: ORGANISATION & HUMAN RESOURCES MANAGEMENT (venue: Orchid 1)**
Chair: Jessica Lucas (University of Kent, Canterbury)

Evidence-Based Management of Information Systems: Human-Centric Approach (2012-275)
Speaker: Peter Geczy (AIST)

The Antecedents of Union Commitment and Participantion: Evaluating Moderation Effects Across Labor Unions (2012-100)
Speaker: Tom Redman (Durham University)

Current Practices of Human Resource Management in Thai Construction Industry: A Risk and Opportunity Perspective (2012-037)
Speaker: Nakhon Kokkaew (Walailak University)

Workplace Utilization of Participative Observation and In-depth Interviewing (2012-090)
Speaker: Aurino Djamaris (Bakrie University)

Utilizing Interdisciplinary Methods to Develop a Quantitative Tool Measuring Social Capital in a Complex Business Organization (2012-202)
Speaker: Jessica Lucas (University of Kent, Canterbury)

**Session D2: FINANCE & ECONOMETRICS I (venue: Orchid 3)**
Chair: Kushankur Dey (T A Pai Management Institute)

Nonlinear Process Modeling in Socio-Scientific Theory (2012-021)
Speaker: Masudul Choudhury (Trisakti University)

GARCH Models for Inflation Volatility in Oman (2012-129)
Speaker: Muhammad Idrees Ahmad (Sultan Qaboos University)

An Analysis of the Amihud Illiquidity Premium (2012-027) **Best Paper Award**
Speaker: Sahn-Wook Huh (State University of New York at Buffalo)

Is India's Coffee Futures Market Informationally Efficient? (2012-270)
Speakers: Kushankur Dey & A. Sivakumar (T A Pai Management Institute)

**Session K2: FINANCE & ECONOMETRICS II (venue: Orchid 4)**
Chair: Dhananjay Sahu (Banaras Hindu University)

Market Calibration of GARCH Option Pricing Models (2012-292)
Speaker: Chueh-Yung Tsao (Chang Gung University)

Impact of Biodiesel Mandates on Malaysian Palm Oil Market (2012-206)
Speaker: Shri Dewi Applanaidu (Universiti Utara Malaysia)

What and How Financial Planners Experience Professionalism: A Phenomenographic Study (2012-115) **Best Paper Award**
Speaker: Ken Bruce (CQUniversity)

Impact of Currency Futures Trading on Exchange Rate Volatility in India: Some Empirical Evidences (2012-224)

Speaker: Dhananjay Sahu (Banaras Hindu University)

**Session E2: INNOVATION & PROJECT MANAGEMENT (venue: Orchid 1)**
Chair: Pierre Vialle (Institut Telecom)

R&D on Pollutant Input and Environment Polices (2012-195)
Speaker: Zhe-An Wu (National University of Kaohsiung)

Accountability for Project Benefit Realization under Various Uncertainty Levels (2012-131) **Best Paper Award**
Speaker: Ofer Zwikael (Australian National University)

Building Organisational Climate that Stimulates Creativity and Innovation (2012-260)
Speaker: Regina Detty (Parahyangan Catholic University)

Farmers & Ranchers as Inventors and Innovators (2012-293)
Speaker: David Wilemon (Syracuse University)

Google's Acquisition Strategy in Unified Communications: A Preliminary Analysis (2012-261)
Speaker: Pierre Vialle (Institut Telecom)

**Session F2: ACCOUNTING & FINANCE (venue: Orchid 3)**
Chair: Christopher Burt (University of Canterbury)

Determinants of Dividend Decision: Evidence from the Indonesia Stock Exchange (2012-251)
Speaker: Jenjang Sri Lestari (Atma Jaya Yogyakarta University)

Culture Barrier on International Accounting Standard Convergence (2012-073)
Speaker: Golrida Karyawati P (Institut Bisnis Dan Informatika Indonesia)

The Impact of Manager's Knowedge Towards Manager's Style in Using Management Accounting Information Activity-based Management Implementation (2012-252)
Speaker: Anastasia Susty Ambarriani (Atma Jaya Yogyakarta University)

Product Costing Practices in Small and Medium Manufacturing Companies (2012-278)
Speaker: Christina Wiwik Sunarni (Atma Jaya Yogyakarta University)

Donor Specified Fund Splitting: The Influence of Charity Expenditure Information (2012-116)
Speaker: Christopher Burt (University of Canterbury)

**Session M2: CONSUMER BEHAVIOR & MARKETING (venue: Orchid 4)**
Chair: Aditi Abhyankar (Ramnarain Ruia College)

Conceptualization of Classic Brand from Customers' Perspective (2012-240)
Speaker: Cheng-Tung Hung (Yuan Ze University)

Hospitality Marketing through Social Media: A comparative study of Luxury/Premium and Mid-range/Value Hotels in Kerala state, India (2012-299)
Speaker: Ansted Iype Joseph & S.Victor Anandkumar (Pondicherry University)

Exploring Customers Perception Toward CSR Initiatives (2012-242)
Speaker: Yin-Ting Chang (Yuan Ze University)

An Empirical Study on Visually Challenged Customers' Preference for Mobile Banking (2012-306)
Speaker: Vinod Kumar. G (Pondicherry University)

Growth Potential of The Domestic and International Tourism in India (2012-236)

Speakers: Aditi Abhyankar & Sandnya Dalvie (Ramnarain Ruia College)

**Session G2: CONSUMER BEHAVIOR & MARKETING (venue: Orchid 1)**
Chair: Francis Mulhern (Northwestern University)

The Impact of Website Design on Purchase Intention in Restaurant Industry Across Culture (2012-203)
Speaker: Nicha Manorotkul (National Taiwan Normal University)

Customer Engagement: A Multifaceted Experience in Multiple Relationship Contexts (2012-055)
Speakers: Shiri Vivek (Eastern Michigan University) & Vivek Dalela (Grand Valley State University)

Using Text Messaging Services as a mCRM Tool (2012-259)
Speaker: Nichaya Suntornpithug (Indiana University-Purdue University Fort Wayne)

Product Retirement - Concept, Process and Business Strategy (2012-285)
Speaker: Sampurno Wibowo (Telkom Institute of Management)

Country-of-Origin Preferences among Chinese Consumers (2012-210)
Speaker: Francis Mulhern (Northwestern University)

**Session H2: MARKETING & SOCIETY (venue: Orchid 3)**
Chair: S.Victor Anandkumar (Pondicherry University)

Employ Gamification on Mobile Ethical Training of Salesperson (2012-243)
Yu-Shen Huang (Yuan Ze University)

Branding in China: Lessons from the Foreign Brand Success and Failure Stories (2012-301)
Speaker: Jijo George (Pondicherry University)

Hazardous Plastic Bags - From Birth to Disposal (2012-253)
Speakers: Aditi Abhyankar & Rucha Vaishampayan (Ramnarain Ruia College)

A Survey on Mumbai Suburban Local Train Travelers (2012-229)
Speakers: Aditi Abhyankar, Aishwarya Narayanmorthy, Vaishnavi Ramachandran & Mallika Mhapankar (Ramnarain Ruia College)

Green Marketing: The Case of Voluntary Carbon Offsetting Options for the Personal Air Traveler (2012-302)
Speaker: S.Victor Anandkumar (Pondicherry University)

**Session N2: CONSUMER BEHAVIOR & MARKETING (venue: Orchid 4)**
Chair: Vinod Kumar. G (Pondicherry University)

Building Conditions & Facilities Improve Customer Satisfaction? An Evidence of Consumer Behaviors in Office Buildings (2012-047)
Speakers: Irma Nawangwulan, Dwi Hendro Widayatmoko, Dalizanolo Hulu (Universitas Pembangunan Jaya)

Consumer Product Testing and Physico-Chemical Analysis of Muscovado Blocks (2012-163)
Speaker: Leah Matias (Tarlac State University)

