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Glass Cliff Phenomenon on Indonesian Public Companies' Executive Compensation

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Abstract: The gender gap between female and male in the workplace still becoming a debate in for researcher. There are still few women in the workplace, fewer that could climb becoming top executives in the company. The stereotype also concludes that women usually paid differently than men. It is important to test Indonesia, the largest country in Asean Economic Community (AEC), the third largest economic union in the world. Data are taken from Indonesian Stock Market during 2015.The data then analyze using mean differences test and ordinary least square regression. The results show that there is the difference between female and male compensation in Indonesian Company. The result also shows that the higher female in the boards, the higher executive compensation in the company. The OLS regression results also show that the higher proportion female in the board of director the higher total executive compensations. This is consistent with glass cliff phenomenon. Although it is difficult for women to be invited as the top executive, whenever they achieved it they can have the same payment or even better than its male counterparts.

Key words: Gender・Compensation・Top Executives

INTRODUCTION

Nowadays, gender discrimination in the workplaces still becoming important issues. This problem not only happens for a low employee but also in the companies' executive level. The glass ceiling is a phenomenon where a female is difficult to attain a position as director in a company[1]. There are many possibilities for this phenomena. First, even though there are many opportunities for women to enter the formal workplace, only few that could end up as a top executive in a company.Second, if there are female and male with the same capability, it is likely that the male one that will be chosen as the manager. Third, if there were female on the board of directors, it usually only the minority from total proportion. Fourth, if a woman finally gets appointed as directors, it is more likely they will get lower pay than their man counterparts.

There are many research about glass ceiling phenomenon in many countries. Most studies taking place in the United States that have the best stock market in the world [1, 2, 3, 4]. These studies also conducted in many continents such as North America [5], Africa [6], Europe [7, 8] and Australia [9]. This research also tested Asia setting such as Cina [10, 11] (McGuinness *et al*., 2016; also Luo *et al*., 2017); Malaysia [12]; and Thailand [13].

There is research gap about the relationship between gender and executives' compensation schemes. First, mostly stated that a company with the higher proportion of female board of directors paid lower executives bonus than the entity that has a male-only board of directors [3, 4]. Hence, other research states that there is no difference payment between a company with or without women in their top executive team [1].

Second, glass cliff phenomenon evidence as the oppositesof glass ceiling in the case of the board of commissionaire. The top management of the company as in Indonesia case divided into the board of directors and board of commissionaire. Studies consistent with the glass ceiling that there is negative effect of female commissionaire proportion to the total board of commissionaire payment [14]. On the other hand, *glass cliff* phenomena found where women commissionaire have a positive effect on director compensation [15].

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Indonesia in 2016 is headed in ASEAN Economic Community (AEC). Indonesian is the biggest country in terms of population in ASEAN. It is important to test the condition before AEC, where the market still independent. After AEC, the Indonesian stock market will be interdependence with other ASEAN countries. There will be an open market in terms of capital, manpower (workers as well as executives) and materials within ASEAN region. As one of the discrimination factors, gender is worth to be studied further before AEC.

Based on those research gap, this research will test the relationship between gender and director compensation in Indonesia Public Company before AEC. This research will test two main things. First, will test the differences the director compensation between a company with and without female proportion in their board of directors. Second, to test the effect of women proportion on the director bonus.

Theoretical Frameworks & Hypothesis: Agency theory states that company that has principal separates from the agents should design a good compensation scheme in order to induce company management as agent maximizing shareholder interest as principal16. Hence the masculine and feminine stereotype make gender-based compensation as complicated issues17.

*Glass Ceiling*is a phenomenon where female enter formal workplace without having a representative in their institutions' management [18]. This due to the typical leader job is assumed to be masculine rather than feminine one. Women as leaders actually can contributing better to the company if they giving opportunity and do not have social barriers to perform the duties [19].

Monumental work by Mainiero [20] cited an informant description about glass ceiling as a condition wherewomen can see clearly the executives' position from outside the glass wall, hence if they want to reach that they should break their head into it. If they were really doing that, the glass, as well as their head, is breaking. It means that there are executives positions opportunity for women, hence this is very difficult to attain and needs a lot of sacrifices to reach that.

On the other hand, there are glass cliffcondition [21]. This happens when female dominating the leadership of a company [5]. It is a very dangerous journey as if climbing glass cliff that slippery and easy to break down to attain the top executive's positions.

Some research evidence that women lead company better than men. Women are good in choosing the less risky project for a company[5].A female director could better stabilize financial distress companies [21].

Based on the glass ceiling and glass cliff opposite's phenomena, this research tested the differences between director gender and board of directors' total compensation. This will be tested using two hypothesis.

