

ANTECEDENT AND CONSEQUENCE FACTORS TO CEO TURNOVER IN INDONESIA

ABSTRACT

This study aimed to test the usefulness of accounting information and market of the CEO turnover issues in Indonesia. The results of this study is planned for the long term to capture the overall factors that affect CEO turnover in Indonesia, not only from the accounting side but also from market side, so it can make a significant contribution for the company strategy to determine the corporate governance' setting. Previous research show inconclusive results about CEO turnover is whether the antecedent factors and consequences. Also, the issue of CEO turnover research is still very rarely done in Indonesia, since the turn of information not generally available.

The sample used is all firms that are identified through the turn (either routine or non-routine) in the company's top management level (in this case is President Director). The main advantage of this study is to use the sample all firms that conduct the CEO turnover period 1998-2005, and subsequently determine the accounting variables that allegedly able to explain these changes. For the companies that during the year observations is never do turnover action we define as a control sample. Final sample that we used for testing accounting data is as much as 140 companies, consisting of 81 companies that make the turnover and the 59 companies that did not. For the final sample testing of market data totaled 131 firms, consisting of 77 companies that make the turnover and the 54 companies that did not. Final sample for the second data source is set after considering the availability of data and the confounding effects during the observation period.

Both of accounting data and market data are tested using logit models (separately), because the dependent variable used is a binary variable, 1 for turnover and 0 for others. The results of test show that accounting data (i.e. Total Asset, Total Sales, ROA, ROE and Earnings), statistically have a negative significant effect of turnover decisions while CurRatio and D/ Equity is not significant. The results of test for market data show the performance of stock prices statistically negative significant effect, while market risk have a statistically positive significant effect. This finding is consistent with previous research which states that in the CEO turnover decision making, the company will consider the performance of accounting and market performance achievements of the CEO. From the results of different test using paired samples t-test, we found the stock price rose significantly after the turn while the risk of being seen significant decreases. These findings reveal a positive response to the changing market. And finally, from the analysis of this study we conclude that the better performance of both (accounting and market) then there is a tendency for the incumbent CEO who will not be fired and the worse the performance of both the CEO who is appointed will have the potential to be replaced (down position or enter to the board of commissioners) and fired from the company as ultimately.

Keywords: CEO Turnover, Accounting Performances, Market Performances, Antecedences, Consequences.

1. Introduction

A good corporate governance is the preparation of the team that will work from a plan set up to achieve it, is a basic framework that will determine the pattern, direction and achievement of company performance. For companies, having a strong management team to be an important reason to win the competition in the business world that are difficult to predict changes. In countries that already have very sophisticated technology, even though, sometimes the degree of influence was not significant executive leadership for the company because the management system has been running well, partial results showed that CEO turnover (forced or voluntary) have a material impact (positive or negative) significant effect on firm performance. Substitute (successor) CEO also becomes an important consideration in turn of different issues. External substitutes are needed in conditions of forced turnover when firms are faced with a deteriorating performance, because the external replacement is expected to bring a new strategy that is different from previous strategies that lowered the company's performance. While in the case of voluntary turnover, while CEOs get out because they have better opportunities in the labor market, generally the board of directors will choose a successor internally who have understood the company's long-term strategy that posed no major changes, because the issue of voluntary turnover is usually the company does not confronted with problems of poor performance.

If the case of CEO turnover to be things that get attention in high-tech country, then turn the case had been properly get the more serious portion of the developing world in countries like Indonesia, where the CEO becomes an individual who has a strategic function that will provide the dominant influence for the company. If a person who became key person, can not be maintained within the company, then surely the company would have difficulty finding a way out to solve the problems it faces, then companies will lose in global competition and ultimately become acquisition targets or even a bankruptcy. This study was undertaken to provide a snapshot of CEO turnover phenomenon in Indonesia, which previously was rarely done, because the difficulty of the turn of the unavailability of data. However, we consider this research is very important to do because its contribution will be significant for the

establishment of strategies in corporate governance. This study also expected to provide information, based on empirical evidence for companies (especially the board of directors) to determine the treatment of the company's CEO, in a performance good or bad they had, with the use of accounting information. Therefore, this study aimed to find the answer to the question of whether the accounting and market information influence on CEO turnover decisions in Indonesia.

Baron, Hannan and Burton (2001) argued that research that analyzed the topic of CEO turnover needs to be done, because the CEO is considered as a very influential figure for the company. They expressed the need for an understanding that any changes in leadership occur, will cause changes to the organization that eventually would have an impact on organizational performance. The results of this study are consistent with statements from the modern institutional experts, that a leader, in this case is the CEO (especially if they are also the founders of the company), will largely determine the organizational blueprint, travel and the organization's future. Organizational ecologists also reinforce the need to study about the reasons for changing the blueprint of corporate executives is synonymous with disrupt and destabilize the organization. CEO turnover does not just mean a change in top management teams, but also means changing the organizational blueprint of the companies which are already living in employee morale. Organization will be suffered with a high turnover in the organization. So, this change will have a tremendous effect is great, even on some of the research found the impact of CEO turnover led to bankruptcy (Carroll 1984; Davidson, Worrell & Datta 1993).