Consumer Behaviors and Customer Satisfaction: Any Value Created? (2012-048)
Speakers: Irma Nawangwulan, Dwi Hendro Widayatmoko, Willy Micco Seancho (Universitas Pembangunan Jaya)

Online Marketing Strategy of Cibaduyut Footwear Industry in Bandung: An Effort to Face Global Hyper Competition (2012-158)

Speaker: Heppy Millanyani (Telkom Institute of Management)

Inclusive Banking: A study on the visually challenged customers' perception of banking services in India (2012-303)
Speaker: Vinod Kumar. G (Pondicherry University)

**Session A3: PRODUCTION, STRATEGIC CHOICE, & PERFORMANCE (venue: Orchid 1)**
Chair: Renato Alas Martins (Bond University)

Determinants of Economies of Scale and Their Influence on the Oil and Gas Services: A Discussion (2012-207)
Speaker: Subrat Sahu (Pandit Deendayal Petroleum University)

Production and Risk Management in a Multi-period Duopoly under Demand Uncertainty (2012-144) **Best Paper Award**
Speaker: Matthias Pelster (University TU Dortmund)

Franchising in Developing Countries (2012-272)
Speakers: Andrew Terry (University of Sydney Business School) & Nguyen Ba Binh (University of New South Wales)

International Production Network: The Automobile Industry in East Asia (2012-233)
Speaker: Shahrun Nizam Abdul Aziz (University of Dundee)

Computational Intelligence and Decision Making: A Multidisciplinary Review (2012-237) **Best Paper Award**
Speaker: Renato Alas Martins (Bond University)

**Session B3: MARKETING & SOCIO-ECONOMIC BEHAVIOR (venue: Orchid 3)**
Chair: Jijo George (Pondicherry University)

The Differentiating Factors of Life Insurance Ownership: A Case Study on Indonesia (2012-198)
Speaker: Sri Hermawati (Gunadarma University)

Linking Market Behaviour, Economics and Politics via the Language Structures and Strategies of Business Media Reporting (2012-046)
Speaker: Angela Cheater (Macao Polytechnic Institute)

Amway as a Direct Marketing (2012-187)
Speaker: Walmik Kachru Sarwade (Dr. Babasaheb Ambedkar Marathwada University)

The Relationship Amongst Brand Communities within University (2012-269)
Speaker: Khoa Tran Tien (International University)

Using Social media for online customer engagement in emerging markets: A study of private Banks in India (2012-300)
Speaker: Ansted Iype Joseph & S.Victor Anandkumar (Pondicherry University)

**Session C3: INCENTIVE STRUCTURE & GOVERNANCE (venue: Orchid 1)**
Chair: John Chong (The Richard Stockton College of New Jersey)

What Kind of Financial Incentives Do Public Employees Value Most? (2012-182)
Speaker: Arif Perdana (State Polytechnic of Pontianak)

The Impact of Internal Control on the Performance of Small and Medium Enterprise: Malaysian Evidence (2012-201)
Speaker: Jaya Kumar Shanmugam (Universiti Malaysia Terengganu)

The Effect of Mandatory Auditor Rotation and Retention on Auditor-Client Negotiations Strategies (2012-219)
Speaker: Fitria Husnatarina (Universitas Gadjah Mada)

Collaborative Research and Faculty Reward Structure (2012-200)
Speaker: John Chong (The Richard Stockton College of New Jersey)

**Session D3: MARKETING & MANAGEMENT (venue: Orchid 3)**
Chair: Mohd Shoki Md Ariff (Universiti Teknologi Malaysia)

The Marketing Strategies and Challenges of Malaysia to Become a Main Fish Exporter in Southeast Asia: A Case Study in The East Coast of Peninsula Malaysia (2012-281)
Speaker: Wei Hin Cheng (Universiti Utara Malaysia)

Determination of Brand Personality Dimensions for a Laptop Computer Using Aaker's Brand Personality (2012-117)
Speaker: Mohd Shoki Md Ariff (Universiti Teknologi Malaysia)

Understanding the Short Term Nature of Competitive Advantage: by Investigating Firm Operations in Innovation and Market Engagement (2012-271)
Speaker: Tung-Shan Liao (Yuan Ze University)

Relationship between Customers' Perceived Values, Satisfaction and Loyalty of Mobile Phone Users (2012-120)
Speaker: Mohd Shoki Md Ariff (Universiti Teknologi Malaysia)

(Poster Presentation) Relationship between Past Use Frequency and Medicating Intention in the Model of Theory of Planned Behavior: A Case of Non-prescription Anthelmintic Medications in Vietnam (2012-282) **Best Paper Award**
Speaker: Phuong Nguyen (University of Economics in Ho Chi Minh City)

**Session K3: EDUCATION RESEARCH (venue: Orchid 4)**
Chair: Myrna Mallari (Tarlac State University)

The effect of Service Quality on Student Satisfaction in Southern Thai Higher Education Context (2012-212)
Speaker: Narueban Yamaqupta (Prince of Songkla University)

The Scholars Profile and Perspective on The Eduardo Cojuangco Project - Flagships to Reach Educational Excellence (2012-083)
Speaker: Myrel Santiago (Tarlac State University)

Graduate Tracer Study of the TSU-LGU San Jose Learning Center from 2006-2008, Tarlac, Philippines (2012-081)
Speaker: Glenard Madriaga (Tarlac State University)

Assessment of Public School Teachers' Application of Basic ICT Skills in the Workplace (2012-082)
Speaker: Emir Lenard Sicangco (Tarlac State University)

The Research Competency and Interest of Accountancy Faculty Among State Colleges and Universities in Region III (2012-017)
Speaker: Myrna Mallari (Tarlac State University)

**Session E3: MANAGEMENT & MARKETNG STRATEGIES (venue: Orchid 1)**
Chair: Giorgio Sinkovic (University of Pula, Croatia)

Management Practice, Firm Size and Performance of Family Business: Indonesian Experience (2012-288)
Speaker: Heribertus Andre Purwanugraha (Universitas Atma Jaya Yogyakarta)

Entrepreneurial Orientation and Market Orientation on the Performance of MSMEs (2012-178)
Speaker: Henny Medyawati (Gunadarma University)

The Bargaining Power of Construction Companies in Strategic Project Alliances (2012-134)
Speaker: Min-Ren Yan (Chinese Culture University)

Managing New Corporate Ventures: A Managerial Perspective (2012-294)
Speaker: David Wilemon (Syracuse University)

Quality management in hospitals Case study in Croatia (2012-205)
Speaker: Giorgio Sinkovic & Vanja Bevanda (University of Pula, Croatia)

**Session F3: SOCIAL DEVELOPMENT & CULTURAL CHANGE (venue: Orchid 3)**
Chair: Fajar Sakti Nur Hardiansyah (Bogor Agricultural University)

Economic Benefits of Adipura in The Environmental Conservation in Ponorogo Regency, East Java, Indonesia (2012-249)
Speaker: Andini Kusumawardhani (Bogor Agricultural University)

Effects of the Different Types of Container on the Characteristics of Sugarcane Vinegar (2012-146)
Speaker: Lea Milan (Tarlac State University)

Domestic Debt: Boon or Curse? A Case of Pakistan (2012-061)
Speaker: Syeda Azra Batool & Salyha Zulfiqar (Bahuddin Zakariya University)

Population Pressure and Changing Forest Dynamics in Guwahati City: A GIS Based Approach (2012-152)
Speaker: Rinku Manta (Gauhati University) & Dhrubajyoti Rajbangshi (Guwahati College)

Enterprise Creation: Model for Wealth Creation, Public Value Maximization and Economic Development (2012-089)
Speaker: Muritala Awodun (Kwara State University)