Many research around the world stated that male executives paid differently with their female counterparts [2, 3, 4, 9, 13, 21]. Based on that, the first hypothesis in this research is:

H1: Company with female proportion in board of directors have different compensation than company with male-only board of directors.

A study stated that women in the boardroom have a positive impact on total board of directors' cash compensation[1].Other research showed that female chief executive has a positive impact on Board of directors' total compensation [15]. The additional argument is a study evidence that woman CFO have a positive impact on board of directors' cash compensation [9]. Based on previous studies, the second hypothesis of these researchis:

H2: Female proportion in board of directors have positive effect on company executive compensation.

MATERIALS AND METHODS

This is a quantitative research. Data are taken usingarchival from www.idx.go.id.

Population in this research are Indonesian public companies. There are three criteria of purposivesampling. First, companies that listed on Indonesian Stock Exchange during 2015 that is one year before ASEAN Economic Community (AEC) begin. Second, publish Financial Report and Annual Reportin 2015. Third, disclose Board of directors cash compensation separately from the board of commissioner.

Data then analyzed using two statistical tools. First, Independent t-test is used to testtotal board of directors compensation differences between companies with and without female directors proportions. Compensation schemes (C) are measured using Natural Logarithm of total board of directors' cash compensation [13].

Second, OLS regression to test the effect of women proportion on board of directors on their total cash compensation. The dependent variable is Compensation (C). Independent variables areFemale Directors Proportion (FDP) that is the number of female directors per total number board of directors. Three control variable are used in this research that is companies' Size (A), Sales (S) and Tobin's Q as proxies of firm value. Firms' Size (A) is measured by Natural Logarithm ofTotal Asset[3]. Sales (S) is equated using Natural Logarithmof Total Sales[3]; also Tobin's Q are measured using Total Asset plusMarket Value of Equity less with Book Value of Equityper Book Value of Asset [3]. The regression model is as follows:

$$C = \alpha + \beta_1 \text{ FDP} + \beta_2 A + \beta_3 S + \beta_4 \text{ Tobin's Q} + e$$

RESULTS AND DISCUSSIONS

Research Object: This research is using 166 sample firms from 454 Indonesian public companies that have issued complete financial reports and annual reports data in 2015.269 companies that do not that reports board of directors' compensation separately from the board of commissionaire. From 185 companies left, 18 entities excluded due to director's gender unknown plus 1 with extreme data.Complete sample selections process can be seen in Table 1.

Data then analyzed using means difference test and OLS regression. The hypothesis testing will be discussed as follows.

Hypothesis 1 Test: Hypothesis 1 in this research was tested using independent samples t-test. 60 companies with female proportion in the board of directors are compared to 106 corporations that the board of directors has no female directors.

Normality test for both groups was not normal. This was indicated by entities with women board of directors Kolmogorov-Smirnov is 0.193 with p-valueof 0.000 (<0.05) and firms with men only directorsKolmogorov-Smirnov test 0.179 with p-value 0.000 (< 0.05). Since each group consists more than 30 samples, according to the central limit theory the parametric statistical test can still be used.

Independent sample t-test resulted in F value 1.203 with p-value 0.274 (> 0.05). This meant that both groups have equal variances. T-test statistic with equal variance assumes showed that t-testwas 4.136 with p-value 0.000 significant because of less than 0.05. This statistical test results meant hypothesis 1that stated cash compensation on companies' with female directors' proportion different with firms without one is accepted. Examining the mean value, the companies with female directors paid their boards of directors' higher that companies' without one. The statistical result can be seen in Table 2.

Hypothesis 2 Test: OLS regression was employed to test hypothesis 2. Descriptive statistics can be seen in Table 3.

Table 1: Sample selections process

Total listed companywith complete data	454
Report boards of directors compensation apart from boards of commissionaire	(269)
	185
Director's gender unknown	(18)
	167
Extreme Data	(1)
	166

Source: Data processes

Table 2. Independent sample t-test result

	Female	Male
N	60	106
Mean	235.333	226.792
Median	23	23
Standard Deviation	129.493	118.360
Normality Test		
Kolmogorov-Smirnov	0.193	0.179
Sig.	0.000	0.000
Conclusion	Not normal	Not Normal
	Independent samples t-test	
F test	1.203	
Sig. F	0.274	
Conclusion	Equal variances assumed	
t-test	4.316	
Sig. t	0.000	
Conclusion	Significantly different	

Source: Data processes

Before following the OLS test, the data should be tested using classical statistics assumption about Blue (Best, Liner and Unbiased Estimates).