This research will be directed to the results that can provide empirical evidence to be used as important input for the company in Indonesia, especially to stakeholders. Treatment of CEOs who perform well and the treatment of CEOs who perform less well (even poorly performing) in the company properly, can create corporate governance better, so the success of corporate strategies that have been defined previously as the organizational blueprint into something that might be achieved.

2. Theoretical Framework and Hypothesis Development

Study in the areas of CEO turnover in the field of accounting and capital markets have been started by Coughlan and Schmidt, (1985); Warner et al., (1988); and Weisbach, (1988). They have analyzed CEO turnover and begin developing the field of literature in this study. But until now, only few studies were done explanation of the variation between companies in the link between accounting and market-based performance measurement of sustainability executives working. Most of the previous study only see one side at the turn of the CEO, of the antecedents and consequences of changing course, and/or from the performance side of it accounting or market performance. Our study will try to conduct a longitudinal test by analyzing the antecedents and consequences of change on accounting performance and market performance as well, following the changes. Research Engel, Hayes and Wang (2003) examines how memboboti accounting and market-based performance measures in CEO turnover decisions are related to the weighting of traits as a measure of managerial performance. Specifically they are putting greater expectations on a more informative information on managerial performance. They argued that the board should have more trust in the accounting return in making decisions about the sustainability of employment, when the accounting information is proven to be more sensitive to explain the issue of CEO turnover.

2.1. Antecedent of CEO Turnover

Antecedent factors found to play a role in the board's decision to change CEOs such as accounting performance, stock performance, the personality of the CEO, the members of the board of directors, mergers and acquisitions, organizational and auditing. In a review conducted Kesner and Sebor (1994: 356), they concluded that the turnover is often treated as the dependent variable, and the consistent findings that higher turnover rate occurs at a low firm performance. However, Finkelstein and Hambrick (1996) states that the performance before the turn of the percentage of variance explained is very weak. This indicates that the relationship will be followed by change of variables is still weak. Weaknesses found in the previous results are attached to the result of differences in size and performance in the

presence of other factors that tend to moderate the relationship between performance with the replacement. This statement is found in many previous studies (see: Miller, 1991; Cannella and Lubatkin, 1993; Zajac and Westphal, 1996; Finkelstein and Hambrick, 1996).

2.1.1. Accounting Performance

Research Smith, Wright and Huo (2008) uses the variables are statistically significant finding in previous research. Variables that are offered in papers such as Total Assets, Total Debt, Book value of equity, Debt to equity, retained Earnings; Current Ratio, Interest Coverage Ratio, Net equivalent income / Interest expense. They found significant results with p-value smaller than 0.05 for all samples, including the Total Assets, Total Debt, Book Value of Equity, Current Liabilities, Current Liabilities, and the interest coverage ratio for the surviving company. Estimated coefficients for the current ratio is negative and statistically significant, a result which, according to Smith et al. study supports the findings of Altman et al. (1977) and Hill et al. (1996), and indicate that firms with lower current ratio has a greater probability of bankruptcy.

Return on Assets (ROA). These variables are widely used in previous studies that analyzed the ratio is one of the accounting return on assets (Virany, Tushman, and Romanelli, 1985; Harrison, Torres, and Kukalis, 1988, Shen 2007). ROA found negatively related to turnover from the outside. Nothing is explained clearly, why the researchers use a variable ROA. Apparently, this is just about the selection of the many existing accounting ratio variables. However, the negative relationship found from previous research indicates that the deterioration in corporate performance as reflected by the low rate of return on corporate assets to boost CEO turnover.

Earnings (EBIT). Engel, Hayes and Wang (2003) and DeFond and Hung (2004) uses earnings variables in their research. The purpose paper written by Engel et al. (2003) examines how the relationship between various measures of performance and CEO turnover is influenced by the properties of accounting systems. In particular, Engel et al. test the cross-sectional variation in important positions in accounting information on the CEO's

decision, and linking these characteristics on performance measures. DeFond and Park (1999) suggests that firms in less concentrated industries have a broad comparison companies. Consequently the industry earnings provide the right signal as factors affecting the company in the industry. Engel et al. find that CEO turnover is more common in the less concentrated industries. This finding is consistent with DeFond and Park research that directors can learn more quickly about the ability of CEOs in this industry and further types can replace the poorly performing CEO immediately. This result is only found in DeFond and Park on the sample firms experiencing turnover. Engle et al. (2003); DeFond & Hung (2003) in their research found a negative relationship in the relationship between earnings and turnover. These findings reinforce the position antaseden earnings as factors of change.

Ha1: Performance of accounting effect on CEO turnover

2.1.2. Stock Performance and Risk

Results of previous empirical research has given results that conflict still about the company's stock performance. Warner, Watts and Wruck (1988) found a significant relationship between poor stock performance with a frequency change of management but found no significant relationship between excess return for shareholders on the announcement of management changes. Warner et al. (1988) and Jensen and Warner (1988) reported findings of abnormal return on announcement of a change in management is a combination of the effect announcement itself information (real information) and the effects of other information. Effects of information if it actually has a negative relationship implies that changes in company performance was so bad that achieve market in return. Beatty and Zajac (1985) also found a negative correlation of return (but) not significant at the announcement of management changes, while Furtado and Rozeff (1987) and Weisbach (1988) reported significant positive returns at the announcement of management changes.