Economic Losses at Regional and Business Level Caused by Newcastle Disease in the Poultry (Case Study: Ponorogo, East Java, Indonesia) (2012-244)
Speaker: Fajar Sakti Nur Hardiansyah (Bogor Agricultural University)

**Session M3: MANAGEMENT, HUMAN RESOURCES & GOVERNANCE (venue: Orchid 4)**
Chair: Ozan Aglargoz (Anadolu University)

Work and Family Balance: An Empirical Analysis from Turkey (2012-065)
Speaker: Emre Kol (Anadolu University)

How do Vietnamese Managers Understand of Corporate Social Responsibility? (2012-256)
Speaker: Le Thi Thanh Xuan (Hochiminh University of Technology)

Board Governance Role at Indonesian Publicly Listed Companies (2012-151)
Speaker: Bernardus Nugroho (University of Indonesia)

Job satisfaction of University Teachers: Impact of Working Conditions And Compensation (2012-103)
Speaker: Huma Bilal (Federal URU University for Arts, Science & Technology Islamabad)

Employing User-Generated Content for Decision Making in Business Firms (2012-074)
Speaker: Ozan Aglargoz (Anadolu University)

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**Guide to Presenters and Session Chairs**

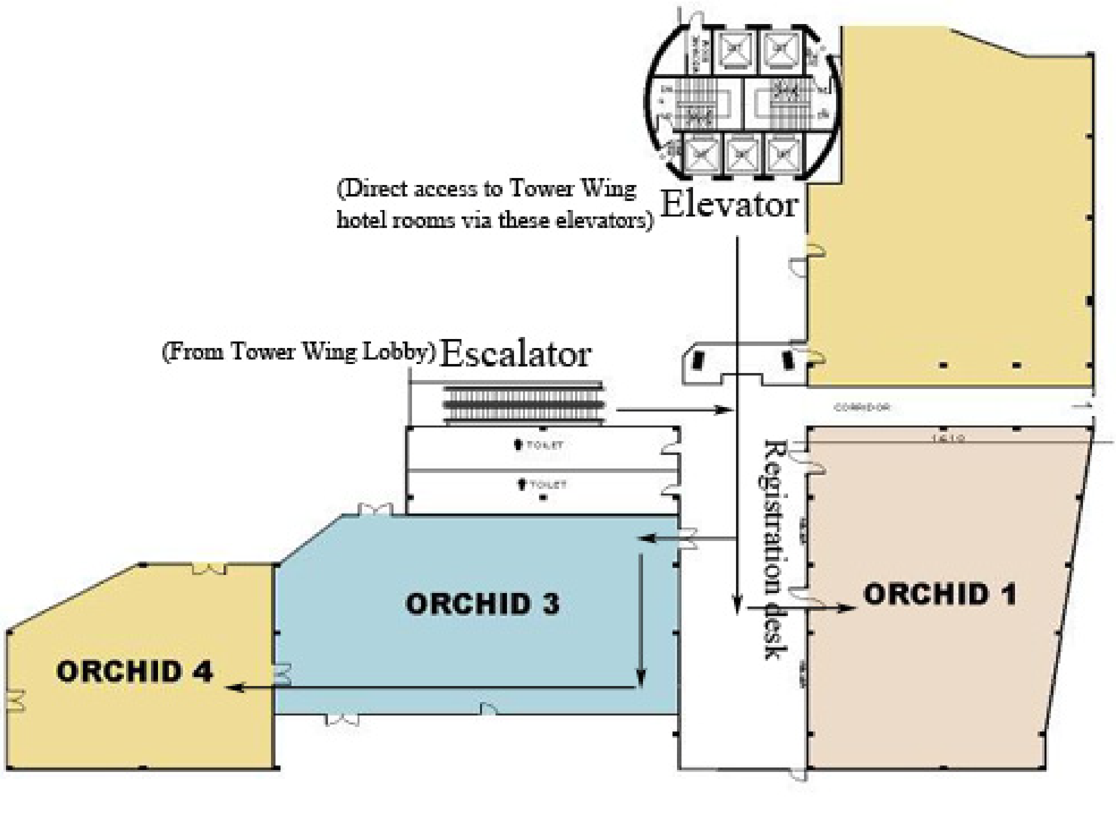
- Please be ready in the session five minutes before the schedule.
- The session chair will allocate the available time equally among all papers to be presented in the session. Each paper has to be presented within the time allotted sparing 3-5 minutes for discussion.
- The session chair should remind the speaker three minutes before the time he or she is expected to end the presentation. If the speaker goes beyond the time allotted, the session chair should remind her or him to end the presentation.
- SIBR assumes no responsibility if presenters are unable to finish their presentation in the assigned session for any reasons.
- LCD projector, screen and laptop (notebook) computer will be provided.

**Conference Registration Desk**

Conference participants will collect attendance certificates, proceedings (CD-ROM) and official receipts from the registration desk. Please mention your Paper I.D. code at the desk to speed up the process. The conference registration desk will be open from AM08:30 to PM16:00 on June 7th-9th, 2012. Presenters assigned to morning sessions can register after they have finished their presentation.

**Others**

- The registration fee includes one free copy of the proceedings CD-ROM. Additional copies can be purchased from: http://sibresearch.org/order-2012-bangkok-proceedings.html.
- To conserve the environment, the conference will minimize the use of papers, and will NOT provide nylon bag/plastic folder.




**ORCHID** (3rd Floor)

**List of Delegates**

| | | |
|---|---|---|
| 2012-270 | A. Sivakumar | T A Pai Management Institute |
| 2012-229, 2012-236, 2012-253 | Aditi Abhyankar | Ramnarain Ruia College |
| 2012-229 | Aishwarya Narayanmorthy | Ramnarain Ruia College |
| 2012-252 | Anastasia Susty Ambarriani | Atma Jaya Yogyakarta University |
| 2012-249 | Andini Kusumawardhani | Bogor Agricultural University |
| 2012-272 | Andrew Terry | University of Sydney Business School |
| 2012-046 | Angela Cheater | Macao Polytechnic Institute |
| 2012-299, 2012-300 | Ansted Iype Joseph | Pondicherry University |
| 2012-182 | Arif Perdana | State Polytechnic of Pontianak |
| 2012-090 | Aurino Djamaris | Bakrie University |
| 2012-151 | Bernardus Nugroho | University of Indonesia |
| 2012-097 | Chafik Abid | American University in Dubai |
| 2012-240 | Cheng-Tung Hung | Yuan Ze University |
| 2012-170 | Chih-Hai Yang | National Central University |
| 2012-278 | Christina Wiwik Sunarni | Atma Jaya Yogyakarta University |
| 2012-116 | Christopher Burt | University of Canterbury |
| 2012-292 | Chueh-Yung Tsao | Chang Gung University |
| 2012-096 | Clifford Fisher | Purdue University |
| 2012-047 | Dalizanolo Hulu | Universitas Pembangunan Jaya |
| 2012-293, 2012-294 | David Wilemon | Syracuse University |
| 2012-224 | Dhananjay Sahu | Banaras Hindu University |
| 2012-152 | Dhrubajyoti Rajbangshi | Guwahati College |
| 2012-047, 2012-048 | Dwi Hendro Widayatmoko | Universitas Pembangunan Jaya |
| 2012-082 | Emir Lenard Sicangco | Tarlac State University |
| 2012-065 | Emre Kol | Anadolu University |
| 2012-286 | Erick Ariel Gonzales Rocha | Kobe University |
| 2012-185 | Esmael Adibi | Chapman University |
| 2012-244 | Fajar Sakti Nur Hardiansyah | Bogor Agricultural University |
| 2012-246 | Felisa P.L Cruz | Laguna University and San Pablo Colleges |
| 2012-219 | Fitria Husnatarina | Universitas Gadjah Mada |
| 2012-210 | Francis Mulhern | Northwestern University |
| 2012-078 | Frankie Chau | Durham Business School |
| 2012-205 | Giorgio Sinkovic | University of Pula ,Croatia |
| 2012-081 | Glenard Madriaga | Tarlac State University |
| 2012-073 | Golrida Karyawati P | Institut Bisnis Dan Informatika Indonesia |
| 2012-263 | Gurmeet Singh Bhabra | University of Otago |
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| 2012-178 | Henny Medyawati | Gunadarma University |
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11