There are 4 classical assumption tests in this study: normality, linearity, multicollinearity and heteroscedasticity. The results showed that data were normally distributed, the model was linear and there were no multicollinearity and heteroscedasticity problems. The test can be concluded that the data were passed from classical assumption test. The summary of classical assumption test can be seen in Table 4.

After confirmed that the data have no classical assumption problems, the test was continued to the OLS regression. The results showed that R^2value were 0.574 or the model can explain and predict 57.4% total board of directors' compensation variable. F value 56.250 with p-value 0.000 that significant because less from 0.05. This meant that the model is passedgoodness of fit test and can be continued to the t-test. T-test showed that female directors proportion have a positive effect on total directors compensation schemes.Based on t-test female directors proportion have t-test value 5.470 with a p-value of 0.000 less than 0.05. It means that second hypothesis

Table 3: Descriptive StatisticsRegression Variable

	N	Min.	Max.	Mean	Standard Deviation
C	166	20	27.00	22.99	1.29
FDP	166	0	1.00	0.10	0.16
A	166	22	34.00	29.14	1.90
S	166	21	32.00	27.78	1.82
Tobin'sQ	166	0.08	1.739.72	12.01	134.92

Source: Data processes

Table 4: Classical Assumptions Test

Type of Test	Results	Notes
Normality	Kolmogorov Smirnov sig. 0.591 > 0.05	Normal Distribution
Linearity	Lagrange Multiple Test C2 statistic (0.166) < C2 table (129.56)	LinierModel
Multicollinearity	VIF < 10	No multicollinearity
Heteroscedasticity	Park Test sig. t > 0.05	No heteroscedasticity

Source: Data processes

Table 5: OLS Regression Test Result

	Beta	t	Sig.
Constant	6.249	5.470	0.000*
FDP	1.280	3.186	0.002*
A	0.214	4.167	0.000*
S	0.373	6.924	0.000*
Tobin's Q	0.002	4.386	0.000*
F = 56, 250; Sig. = 0.000*			
R^2 = 0.574			
*Sig<0.05			

Source: Data processes

stated female directors proportion have an effect on Board of Director's total cash compensation is accepted. Female directors even have a positive effect on the amount of cash compensation. The OLS regression result can be seen in Table 5.

All control variables that is companies size, sales and Tobin's Q t-test p-value are 0.000 less than 0.000. This meant that this variable also having a positive effect on determined executives' bonus.

DISCUSSION

Hypothesis 1 stated that Executive cash compensation in the companies with female directors different with a male-only directors companies is accepted. This means that companies with the female in board of directors paid their executives more than the male-only board of directors.

This results consistent with an experiment research [22]. In that research just by seeing the expression of photographs of female directors, the reviewer will naively judge that they look less competent but more mature, a better leader, more controlling and dominating comparing to male directors.

The second hypothesis test showed that women directors' proportion has a positive impact on board of directors' cash compensation. This is consistent with several studies [1, 9, 15].

Those two hypothesis testing result consistent with glasscliffphenomena [21]. This research opposite from normal stereotypes that male will be paid more than women in the boardrooms. Examining from sample 166 companies, dominated by 106 firms that have no women on their board of directors. Sixty companies with female directors, the proportions approximately only 10%. This means that very difficult for women to have representatives of top executives. Therefore, once women were got the position, they can get same payment or even better than their male counterparts.

This condition means recruiting female directors is risky for companies. For women, it also difficult to achieve top position due to the stereotype. Actually women executive can do more for companies than their male counterparts. A research stated that female executives can minimize the risk profiles of an entity [5]. Another study also stated that women have an ability to stabilized condition on financially distressed companies [21]. If firms with female directors could minimize risk profile and stable financial condition, it will have higher income and market returns. Thus, it could pay the higher bonus to the board of directors.

The studies also stated that there is a positive effect on female directors' proportion on companies' financial performance [23]. The higher companies' performance, the better top executives' compensation. This is consistent with the positive effect of the control variables, that is size, sales and Tobin's Q, in this research to directors' compensation.

CONCLUSIONS & SUGGESTIONS

There are two main conclusions from this research. First, companies that having female proportion on their board of directors pay higher executive compensation than companies that the boards consist male only. Second, the higher proportion of women in the board of director, the higher compensation paid by companies. This is consistent with glass cliff phenomena.

This research only using sample Financial and Annual Reports of Indonesia companies in the year 2015. This year intended to minimize the impact of executives' turnover on compensation schemes. This year also important because this is the last year before Asian Economic Community begin. Further research can examine longer period to see the pattern of relationships between gender and bonus schemes in Indonesian public company.

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