Share Price. Paper written by Warner et al. (1988) is one of the beginners in the research study CEO turnover in the field of accounting. This study referred to in many subsequent studies in the same area. This study examined the relationship between stock

price and market return with the company's top management changes. They found there was a negative correlation (inverse) between the probability of change management with the company's stock performance. Engel, Hayes and Wang (2003) also specifically examine the cross-sectional variation in an important position in the market return CEO decisions, and relate these properties on performance measures. Paper Engle et al. This paper examines how memboti (give value) market-based performance measurement in CEO turnover decisions are related to the weighting of traits as a measure of managerial performance using a force until the turn of the CEO (forced Departures).

Beatty & Zajac (1987), previously, had argued in his study of a view that differs from similar research topics. Beatty and Zajac test the hypothesis by using a longitudinal research design/cross-sectional, with a sample of 209 large companies. Results they obtained showed that the announcement of CEO turnover is usually associated with a decrease in the value of the company, as reflected in the stock market perception, and subsequently penganti CEO (new) tend to affect significantly the production and investment decisions in the company. Substitute used in this paper is derived from within the party (insider) and external (outsider) companies. In the study of Beatty and Zajac also explained that there are two streams of research in connection with a change of leadership and performance. The first test of the impact of changes in leadership, as a rival to analyze the impact of leadership. Competing theories in the debate carried out by several groups. For example, the statement that common-sense states that managerial turnover will be encouraged to improve organizational performance, is opposed to using a vicious circle (Grusky 1963) who argue that managerial turnover, reduce performance. Ritual theory of black sheep (Gamson and Scotch 1964), on the other hand, postulates there is no significant relationship between turnover and performance. Beatty and Zajac this study, focusing only on changes in top leadership in large corporations, and studied the perceptions and reactions of capital markets before and after the change of CEO.

Studies Bonnier and Bruner (1989) to analyze the excess return (excess return) to shareholders on the announcement of changes in senior management in companies

experiencing financial difficulties. They found positive and significant excess return, which is consistent with the hypothesis of internal controls that management changes follow the company's poor performance associated with benefits that would be obtained by shareholders. This condition implies that a change of management in the company's poor performance, will increase the return after the turn so it will be profitable for shareholders.

Risk. The analysis conducted Whited and Farrell (2003) showed that the board focuses on the expected deviation of performance, not on the CEO's own performance, in making the CEO turnover decision, especially when there is an agreement (with no tolerance / lack of spread) among the analysts forecasting corporate earnings or when there are a large number of analysts to control the company. In addition, the results of Farrell and Whited shows that the board seemed to appoint a CEO who will change their policy and corporate strategy (ie, originating from the outside) when the expected growth in EPS over the five years of decline and there is greater uncertainty (more spread out) in among analysts about the company's long-term forecasting.

Ha2: The performance has a significant market for CEO turnover.

2.2. *Impact CEO Turnover*

Results of research in studies of the consequences of CEO turnover indicates that a change can have positive effects on performance (Helmich, 1974; Davidson, Worrell and Dutia, 1993) if the CEO comes out is the personal which does not create a good performance for the company. However, some studies also found negative effects of change (Grusky, 1963; Allen, Panian, and Lotz, 1979; Carroll, 1984; Beatty and Zajac, 1987; Haveman, 1993), for causing a disturbance for the organizationally. Results of other studies have not looked at the turn of the consequences on performance if the change is only symbolize the event scapegoating (Gamson and Scotch, 1964; and Boeker, 1992).

2.2.1. *Market Performance*

Studies Beatty and Zajac (1987) also examine the impact (consequences) turnover and examine the information content of the announcement of CEO turnover. To prove that the notice fully and correctly anticipated by market participants, in the hope that there is a change in the price of shares in connection with the announcement of CEO turnover. They hypothesized that the company's share price related to the announcement of CEO turnover. And then, the relationship between changes in leadership and market assessments in long-term adjustments in their production and investment decision analysis using ANCOVA test of Chow (1960).

The results of study showed a significant trend of the market reaction to announcement of CEO turnover. Both the H1 and H2 of this study supported so that Beatty and Zajac argued that the actual CEO turnover should not be viewed as a problem limited to the company's internal issues, the only discuss its impact on organizational morale, corporate culture, or the impact of accounting. Beatty and Zajac studies do clearly demonstrate the importance of recognizing the nature of CEO turnover, especially on the impact of external events such changes. Results from this study provides an implication that the strategy of the organization can create value for shareholders (Rappaport 1981), and this is seen when the stock price as a strategic performance variables decreased sharply (significant) around the days after the announcement of CEO turnover (+1, +2 and +3). In Indonesia, a study conducted Setiawan (2008) showed findings consistent with previous research, which is an amendment to the stock price during the observation period (window of 11 days of observation), the market reacted positively significant in t-5, t-3, and t +3 with abnormal return of 1.006%, 5.07%, and 2.036%. On other days, the market did not react. For this reason that Setiawan argued that the market reacts in the short term, three days after the change of CEO. These studies tend to show the market reaction is not conclusive anticipated for the company before the turn of the performance is bad, so the market is more hope that a replacement CEO who comes from external parties outside the company, and vice versa. Therefore, our research will be very carefully examined this issue with CEO turnover as well as investigate the antecedent factors and consequences factors to better capture lebih CEO turnover

problems in Indonesia, so that contributions from this research is better than previous research. This study will also examine the differences in market performance before and after the turn. Hopefully, there are significant differences between market performance (stock price and risks) to provide further explanations on the issue of turnover.