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# Board Governance under the Two-tier Regime and Family Ownership: The Indonesia's Experience

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## Abstract

This paper is about specific features of corporate behavior in Indonesia in relation to corporate governance. The paper posits that in the absence of the single corporate governance model, different legal and institutional settings affect how the governance participants react in relation to certain costs and benefits of their actions to maximize wealth. The roles of Supervisory Board under two-tier regime in accordance with the Indonesian Company Law are believed to influence their effectiveness in performing monitoring functions. Since corporate governance structure in Indonesia is also characterized by the fact that most companies are managed and owned principally by founding family members, this paper will define insider control more broadly to include significant family control over the company through involvement in both supervisory and management boards. This paper contribute to the literature on the view that corporate governance mechanisms that work well in other developed countries may be inappropriate for Indonesia, due to the uniqueness of the country's corporate features. This paper argues that any effort to promote governance practices should consider the country's specific factors. Appropriate regulatory environment, therefore, is necessary to determine the rights and obligations of governance participants and the incentive to promote sound governance practices.

*Keywords; Board Governance, Two-tier Board, Governance Structure, Governance Mechanism*

## 1. Background

Corporate governance has become a key policy issue in addressing the way a company is managed in various countries. However, the effectiveness of corporate governance reform in a country depends on the distinct national business systems in that country (Pedersen and Thomsen 1999, Cheung and Chan 2004). Kuada and Gullestrup (1998) argued that macro-cultural variables might have strong influence on the manner in which the firms are governed. Further, these variables will influence the country's economic systems and, in particular, its financial system. This in turn will affect ownership patterns (Berglof 1990), corporate systems (Moerland 1995), corporate structure (Roe 1993), disciplinary mechanisms (Prowse 1995), as well as the governance orientation (Kim and Hoskisson 1997). In consequence, it might be argued that it is highly unlikely that corporate governance systems that work well in one country will also fit the others, due to their different cultural contexts.

There are extensive literatures examining different facets of corporate governance from various disciplines. However, the dominant view of corporate governance hinges on the issue of separation of ownership and control within the firm, which is modeled by the agency theory (Berle and Means 1932, Jensen and Meckling 1976, Fama and Jensen 1983a,b, Keasey et al. 1997). The agency theory identifies potential conflicting interests among parties within a company, which in turn affects corporate behavior in different ways (Jensen and Warner 1988). This paper deals with typical agency constructs within corporate governance structure and, in particular, it will discuss the role of board governance under the two-tier regime and the prevalence of concentrated-family ownership in Indonesia. By observing corporate governance implementation, the paper is deliberately focused on this issue in Indonesia as one of the developing economies.

The purpose of this paper is to describe certain issues in relation to implementation of corporate governance concept in Indonesia. It addresses the issue of corporate behavioral patterns and describes business practices within its environment which, in turn, influence the country's governance orientation. Following Pedersen and Thomsen (1999), this paper argues the importance of understanding a country's specific business system through its macro cultural variables as a means of enhancing appropriate corporate governance practice in one country. For the purpose of this paper, the term "corporate governance" is used to describe the system by which companies are controlled, directed and made accountable to shareholders and other stakeholders (Demirag 1998, Lukviarman 2004). In this regard, control is understood as including indirect influences of financial markets, from the view of financial management.

The proposition of this paper is that ownership structure determines the nature of agency problems and hence will determine the distribution of power and control within an organization (Jensen and Warner 1988). In the absence of control mechanisms prevalent in developed economies, majority shareholders could serve as an alternative governance mechanism in mitigating agency problems (Shleifer and Vishny 1997, Hanazaki and Liu 2007)). The extent of the monitoring and control, through the involvement of majority owners on the board, should be reflected in reducing agency costs (Lins 2003). Shareholders could minimize asymmetric information and apply effective control when they have superior information through involvement in boards of directors (La Porta et al. 2000, Morck et al. 1988).

This paper begins with review of governance structures in Indonesia, followed by a discussion on the importance of understanding context in studying governance structures. In the next section it describes the role of separation between ownership and control within corporate governance issues, followed by discussion on the agency problems and ownership structure. The paper then discusses the role of governance mechanisms in shaping the governance orientation within one country. The following section will discuss issues on corporate governance implementation in Indonesia. In this section, board governance under the two-tier regime and the development of legal frameworks underlying corporate governance practice in Indonesia will be discussed. The last section discusses concentrated-family ownership and other issues relevant to corporate governance implementation in Indonesia, followed by concluding comments.

## 2. Governance Structures in Indonesia

The corporate governance structure in Indonesia is characterized by the fact that most companies are managed and owned principally by founding family members, implying that there is little divorce of ownership and control. Indeed, majority owners can retain control of their companies even though the companies are listed, which implies that ownership rights and management control are coupled in the hands of a small circle of family members and trusted business associates. This situation is heightened by a relatively small, undeveloped, and illiquid capital market which provides no discipline and control of management through the market for corporate control. As has been argued by Patrick (2002), the Indonesian stock exchanges are not strong, effective self-regulating institutions, and government oversight in practice is not strong. The highly concentrated and family-based ownership structure of companies leaves corporate decisions in the hands of the controlling family. Small and public investors have little or no power to protect themselves from appropriation by large shareholders as a result of weak legal protections.

Checks and balances within corporate governance practices could also be achieved through the active role of boards of directors in their supervisory and advisory tasks. This internal control mechanism is believed to be an efficient and low cost governance mechanism. This could be possibly achieved if directors are largely independent of management and have appropriate knowledge of the firm (Van den Berghe and De Ridder 1999). However, board members in Indonesia are appointed due to their close relationship, mostly family ties, with the major shareholders (ADB 2000). The ADB (2000) also claimed that almost 85 per cent of companies' controlling owners in Indonesia appointed members of their family to the management team and/or Board of Directors. The dominance of family-related board members in this country could hinder the effectiveness of their monitoring role in providing checks and balances on a company's operation (see Lukviarman 2004 for further discussion).

The Asian Development Bank (2000) suggests that weaknesses in corporate governance in East Asian countries appears to owe much to 'highly concentrated ownership structure, excessive government interventions, under-developed capital markets, and the weak legal and regulatory framework for investor protection' (p.2). In the case of Indonesia, the currency composition and term structure of corporate foreign debts has caused the country to be extremely vulnerable to the crisis (Husnan 2001). Moreover, the weakness in basic regulatory structures for the corporate sector and poor compliance and enforcement appear to be the major problems in this country. In sum, Husnan (2001) concludes that apart from weaknesses in appropriate governance systems, a key problem in corporate governance in Indonesia is the non-enforcement of the legal and regulatory frameworks that exist.

## 3. Context and Governance Structures

There are distinct differences in corporate governance contexts across countries and they can be seen to change over time. As a consequence, there is no specific corporate governance system that is best suited for every company and all countries. In general, every governance systems could be classified as being either market- dominated or bank-dominated (Vitols 2005). Market-oriented governance systems generally refer to the Anglo-Saxon countries (i.e. the U.S. and the U.K) where the capital market plays an important role in their economy. In these countries the market for corporate control takes a place at the heart of their control system, which is known as the "outsider control system". Continental European countries and Japan have been categorized as having bank-oriented governance systems. Within these countries, the role played by the market for corporate control is almost insignificant (Schmidt and Tyrell 1997). The term "insider dominated control" is often used to describe this system, characterized by relatively stable and concentrated ownership structures by some of the shareholders. According to Kuada and Gullestrup (1998) the cultural aspects in the society where the governance system exists could be seen as the cause of the differences between these two systems.

