ABSTRACT

DYAN VIDYATMOKO. An Analysis of Executive Compensation Determinants and Their Impacts on Estate State-Owned Enterprises Performances in Indonesia (BUNASOR SANIM as Chairman, HERMANTO SIREGAR, and MUHAMMAD SAID DIDU as members of the Advisory Committee)

Issues on compensation have become an interesting discussion amongst State-Owned Enterprises (BUMN) executive and decision makers. Appearing problems when compensation is an issue are what factors are influencing executive compensation in State-Owned Enterprises?, and how correlation between executive compensation and corporate performance? In efforts to address the issues, this research has the objectives of (1) analysing determinants of the Indonesian Estate State-Owned Enterprises’ executive compensations; (2) analysing the relationship between those influencing factors and BUMN performances, and (3) analysing a correlation between executive compensation and BUMN performances. Statistical methods used for analysing these objectives are Structural Equation Model (SEM), contingency analysis, regression analysis and qualitative analysis. The study found out that from all identified variables, executive decision mechanism, job complexity, firm size, ability of firm to pay compensation, and product diversification and market expansion have positive correlation and significant influence to executive compensation. Human capital and executive employment market have significant correlation to executive compensation. Another finding of the research has shown that firm size has positive correlation and significant influence towards customers performance, internal business process performance, and growth and learning performance. Firm ability to pay has positive correlation and significant influence towards financial performance, customer performance and growth and learning performance. Product diversity and market expansion has positive correlation and significant influence to customer performance and internal business process performance. The research has also shown a result that executive compensation provide positive correlation and significant influence towards financial performance, customer performance, internal process performance, and growth and learning performance. This research shows that direction of executive compensation is heading to company’s performance. Policy scenario with implementing changes towards the combination of firm size, firm ability to pay compensation, product diversification and market expansion, and intrapreneurship shows that financial performance (EBIT), customer performance (market share and sales volume), growth and learning performance are sensitive to those changes. The study results provide theoretical implication related to the improved model theory of Barkema and Gomez-Mejia. Managerial implication connects to the issues on (1) the use of theory approach related to executive compensation, (2) determining factors or variables which influence executive compensation, (3) harmonizing executive compensation with organizational life cycle, (4) the use of executive compensation as a policy in improving Estate State-Owned’s performance, and (5) different research results with existing policy from the State Minister of the State-Owned Enterprises.

Key words: executive compensation, estate state-owned enterprises performance, balanced scorecard, structural equation model, contingency analysis, regression analysis