Ha3: There was significant difference between the market performance before and after the change of CEO

3. Research Methods

3.1. Data and Research Sample

Data used in this study are all CEO turnover data from 1998 to 2005 period. Turnover that occurred during the period 2001-2003 and four consecutive years does not make the turn is the sample used in this study. Because we assume, this CEO will bring a change in the company until 2005. Data will be obtained from a direct investigation on the financial statements of all companies listed in Indonesia Stock Exchange for eight years observation. Consistent with previous studies, we will use the position of President Director of the company as CEO (in DeFond and Hung 2004) if the company does not use the term chief executive in writing. CEO turnover data obtained by scanning the data by comparing the company's President Director of the company name during observations. In this way we hope to obtain information in case of change of name of CEO. CEO name change is what we mean by a change of CEO in a particular company in a given year.

From the change of name of CEO in Indonesia for three years, ie occurring in the year 2001 until 2003 which was subsequently designated as t_0 for the next set of accounting data three years before the turn of the year. Meanwhile, the market data we use the data three years before and three years after the turn of the year. Previous research generally use five or three-year period before and after the change. However, because our study sample will be smaller if we extend the period of observation, we chose to use three-year period before and after the turn. During the period 1998-2005 there were about 246 CEO turnover at public companies in Indonesia. But who meet the selection criteria for our study sample (ie having

three years of financial data prior to turnover and market data three years after the turn and did not have the confounding effects such as restructuring and stock management), the final sample for the turnover that use accounting data are amounting to 81 companies while for market data that can be used is for 77 companies.

3.2. *Research Variables*

3.2.1. *Accounting and Market Performance Explaining Change (Change of CEO as Dependent Variable)*

Variables used in this study is the variable that has been used in previous studies (such as Smith, Wright and Huo 2008) found that variables are statistically significant in previous research. The variables we use are:

- a) Total assets (In-TAsset), as a proxy for company size, and is used to control the natural log data ketidaklinieran very high. These variables are believed to have a negative relationship between turnover because total assets increased reflecting the positive growth of the company.
- b) Current ratio (CurRat), formulation of current assets / current liabilities, and served as a proxy for short-term financial shortage. Research in the bankruptcy case had previously shown a negative relationship to the probability of turnover (Flagg and Giroux, 1991, Zmijewski, 1984, and Altman, 1977) in Smith et al. 2008.
- c) Debt to equity (DEquity), is a common ratio used in research into the level of debt proxy. The higher the ratio of total debt-to-total-equity found by Zmijewski (1984) - in Smith et al. 2008, the more significant increase in the probability of turnover.
- d) Total sales (In-TSales), which is the size of the company's operational performance management with the log dinatural ketidaklinieran to control data. In-TSales allegedly negatively related to turnover, which means that In-high TSales will not encourage change of CEO.
- e) Return on Assets (ROA). Is a measure of performance obtained from the ratio of earnings to total assets. The better the ROA, the change will not occur.

- f) Return on Equity (ROE), as an alternative to the successful consideration of return on equity management company. ROE values obtained from the equation of earnings divided by total equity. These variables are believed to have a negative relationship between turnover, so that failure in the capital pegembalian be the reason for the turnover for the company.
- g) Earnings. These measurements were used in Engle et al. (2003); DeFond & Hung (2004) and gives a negative relationship between earnings and turnover. This size become very common and widely used as a consideration of performance management. We use net income to represent earnings.
- h) Share Price (ln-SPrice). What is the measure of success wealth managers to increase the company's owner. Decreasing stock prices are expected to increase the probability of turnover.
- i) Risk. Farrell and Whiedbee examine CEO turnover and replacement decisions from different perspectives with the expectation of performance. This variable is similar to that used in the study and Weintrop puffer (1991). Meanwhile, Bushman (2008) use return volatility as a proxy for risk. However, in this study we will use as a proxy for the market beta risk. The higher the risk the greater the probability the company CEO of a company's turnover.

3.2.2. Following Market Variable Substitution CEO

Our study will only examine the variables that follow the market as a factor the issue of turnover. For the variable market, if previous studies using daily stock price since previous research using the date of announcement (such as: Setiawan 2008, Beatty and Zajac 1987), our research using share prices and the annual risk, because we use the observations at the turn of the year. Market factors we think are more sensitive to the issue of turnover compared with the accounting because accounting performance generally requires a relatively long span of time to respond to the phenomenon that happens.

3.3. Variables Testing

Testing of antecedent variables (Ha1 and Ha2) will use the logit as in equation (1) that is commonly used in research that uses binary variables as the dependent variable (in this study a = change and 0 = others) and cross sectional data. This research model has been widely used in research in Accounting and Management. Zhou, Xiong and Garguli (2009) who conducted a study in the field of accounting also uses the binary model when they use the dependent variable and not pengadopasian IFRS. They further symbolizes Adopt (1.0). They use logit analysis to examine possible relationships between independent and dependent variables. Hoetker (2007) using logit models in his research on strategic management issues. From studies in many papers, in recent years logit analysis to be one important part of research analysis, to maintain the strength of methodology in which high-standard journals.

$$\begin{aligned}
 \text{TURNOVER (1,0)} = & \alpha_0 + \alpha_1 \text{Ln-TAssets}_{it} + \alpha_2 \text{CurRatt}_{it} + \alpha_3 \text{DEquity}_{it} + \alpha_4 \text{Ln-TSales}_{it} + \\
 & \alpha_5 \text{ROA}_{it} + \alpha_6 \text{ROI}_{it} + \alpha_7 \text{Earnings}_{it} + \alpha_8 \text{SPrice}_{it} + \alpha_9 \text{Risk}_{it} + \varepsilon_{it} \quad (1)
 \end{aligned}$$

Ha3 to market performance was tested by using paired samples t-test for this hypothesis different from trying to test an average of two mean originating from the same sample.