The development of corporate structures in Indonesia can be seen as following a theory of path dependence (Bebchuk and Roe 1999). This theory holds that the corporate structures of an economy depend on the structures with which the economy started, and corporate rules will themselves depend on these structures. As a corollary, La Porta et al. (1997) argue that differences among countries in the structures of law and their enforcement, such as the historical origin of their laws, account for differences in financial development. This in turn will affect a country's financial system and subsequently a company's choice of financing in different ways (Berglof 1990, Vitols 2005). Thus, it might be argued that the financial system in a country will determine the particular governance orientation that governs the relationship between various parties involved within a corporation.

The preceding discussion implies that Indonesia can be portrayed as having a Continental European governance system rather than a market-based system. On the other hand, it could also be argued that concentrated and family-based ownership are prominent in this country. In this regard it is beneficial to investigate the role of holders of large blocks of shares in resolving the agency problems of corporations in order to promote the best corporate governance practices.

## 4. Governance and the Separation of Ownership and Control

The underlying problem of corporate governance, the separation of ownership and control, has been recognized by a long tradition of scholars from Adam Smith (1776) to Berle and Means (1932) and Jensen and Meckling (1976). However, dispersedly held corporations described in the model of Berle and Means (1932) are less common around the world. Indeed, Roe (1991) and Porter (1998) have argued that dispersed ownership represents a competitive disadvantage for the US and advocated a more concentrated ownership for competitive advantage of companies in this country. Further, a study by La Porta et al. (1999) revealed that about sixty-four percent of large firms in the twenty-seven richest countries have controlling shareholders and control is often concentrated within a family. Similarly, several studies in emerging and developing economies found the dominance of highly concentrated ownership among corporation. Therefore, it might be argued that the issue of ownership concentration is increasingly important in the corporate governance of enterprises.

Concentrated ownership has been criticized by Shleifer and Vishny (1997), La Porta et al. (1999), and Bebchuk et al. (2000) for providing excessive power to the controlling owner to use corporate resources for their own purposes at the expense of other stakeholders. The level of appropriation could be higher if the controlling owner was also involved in the management and/or director of a company. As such, the types of agency problems will also deviate from traditional manager-shareholders conflicts as can be found in firms with widely dispersed ownership. When ownership is concentrated to a level at which the owner obtains effective control of the firm, the nature of the agency problem shifts to conflicts between the controlling owner (who is also the manager) and minority shareholders. The powerful block shareholders could influence corporate decisions that benefit this group of shareholders at the expense of other interested parties within a company.

However, the existence of block shareholders can also benefit a company and, subsequently, all shareholders. According to Brickley and Dark (1987) companies that are owned and controlled by large block shareholders have a strong incentive to ensure 'the capital is deployed sparingly and used efficiently and that indirect production costs are tightly managed' (p. 404). In addition, the incentive effects of this type of ownership reduce the need for third party monitoring and supervision (Carney and Gedajlovic 1991). This mitigates the problems of free riding in corporate control, permitting control to be exerted more effectively. In this respect, it might be argued that the benefit of the controlling role provided by large block shareholders outweighs the costs.

Ownership structures are a central distinguishing feature of financial systems (Moerland 1995, Vitols 2005). As such, distinctions between different financial systems may help explain differences in corporate behaviour, especially with respect to handling the agency problems involved. Following Berglof (1990) and Vitols (2005) financial systems can be differentiated as market or bank-oriented, based on the pattern of capital mobilization used by companies to finance their operations in certain countries. The major financing choice and financial institution's involvement could be used to determine the governance orientation of any country (Kim and Hoskisson 1997). In Anglo-Saxon countries, for example, ownership concentration is low (Charkham 1995) and companies rely heavily on stock markets to channel the flow of capital. By contrast, concentrated ownership is a salient feature in some countries in Continental Europe (Moerland 1995) and in East Asia (Hanazaki and Liu 2007). In these countries, external finance dominates corporate financing through bank loans.

## 5. The Agency Problem and Ownership Structure

Early in the 20th century, Berle and Means (1932) observed that the dispersion of equity ownership had led to a transfer of corporate control from individual owners to professional managers in the joint-stock company. Berle and Means emphasized that when control is distinct from ownership, those in control may deploy assets in ways that benefit those in control rather than owners. As a result of their analysis, much of the literature on corporate governance assumes widely dispersed ownership and focuses on managing conflicts of interest between managers and shareholders resulting from the separation of ownership and control.

After the mid-20th century the ownership concentration in more developed economies with strong capital markets has shifted into the hands of financial institutions, such as pension or mutual funds (Hawley and Williams 1997). As such, recent literature brings into question the assumption of widely dispersed ownership and suggests that perhaps the more fundamental conflict of interest is between majority and minority shareholders. For example, La Porta et al. (1998) study a sample of large non-financial firms from 49 countries and find that average ownership by three largest shareholders is 46 percent. A following study by La Porta et al. (1999) revealed that control is often concentrated within a family who are often the founder of the firms or their descendants.

Shleifer and Vishny (1997) and Hanazaki and Liu (2007) argued that the fundamental agency problem in large corporations in most countries is not the Berle and Means' conflict of interest between outside investors and managers. They believe that the dominant agency problem around the world is the conflict between outside investors and controlling shareholders, who have almost full control over managers. Shleifer and Vishny (1997) argue that this problem may also arise between shareholders and creditors, and between shareholders and other stakeholders. Therefore, it is crucial to determine the type of ownership structure, as it may be the most important factor in shaping the corporate governance system of any country (Aoki 1995). Through this process one might determine the nature of the agency problems and, more specifically, identify which parties might dominate conflict within corporations.

Ownership structure is an important element in corporate governance; the separation of ownership from control remains as the central idea of research in this area (Denis and McConnel 2003). However, the realities of ownership and control that lead to agency conflicts between professional managers and their widely dispersed shareholders in the Anglo–Saxon countries are not common in other countries around the world. Different agency problems arise when there is little separation of ownership and control with equity ownership concentrated in the hands of inside owners (Lins and Servaes 1999, Hanazaki and Liu 2007). As a consequence, the agency problem has shifted from the traditional manager-shareholders relationship to the conflict between 'majority and minority shareholders'.

## 6. Corporate Governance and Governance Mechanisms

Central to the study of the effects of ownership structure and firm performance is the concept and definition of 'control' (Short 1994). It is, therefore, necessary to define what is meant by 'control' within the context of the ownership and control structure of the firm. Fama and Jensen (1983a) consider a firm's decision process -namely, initiation, ratification, implementation, and monitoring- in defining the concept of control. They argue that, due to the presence of agency costs 'an effective system for decision control implies, almost by definition, that the control (ratification and monitoring) of decisions is to some extent separate from the management (initiation and implementation) of decisions' (p. 304). Within this context, control refers to the ability of a particular individual or group dominate the decision making process within a firm.

Governance mechanisms can be broadly characterized as being either internal or external to the firm. The internal mechanisms of primary interest are the board of directors and the managerial incentive schemes, while the external mechanisms rely on the effectiveness of the market in providing discipline over a company and the legal/regulatory system. The market-based mechanism for corporate control, which also known as external control mechanism, consist of several devices; the capital market (Fama and Jensen 1983a); the product market (Hart 1983), and the managerial labor market (Fama 1980). On the other hand, the internal control or organizationally based mechanism for corporate control, consist of the board of directors (Fama and Jensen 1983), and the managerial incentive schemes (Fama 1980). Based on such disciplinary mechanisms, one could expect different corporate governance systems to arise as a result of varied financial systems, legal and regulatory framework, and the market for capital mobilization across countries.