3.3.1. Additional tests

In this study, we will conduct testing for the change that occurs regularly and non-routine in addition to explaining the turnover issue in Indonesia. Additional tests are expected to provide explanatory power to the main test results. This research model as a whole we show in Figure 1.

4. Results and Analysis

4.1. Logit Regression Results on Accounting Performance

Our study tested the accounting data and market data as a factor considered in the issue of CEO turnover in Indonesia. Companies that do not make the CEO turnover during the fourth consecutive year observation period to target our analysis. While the control sample used was a company that during the five-year observation period has never done the turn of the CEO.

Overall, the logit test results for the accounting data used in this study (such as Total Assets, Current Ratio, Debt to Equity, Total Sales, ROA, ROE and Earnings) shows a significant effect on turnover decisions on the level of $p = 0.000$. And individually, five of the seven accounting variables showed significance at $p \leq 0.05$ level. This value is supported by an omnibus test of chi-square test which shows the influence of antecedent models in accounting and a very strong market significance, respectively ($p = 0.000$). The value of chi-square omnibus test of model coefficients that are less than $p = 0.05$ this indicates that the null hypothesis of the study stating that there was no influence of independent to dependent variable is rejected. Furthermore, Nagelkerke's R square which is a modification of the coefficient of cox and Snell R square is used as a consideration to ensure variety of relationship for each independent variable on the dependent variable. Effect of independent variables collectively indicated by Nagelkerke's R square value of 0.67 and 0.98 on accounting variables on market variables, while the partial value of Nagelkerke's R square indicated by Wald and significance. Special market variables, Waldnya value could not be explained because this relationship is very strong.

Table 2 describes the characteristics and results of tests conducted in this study along with the sample. Panel A of Table 2 examines the effect of the change of CEO turnover sample of 140 companies consisting of 59 firms with no change and 81 companies with turnover. testing showed logit for accounting data. By using accounting data, the analysis show that of the seven accounting variables analyzed in this study, five variables showed significance of the turnover. Total Sales and Earnings significant at the level of $p \leq 0.05$, Total Assets and ROE levels of significance at $p = 0.05$, and for the ROA variable is significant that the most powerful show that is equal to $p \leq 0.0000$. However, we did not find this significance in the variables and the Current Ratio, Debt to Equity Ratio of turnover.

The findings of this study support our hypothesis that tertama accounting performance has a significant influence on CEO turnover. Five accounting variables which significantly influence this turnover supports the research, Smith et al. (2008). With terdukungnya this hypothesis, we mengkalim that the results of this study is in line with expectations from

previous researchers, Engel, Hayes, and Wang (2003), who hopes the accounting information into the information considered when making important decisions at the company. ROA variables that showed significance at the turn of a strong relationship is also consistent with the findings of Shen (2000) that test the ROA and discover the significance of the turnover. These results indicate that the accounting performance be a factor considered by the company when deciding on CEO turnover.

4.2. Logit Regression Results on Market Performance

Panel B shows the results of the test market data. In a sample of 131 samples comprising 77 companies and 54 companies do change control (which does not make the turn), the results of our analysis found strong support to influence the stock price variable (Sprices) and Risk. We get for the stock price is negatively related statistics (z-statistic -3.9989) is significant at the level of $p = 0.0000$, and so did the risk variables are statistically related to the positive (z-statistics 4.6189) significantly to the company CEO turnover. These results indicate that stock prices are declining on average over three years led to the change of CEO. Stock prices are found to be a determining factor when deciding which changes in the results of our study is consistent with the results of previous research conducted by Eagle et al. (2003), Beatty and Zajac (1987), DeFond and Hung (2004), and Warner, Watts and Wruck (1988).

Similar to the stock price, increasing the risk that the company is positively related with the probability of turnover. In other words, companies that have a high risk that the company would be viewed as a bad performance so to do a repair, and in this case the CEO is the person deemed most responsible for the deteriorating performance of the company's market, so needs a replacement. This finding is consistent with the study results and Whidbee Farrell (2003) who found a positive relationship with EPS deviation from analyst forecasts. These findings both support our second hypothesis that a market performance variables that influence in determining CEO turnover in Indonesia.

4.3. Result of Paired T-Test Sample on Market Performance

In our market data to test the different separation rates and market risk the company three years before and three years after the CEO turnover year by using paired t-test samples. Table 2 Panel C shows the results of different test against 72 companies, and we found a significant difference to the stock price and market risk before and after the company between the CEO turnover in Indonesia. Mean stock price before the change amounted to 1134.028 (SPBefore) while the mean after pergatian increased to 1747.986 (SPAAfter). From the test results are statistically analyzed paired samples there are significant differences at the level of 0:05 in the stock price. These results support the study Johnson et al. (1985) and Warner et al. (1988) who found and reported a positive stock price reaction after the turn, but both these studies failed to show significant share price reaction.

Market risk, in turnover companies, found significant at the 0.0001 level with $t = 31.471$. Mean risk is the market before the turnover of 2.380 (RiskBefore) and decreased significantly to 0497 (RiskAfter) after the turnover. The result of the second Test of this market variables supporting our third hypothesis which states that there are any differences of market performance in before and after turnover. These results indicate that CEO turnover appreciated positively by the market participants thereby increasing the company's stock price performance and reduce market risk, in other words, turnover is viewed by principals as a efforts of companies to improve corporate performance in the future and can improve the welfare of their owners. These results prove that the companies that make replacement CEO, who generally come from companies that declined during the three-year stock performance before the turnover, can improve the performance of the company's market for at least three years after the turn. Figure 2 shows the changes in stock prices and risk after CEO turnover.

Overall, we find positive and significant reaction on the performance of the market to change and this is consistent with results of previous research conducted by Reinangun (1985), Borstadt (1985), Furtado and Rozeff (1987) and Dedman and Lin (2002) who found market reaction to turnover. And Denis Denis (1995) found a significant positive impact of changes to the overall top executives (CEO and chairman) is out. Furtado and Rozeff (1987) examine shareholder wealth effects of CEO departure announcements, found similar results

with a UK study conducted by Dahya et al. (1998), where the market reacted positively to the 67 top management changes that are not routine reporting from Extel between 1989 and 1992.

Positive and negative reactions are found on market reaction in the study of changes caused by factors that are contingent on the issue of turnover. Generally if CEO turnover occurs in companies that have poor performance, then these changes will be responded positively by the market. Positive reactions are common for CEOs who come from outside. The reason for that is built on this case is the CEO who comes from outside is expected to provide change for a company that has failed to provide welfare to its shareholders by bringing new strategies into the company. While for some turnover in underperforming companies, the market reacts to the home also found a new CEO, the CEO of the positive and negative for the CEO from the outside. But the market reaction found in this type of turnover is not excessive. In addition to the CEO of origin, age factors (related to retirement) and the new CEO personality affects the market reaction is also found. This condition is well described by using the contingencies theory.

4.4. Additional Tests: Market Performance of Routine and Non-Routine

Additional testing we operate to provide a more detailed explanation on the issue of turnover. From the analysis of different test, we found significant differences in stock prices, on change of routine and non-routine before and after the turn. Substitution is done routinely show a lower share prices both before (SPBeforeR) and after the turn (SPAAfterR), each mean is 630.83 and 747.85. Although there are price increases at the turn of the routine, but when compared to stock price changes on non-routine turnover, before (SPBeforeN) and after the turn (SPAAfterR) with a mean of 1829.52 and 3086.13, indicating that the share prices of companies that conduct non-routine turnover more appreciated positively by the market. In line with the opinion of previous investigators, we conclude the non-routine turnover is more positive signals compared with a change in routine.

We defined turnover process very carefully. Non-routine turnover is turnover that resulted in the CEO does not have served any time (the board of commissioners or members of top management team) in the original company and whose ownership or in the same company. Setiawan (2008) uses the direction of Kang and Shivdasani (1996) in identifying the process of replacing non-routine and routine. If the CEO who turned out to be a member of the board of commissioners then considered a routine replacement process, is the opposite. In addition to being members of the commissioners, we also consider the research on CEO turnover at firms whose ownership and also consideration of a member of top management team. Furthermore, we found a significant difference ($p = 0.04$) in the share price before the change of routine at the price of shares before non-routine turnover. So did the stock price difference after the turn of the routine with the following non-routine changes (significant at level 0.05).

We do further analysis on the risk variables to the process of change and non-routine routine both before and after the turn. Mean at risk before the turn of the routine (RiskBforeR) is approximately 2409, while the mean risk before non-routine turnover seen lower the amount of 2306. Decrease in mean values of risk occurs after the turn of routine and non-routine, each became 0456 and 0434. Once again we make the conclusion that non-routine turnover is considered to have more good news than content with a change in routine. And this is reflected in the risk of diminishing the company at the turn of non-routine, although not significant.

5. Conclusions, Implications and Limitations

This study has provided findings on the contribution of accounting and market information as well as market reaction to CEO turnover in Indonesia. Antecedent factors and consequences of the changes we have in this research and analysis is the main contribution of this research. All the samples used is a company that does the CEO turnover in a given year and penelurusan accounting data and market data into our business further. From the purpose of accounting variables that we use as an antecedent change found consistent and unbiased for

the variable $\ln TAsset$, $\ln RSales$, ROA, ROE and Earnings. This finding is well explained about kemandfaat accounting information, which is expected by the public accounting as an information considered in the decision of the company. In addition to accounting information, market information looks to be a consideration (antecedent) and action (consequences) of turnover. The stock price is relatively increased after the company's turnover and the risk of a significant decrease at level < 0001 .

The results inform the existence of a signal to turn on accounting and market performance have been declining in the company. Owners increasingly consider the performance of accounting firms in making important decisions at the company, in this case is in consideration of CEO turnover. CEO turnover is not an easy action in an organization because the CEO change means changing the organizational model and lead the organization "sick" (Baron, Hanan and Burton 2001). So that shows the significance of accounting information when it is used in making important decisions for its users, in this case is the company. And the significance of accounting information can not be separated from the quality of the information. On the other hand, the owner of the company's turnover also must make decisions very carefully, because the turnover action had a significant response from the market. This reaction will affect the welfare of that will be received by the owners at the end.