In the case of Indonesia, there are tendency for majority shares to be held by the founding owner is also combined with relatively small and not well-developed capital market (Lukviarman 2001). Moreover, this study also found that the Indonesian capital market is among those with the lowest liquidity within East Asian countries, as indicated by the concentration of market capitalization in certain companies and thin trading volumes. Therefore, it might be argued that there are obstacles in the market for corporate control mechanism to effectively work in developing countries such as Indonesia. This is not to mention that various devices of external control mechanisms rarely function in this country, like their counterparts in developed economies.

The very purpose of the internal control mechanism is 'to provide an early warning system to put the organization back on track before difficulties reach a crisis stage' (Jensen 2000, p.49). Therefore, the board of directors at the apex of the internal control system has the final responsibility for the functioning of the firm. Corporations in most countries of the world have boards of directors, although they have some differences in practices. In the Anglo-Saxon countries, the unitary board type is common in practice. On the other hand, in Continental European countries and Japan the two-tier board system is more prevalent.

The active role of a board of directors in performing their supervisory and advisory tasks is believed to be an efficient and a less expensive governance mechanism than other external mechanisms. The board of directors can act to restrict potential conflicts on interests between managers and shareholders. The active role of a board of directors in performing their supervisory and advisory tasks is believed to be an efficient and a less expensive governance mechanism. This can possibly be achieved if directors are independent of management and have appropriate knowledge of the firm (Van den Berghe and De Ridder 1999). Together with the managerial incentive scheme, the agency theorists (Rindova 1999) argue that the board will play an important role as an internal monitoring device to ensure the managers act consistently with shareholders' interests. This point of view emphasizes the importance of the director's role and an incentive scheme in a corporate governance mechanism.

## 7. Issues on Corporate Governance Implementation in Indonesia

Moerland (1995) argues that corporate systems across the world differ markedly with respect to their historical origins, methods of capital mobilisation and structure of ownership. This raises the issue of 'the effects of varying institutional settings on managerial behaviour and corporate control' (p. 17). Hence, it might be argued that the relative importance of various disciplinary governance mechanisms and their effectiveness is expected to differ across countries. In the case of Indonesia, given its specific institutional environment that may affect governance systems, it is fruitful to assess the country institutional framework in providing proper understanding for the basis of this study.

La Porta et al. (1998, 2000) argue that the law and finance approach to corporate governance emphasizes the important role of laws and institutions protecting investors for the development of a country. Specifically, La Porta et al. (1998) argue that the value of ownership rights attached to corporate equity depends on the country's legal system and the quality of its law enforcement. As a corollary, Pedersen and Thomsen (1997) argue that company legislation differs from country to country and this affects the financial systems and ownership structures in a number of ways. This view is based on the role of governance concepts in promoting accountability, control, transparency, and predictability. As part of a broad social system, law and regulation serve as the guidance in allocating and enforcing the rights and obligations in one country. In sum, the system of law and regulations are the most basic corporate governance mechanisms that govern the firm's operations that exist outside the firms (Denis 2001).

Gillan (2006) argues that aspects of the legal and regulatory environment are integrally related to corporate governance. Corporate governance as guidance for a company's best practices arises in the context, and is affected by, differing national frameworks of law, regulation and stock exchange listing rules, and differing societal values. Therefore, to understand one nation's corporate governance practices, one must understand the underlying legal and enforcement framework. As has been argued by the OECD (2004) the primary role for regulation is to shape a corporate governance environment compatible with societal values that allows corporations to succeed in generating long-term economic gain. In order for governance practices to achieve effectiveness, they should be supported by an enabling regulatory framework to achieve better corporate performance.

In a two-tier board system, as commonly found in continental European countries, a company's board consists of an executive board and a supervisory board. Within this system, executive boards coincide with the top-level management team, while the supervisory board is completely composed of outside experts with a broader control function than in Anglo Saxon countries (Moerland 1995). Indonesia has also adopted this two-tier system of board but without the employees' representative on the supervisory board. Companies incorporated under the Indonesian Company Law have two boards: the Board of Commissioners that performs supervisory and advisory roles, and the Board of Directors (including management) that performs the executive roles (Lukviarman, 2001). In Indonesia, the supervisory board (the board of commissioners) is a body separated from and independent of the executive or management board. It might be argued that this type of board system leads to a formal separation of supervisory and executive responsibilities.

The existence of a two-tier board system in Indonesia might be seen as allowing the supervisory board to be more independent in overseeing executives in ratifying company's decisions. The reason is that there is no overlap of membership between the two boards (i.e. CEO serves as the chairman of the board of directors as in the single tier board regime). The agency theory perspective (Fama and Jensen 1983a) conceptualized a decision system through a distinction between "decision-management" and "decision-control" to overcome agency problems. From the view of two-tier board it could be seen that the decision-management activities (initiation and implementation) are the responsibility of the board of executives. The responsibilities of controlling management decisions (ratification and monitoring) are delegated to the supervisory board. Thus, a clear separation of each board's responsibilities in a two-tier board should lead to an effective system for decision control.

Shleifer and Vishny (1986) argue on the importance of monitoring by holders of large share blocks through involvement in the supervisory board. Since large shareholders invest a significant share of their wealth in a company, they do not want to risk losing control and will have strong incentive to monitor managers and exert more power to enforce their interests. This should increase the inclination of managers to maximize shareholder value. Large equity stakes can also achieve this cost effectively due to their monitoring expertise. Cheung and Chan (2004) argue that in most family owned firms in Asia, members of the family actively participate in management. In relation to majority shareholders in Indonesia where there is family involvement, most such companies appointed their family members to the supervisory/management board.

### 7.1 The Development of Indonesian Corporate Law

Indonesia's Company Law (1995) originated from the civil law tradition of Continental Europe. The Indonesian government promulgated Company Law No. 40 (2007) on limited liability companies on August 2007 to replaced previous Company Law No. 1 (1995). Such a Company Law is different from the common law system found in Anglo-American countries and the Commonwealth (La Porta et al. 1997). There are some features of this law that are relevant to this study such as: the board structure (including the appointment and dismissal of both supervisory and management boards), and the rights of shareholders on the general meetings of shareholders (particularly voting roles based on 'one share-one vote' and the simple majority rules principles). The existence of this regulation is necessary to develop the legal environment, which in turn, determines the rights and obligations of the market participants.

The Company Law 2007 lies at the center of Indonesia's legislative corporate framework and generally refers to limited liability companies (*Perseroan Terbatas/PT*) including both private and public companies. Specifically, article 1 (7) of the Company Law 2007 defines a public company (*perusahaan terbuka*) as a company whose capital and number of shareholders meet certain criteria or a company which makes an offer to the public. This definition did not specify detailed criteria for public companies and the main differences between the private and public companies in Indonesia could be found in their "deeds of establishment" (Tabalujan 2002). Moreover, specific regulations regarding public companies in Indonesia are regulated through the Capital Market Law 1995.

The important aspect of the company law framework relevant to the issue of corporate governance is the regulation related to shareholder rights. The Company Law 2007 (article 66 (1)) states that there should be an annual general meeting of shareholders (*Rapat Umum Pemegang Saham/RUPS*) held within six months from the end of the company's financial year. Some of the issues that should be addressed during this meeting are that the RUPS should approve the annual report (article 69 (1)) which include the annual account. Prior to the RUPS, the annual report must be signed by all of the management and supervisory boards members (article 67(1)). The Company Law 2007 (article 66 (3)) also states that the annual account presented in the RUPS should comply with the Indonesian Financial Accounting Standard (*Standar Akuntansi Keuangan)*. Further, if the company is a public company the accounts must be audited by a certified public accountant and the accountant's reports should also be presented at the annual general meeting of shareholders (article 68 (1)).

The major difference between boards of directors in different countries is the presence of two-tier versus single board structure (Conference Board 1977). A single board structure, also known as a 'unitary board' is prevalent in the Anglo-Saxon countries. This type of board condenses executive and supervisory responsibilities of the board in one legal entity (Gay 2002). On the other hand, the two-tier board, also called two-board system, is found mostly in Continental European countries. The later provides for the separation of executive and supervisory roles under different boards.