Although we have done prudence in carrying out this research, such as sample selection and data considerations, but we still feel the lack, in this work we will improve as a motivation for future research. Several limitations in this study is not yet considering the reasons broader changes like retirement, death, or changes that are forced or voluntary, that the results of previous research diarea show considerable effect. For further research, it is necessary to consider the following characteristics with the personality of the CEO comes out and the new. Logit models are still a lot of statistical testing model used to regress the dependent variable is dichotomous or binary variables.

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APPENDICES

Table 1

Sampel Selection

Describe	Amount
Total Companies Investigate period 1998-2006	3200
Total turnover identified 1998-2006	264
Pergantian tanpa perubahan selama 4 tahun berturut-turut dalam periode 2001-2003	97
Final Sample for accounting data	140*
Final Sample for market data	131**
Final sample for Sampel akhir untuk uji beda data pasar	72

*81 turnover sample; 59 control sample

** 77 turnover sample dan 54 control sample

*** **Control sample** is a company that during the years 1998-2005 observed no change in CEO. The company is expected to have a relatively stable performance. Accounting and market data that we use for analysis is the average data over five year periods from 2001 to 2005.

Table 2

Testing Result each Hypotesis

	Variables	z-Statistic	Wald	Sig.	
Panel A , N=140 0 = 59 1 = 81 Testing for Accounting Data	InTAssets	-2.2899	5.244	.02	
	CurRatio	0.0226	.000	.98	
	D/Equity	-0.1706	.029	.86	
	InTSales	-1.9191	3.683	.05	
	ROA	-4.4301	19.626	.00	
	ROE	-2.1563	4.650	.03	
	Earnings	-1.9137	3.662	.05	
	Variables	z-Statistic	Sig. (2-tailed)		
Panel B , N= 131 0 = 54 1 = 77 Testing for Market Data	In-Sprices	-3,9989	0.0001		
	Risk	4,6189	0.0000		
	Variables	Mean	Sig. (2-tailed)		
Panel C , N= 72 Testing for <i>Paired T-test sampel.</i> Market Data	Pair 1 SPBefore -		.05		
	SPAAfter				
	Pair 2 RiskBefore -		.00		
	RiskAfter				
	<i>Mean:</i>		1134.0278		
	- SPBefore		1747.9865		
	- SPAAfter				
		2.3800			
	- RiskBefore		.4974		
	- RiskAfter				

Table 3
Result of Additional Testing

	Pairs	Mean	t	Sig.
Paired T-Test Sample, N= 28	1 SPBeforeR	630.83	-2.160	.040
	SPBeforeN	1829.52		
	2 SPAAfterR	747.86	-2.029	.052
	SPAAfterN	3086.13		
	3 RiskBeforeR	2.4093	.925	.363
	RiskBeforeN	2.3064		
	4 RiskAfterR	.4564	.172	.865
	RiskAfterN	.4336		