Companies incorporated under Indonesian Company Law must have both a board of directors and management board (articles 92 & 108 Company Law 2007). Both the members of directors and management boards are appointed and may be dismissed at any time at a shareholder's meeting (articles 94 (1) & 111 (1) Company Law 2007). Further, this law states that every public company listed in the stock exchange must have at least two directors (article 108 (5)) and two members of the management board (article 92 (4)). A company other than one listed in the stock exchange (i.e. private companies) may have only one director and one member of management board.

The director or supervisory board (technically named the "board of commissioners" or *dewan komisaris*) is composed entirely of non-executive directors, and a member of management board cannot be a member of supervisory board--or vice versa--in the same corporation. This board is headed by a president of commissioner (*presiden komisaris)* and is responsible for supervising (*mengawasi*) and advising (*memberikan nasihat*) the board of management (article 1 (6) & article 114, Company Law 2007). The management board (technically named the "board of directors" or *direksi*) consists of entirely executive and is headed by a president director (*presiden direktur*). The management board is responsible to manage (*mengurus*) and represent (*mewakili*) the company in its daily operations and perform all of the executive roles (article 1 (5) & article 97 Company Law 1995).

The Company Law (2007) and the two-tier board structure in Indonesia clearly separate the executive and non-executive boards. This separation is consistent with the agency theory suggestion that 'shareholder interests would be safeguarded only where the two posts were held by separate individuals' (Gay 2002, p. 47). A supervisory board's independence arises from the fact that its members do not have a personal financial stake in retaining management, so they can act as shareholder surrogates to ensure that the company is run in the best interest of its owners. Furthermore, supervisory board members are also independent of management for their tenure and remunerations. In addition to these independencies, the supervisory board has an affirmative incentive to monitor effectively, especially in the absence of the market for corporate control which is non-existent in most developing economies.

However, the study by ADB (2000) revealed that in a lot of instances, the members of supervisory boards in Indonesia are appointed due to their close relationship, including family ties, with the major shareholders. The same study also found systematic evidence that almost 85% of a company's controlling owners appointed members of their family to the management team and/or the supervisory board. This dominance of family-based controlling shareholders might be seen as the basis for the effectiveness of the role of the supervisory board in providing checks and balances on a company's operations.

Coombes and Watson (2001) found that the appointment of people with close family ties as members of the board, particularly in relation to block shareholders, is prevalent as the control model of corporate governance found in Asia, Latin America, and much of Continental Europe. However, there are no studies yet into the effectiveness of monitoring roles by supervisory boards in Indonesia. Indeed, studies of the two- tier board system are limited to the German-type or Continental European board, which is different from that of Indonesia. While in large companies in Germany and the Netherlands workers' representation is commonplace (Lannoo 1999), in the case of Indonesia there are no rules to include on the board members who represent the employees (Lukviarman 2004).

The above discussion reveals that the law and governance structure adopted in Indonesia is influenced partly by the Dutch corporate governance model (Asian Corporate Governance Association 2000). In regard to the legal framework, it is clear that before the introduction of Company Law in 1995 and further renewed in 2007, Indonesia utilized the Commercial Code of 1847 introduced by the Dutch colonial authorities. The present corporate structure adopted by companies in this country was also rooted in colonialism through nationalization of the Dutch owned companies. Although there exists a regulatory framework for publicly listed companies in Indonesia (i.e. Company Law 2007 and Capital Market Law 1995), the implementation of these legal frameworks is dependent on law enforcement and the proper exercise of judicial power.

## 7.2 Concentrated-family Ownership

Previous studies of Indonesia (e.g. ADB 2000, Lukviarman 2001, 2004) report that corporations in Indonesia characterized by substantial family ownership usually achieve this through holding companies at the top of business groups. Further, these studies show that in 1997 family corporate holdings, which are mostly owned by members of the founder's families, owned 67.2 per cent of the total outstanding shares of all publicly listed companies. This data reveals the roles played by large shareholders among corporations in this country and, most importantly, the existence of family business groups. These patterns of ownership allow the controlling owner to be highly involved in a firm's operation, and leads to little separation of management and ownership control (Claessens et al. 2000, Hanazaki and Liu 2007).

From the agency theory perspective, Fama and Jensen (1983a) suggest that family relationships among owner-managers should reduce agency costs. They comment that agency problems between top managers and shareholders can be reduced if the residual claimants and the decision agents are the same. In other words, when ownership and control rest with the same individual or family, the need for costly monitoring by outside shareholders is reduced, thus increasing firm value. In the case of family controlled firms their members can have many dimensions of exchange within the family and this could be relatively durable for longer period. As has been argued by DeAngelo and DeAngelo (1985) and Hanazaki and Liu (2007), family involvement serves to monitor and discipline managers because of long-term relationships between family members and the firm. It might be argued that this relationship contributes to the monitoring and disciplining of related decision agents.

A study by Claessens et al. (2000) documented that more than two-thirds of firms in Asian countries have single shareholder control. This study also finds that corporations in Indonesia, although listed in the capital market, are mainly family controlled. One of the major concerns of firms controlled by families is that family interests may be furthered to extract private benefit at the expense of outside shareholders. Large shareholdings owned by family and the presence of insiders in the management and/or board team give them enough power to control and influence management decisions (see also Hanazaki and Liu 2007). However, large shareholders can benefit all shareholders, including minority owners because they have the power and incentive to prevent appropriation of company resources by management.

Maug (1998) argues that the word "monitoring" has been used as a comprehensive label for all value-enhancing activities, including shareholder activism. From the agency theory perspective, shareholder activism is necessary in the absence of more efficient mechanisms to protect their best interests (Fama and Jensen 1983b). For example, monitoring exercised through shareholders' intervention in a company's affairs is needed for information acquisition to reduce asymmetric information. Although large shareholders will benefit most from this activity, they have to bear all of the costs and face a free-rider problem. Empirical research has been addressed to the question of whether activism of large shareholders, including institutional shareholders, leads to better performance of companies.

Agency theory suggests that both block shareholders and boards of directors are important internal control mechanisms. For example, Jensen (1993) argues that together with other external control devices, these internal control mechanisms will work in concert to control agency costs between shareholder and managers. Additionally, he pointed out that among the desirable features for more efficient control systems are substantial equity ownership by managers and board members. A study by Holderness and Sheehan (1988) found that, in most cases, majority shareholders are involved directly in the firm's management. They argued that 'majority shareholders do not merely monitor management teams, they lead them' (p. 319). This suggests that concentrated ownership implies intention on the part of these owners to be highly involved in the company's affairs.

La Porta et al. (1999) and Claessens and Djankov (1999) points that in most family owned firms, members of the family actively participate in management. In such firms board members are also the members of the family or relatives of the majority owners. In this situation, the interest of board members is aligned with that of majority shareholders. Therefore, combining block shareholdings by certain groups and nominating related persons as a member of a board could be expected to have a profound impact on effective monitoring. As this can reduce the agency costs, the involvement of majority owners in the board is expected to improve firm's performance.

In the absence of an effective market for corporate control in Indonesia, it might be argued that board monitoring could provide better functionality in maximizing shareholders' value. In other words, effective monitoring by the governing board substitutes for other mechanisms external to the firm. However, not all firms experience the same level of agency conflict, and, hence may require different levels of internal monitoring by the board. One of the major issues in this regard is the composition of the board of directors that will determine the level of monitoring activities. In agency theory, the conflict-resolving role of outsider board members (Fama 1980, Fama and Jensen 1983b) is deemed to add value to the firms through providing knowledge and monitoring skills.

However, in several studies that deal with board composition, and in particular the role of outside directorship and firm performance, the findings are not conclusive. A study by Booth and Deli (1996) found a negative relationship between the number of outside directors and the firm's growth performance. Agrawal and Knoeber (1996) investigated various corporate control mechanisms, and found that firm performance is actually reduced when more outsider directors serve on the board, while Subrahmanyam et al. (1997) found that abnormal returns are negatively related to the proportion of independent outside directors on the boards of bidding banks. The result of these studies suggests that the presence and composition of outsider or independent directors does not necessarily improve firm's performance.

However, this categorization was based on the single tier board prevalent in the Anglo-Saxon countries where the CEO may also occupy the chairman position of the board. In the two-tier board regime, such as for companies in Indonesia where the position of management and supervisory boards are clearly separated, this categorization could be applied with slight modification. In this case an *affiliated board* member is identified as an owner-related board member who is a relative of a shareholder or has personal ties to a company and/or controlling shareholders. A *non-affiliated board* member is an independent board member who does not have such affiliations, or whose only affiliation with the firm is board membership.

The 2007 Company Law (article 108) stated that every publicly listed-company in Indonesia should have a minimum of two supervisory and management board members. The listing rules by the Indonesia Stock Exchange (2000) regulate that the number of independent supervisory board members should be proportionally based on shares held by non-controlling shareholders and at least 30 per cent of a company's supervisory board members should be independent. The term "independent board member" in this regulation refers to one who has no affiliation with controlling shareholders and is elected by non-controlling shareholders. However, this regulation creates a situation in which supervisory board membership is still dominated by affiliated or owner-related members. Controlling or large shareholders could appoint their relatives or other affiliated individuals to be the majority of board members in order to protect their interests.

The composition of the board, particularly the proportion of owner-related persons to the non-affiliated board members, could influence the effectiveness of internal governance mechanisms, since the formal position of the owner-related board members allows them to vote collectively in representing their financial stake in a company[38]. The basic argument is that these board members have legitimate power and, within this context, the 'power involves the ability to produce intended effects in line with one's perceived interests' (Pettigrew and McNulty 1995, p. 851). Thus, higher proportion of owner-related members of a board could be seen as allowing large shareholders to exercise a tight monitoring role over time. Additionally, this type of owner appointed and controlled majority of the supervisory/management board makes them highly involved in all key decisions. This will lead to lowered agency costs and may positively affect the firm's performance.

## 8. Discussion

Previous study by Lukviarman (2001, 2004) found that, among private-domestic owned companies, most of the firms appointed family members to the supervisory or management boards. Furthermore, it was found that having an owner and/or members of the family on a board carries implications for control of the company concerned. This is important for understanding the involvement of shareholders in exercising their monitoring role, particularly for majority-owned firms. Both DeAngelo and DeAngelo (1985) and Fama and Jensen (1983a) argue that family involvement can provide an important constraint on managerial behavior. Further, family reputation considerations can help force managers to take actions that are in the long-run interests of the firm. As such, the theory proposes that majority control with family involvement is more likely to be a value-maximizing organizational structure for firms.

The involvement of owner-related board members suggests that owner do not want to risk their investments and will therefore closely monitor and influence corporate decisions. In these companies, it is not the executives and their associates who dominate boards of management, as in the Anglo-Saxon governance models, but the controlling shareholders. The study by Lukviarman (2004) shows that large firms in Indonesia are generally owner-monitored firms with a predominance of majority ownership, with involvement of owners in supervisory and/or management boards. Following Morck et al. (2005) it might be argued that concentrated ownership combined with an absence of effective external governance mechanisms, results in more frequent conflicts between controlling shareholders and minority shareholders.

The study by Lukviarman (2004) also concludes that an owner sits on the supervisory or management boards (but not necessarily their degree of involvement) do have implications for firms' performance. Das (2000) argues that in these companies ownership is synonymous with control, suggesting that family controlled corporations exercise tight monitoring roles which are expected to reduce agency costs and enhance firm performance. However, the controlling owner does not necessarily have to appoint a large number of relatives to supervisory or management board membership. Rather, it appears that even with a small number of owner-related supervisory board members, the controlling shareholders are able to influence corporate decisions.

According to Lukviarman (2001, 2004), even if family members are not actively involved in daily operations of the companies, majority owners can still control a company through its supervisory board. Indeed, the two-tier board structure in Indonesia also allows these owners to exercise their control through the board of management. This provides direct access to corporate resources and decisions and is consistent with the hypothesis that majority owners are able to consume corporate resources. The involvement of an owner in board activities, regardless of their degree of involvement, suggests that shareholder related board membership allows them to closely monitor and influenced corporate decisions.

Various survey on corporate governance in Asia (Claessens and Fan 2002, Hanazaki and Liu 2007) report that internal governance, such as board monitoring, is typically weak as a disciplining device on controlling shareholders. This might be attributable to the fact that monitoring board member are the controlling owners' family members, relatives or trusted business associates in a powerful position to influence board decisions. In he case of Indonesia (Lukviarman 2004), controlling owners also have the power to nominate and assign their family members to the management board. This relationship can, perhaps, be explained by cultural dimensions that are unique to Indonesia. Family members that have been assigned as a member of supervisory/management board believe they should protect and preserve their trust and interest for the benefit of the entire family. Family members on a board may, in fact, be carrying out the wishes of other, superior family members who are not on the board.

## 9. Concluding Comments

This paper has reviewed corporate governance issues in Indonesia, which centers on the issue of board governance under the two-tier regime and the existence of concentrated-family ownership. Previous discussion corroborates the uniqueness of corporate governance practices in Indonesia through domination of controlling shareholders. There is growing debate concerning the costs and benefits of controlling-large shareholders. The active involvement of these shareholders in supervisory and/or management boards needs further study to demonstrate that it could improve shareholder value as a whole. The agency problem that exists in Indonesia may be between "strong" controlling shareholders and "weak" minority shareholders.

Using the agency theoretical framework, which views a firm as a nexus of contracts with various parties, the problem is "who will protect the interests of corporate constituents other than large shareholders?" In this case, large-controlling shareholders are in principle able to appoint supervisory and/or management board members representing their interests. In relation to the effective monitoring of large shareholders and their affiliated board members, the problem seems to extend to "who monitors the monitor".

There are already initial steps toward limiting the powerful controlling shareholders, mandated by corporate governance code of conduct, which have initiated independent supervisory board membership. This seat on the supervisory board should be allocated to primary stakeholders (e.g. employee representation). However, independent board members in a company with powerful-controlling shareholders cannot perform their duties without the intervention of controlling shareholders. In particular, corporate board structure in Indonesia allows controlling shareholders to have direct access to the board of management. As a result, the role of independent board members would not be effective in restraining the domination of controlling shareholders. Since there is no penalty for non-compliance and no reward for adopting the guidelines, it is not possible to enforce the code.

In an effort to move toward a more democratic society, Indonesia is facing challenges in many aspects, particularly the paradigm change needed to embrace good corporate governance. The government of Indonesia has put forth a comprehensive effort in enhancing regulatory reform as a foundation for better governance practices in this country. There is a need for the government of Indonesia to consider specific features of the country's business and legal practices in adopting governance reform. One important inference is that cultural values might impede legal reforms that conflict with them. It is fruitful to mention that a particular corporate governance system should be fully compatible with a country's national culture and efficient in promoting sound business practices.

The preceding discussion reveals that any reform of corporate governance in Indonesia relates to the entire regulatory system of the country. Indonesia needs to have an effective and predictable rule of law which, in turn, creates supportive governance environment. All of the proposed mechanisms promoting sound governance practices lead to the need for strengthening the legal and regulatory frameworks and their enforcement. As one Indonesian legal scholar (Tabalujan 2002, p.168) states 'Indonesia has enough laws and legal institutions. In a sense, Indonesia does not need more law, but less. What is needed is a changed legal culture that will put to work these laws and institutions as they are designed to be used'.

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