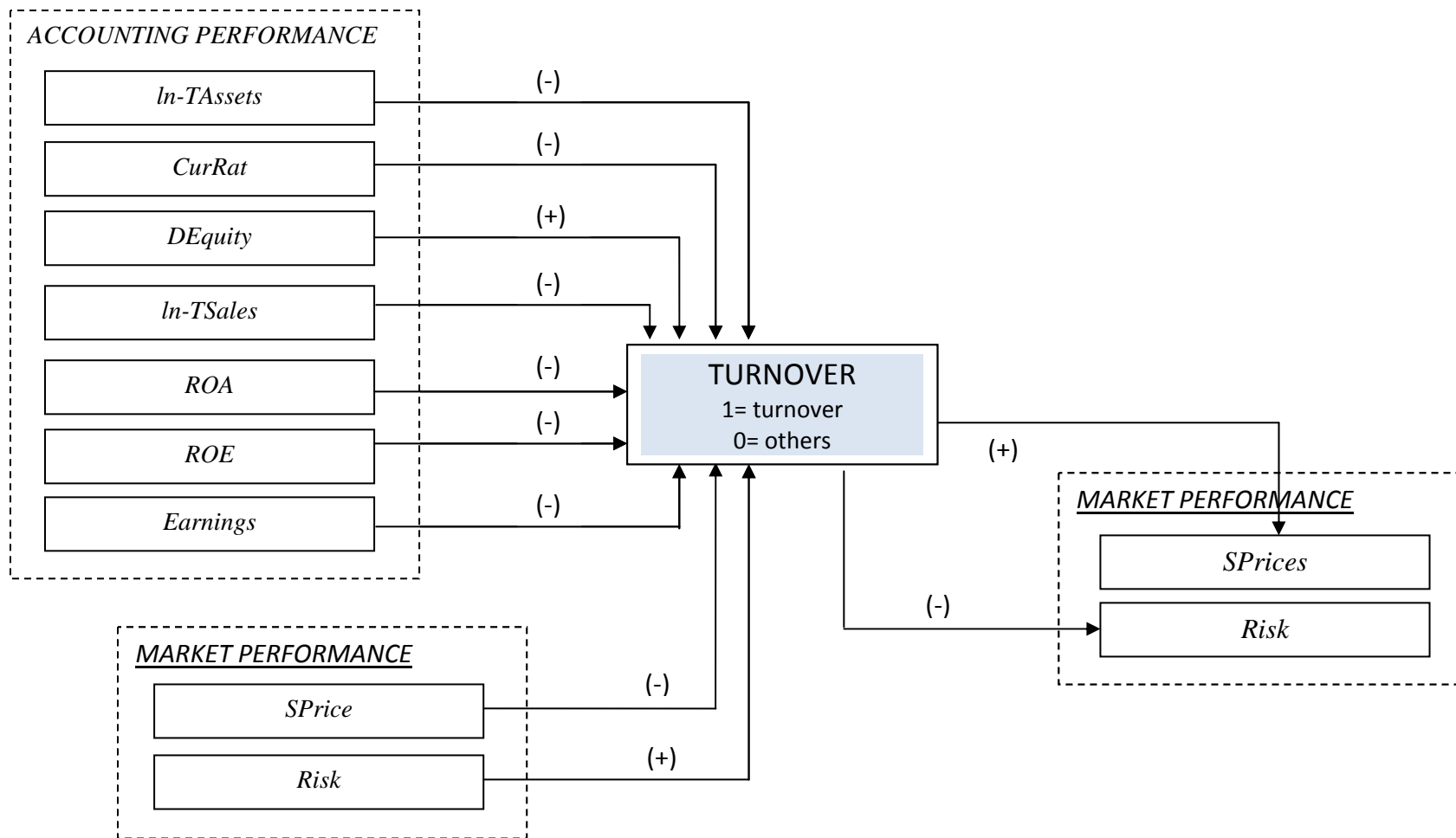


Figure 1. Testing Model

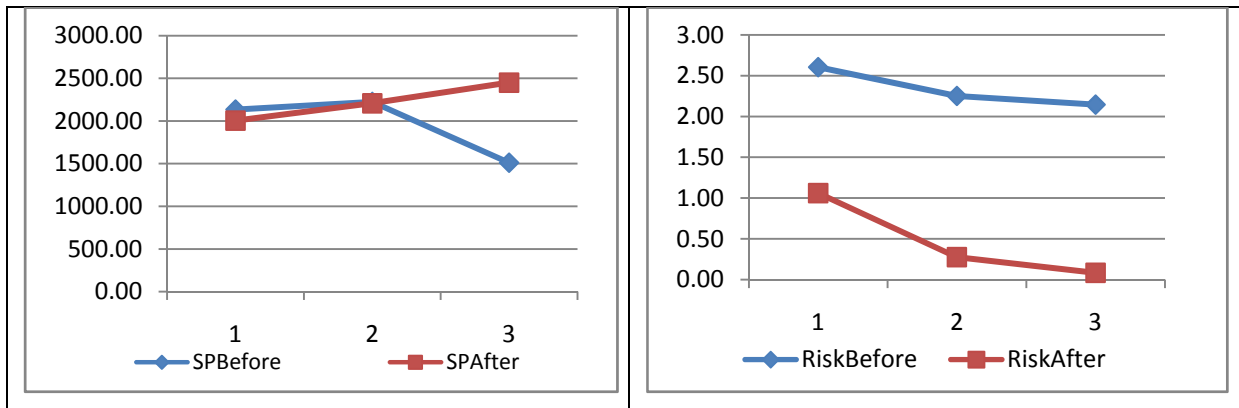


Figure 2. Share Price and Risk, before and after turnover.

LOGIT Result of Accounting Data

EViews

Dependent Variable: Y

Method: ML - Binary Logit (Quadratic hill climbing)

Date: 06/02/10 Time: 06:47

Sample: 1 140

Included observations: 140

Convergence achieved after 8 iterations

Covariance matrix computed using second derivatives

Variable	Coefficient	Std. Error	z-Statistic	Prob.
X1	-0.978792	0.427436	-2.289916	0.0220
X2	0.000427	0.022612	0.018895	0.9849
X3	-0.002710	0.015885	-0.170591	0.8645
X4	-0.699486	0.364486	-1.919103	0.0550
X5	-1.269806	0.286631	-4.430109	0.0000
X6	-0.020631	0.009568	-2.156346	0.0311
X7	-0.003231	0.001688	-1.913732	0.0557
C	0.713474	1.237403	0.576590	0.5642
McFadden R-squared	0.501338	Mean dependent var	0.578571	
S.D. dependent var	0.495561	S.E. of regression	0.300928	
Akaike info criterion	0.793213	Sum squared resid	11.95365	
Schwarz criterion	0.961306	Log likelihood	-47.52488	
Hannan-Quinn criter.	0.861521	Restr. log likelihood	-95.30485	
LR statistic	95.55994	Avg. log likelihood	-0.339463	
Prob(LR statistic)	0.000000			
Obs with Dep=0	59	Total obs	140	
Obs with Dep=1	81			

LOGIT Result of Market Data

Dependent Variable: Y

Method: ML - Binary Logit (Quadratic hill climbing)

Date: 05/31/10 Time: 10:58

Sample: 1 131

Included observations: 131

Covariance matrix computed using second derivatives

Variable	Coefficient	Std. Error	z-Statistic	Prob.
X1	-0.489785	0.122477	-3.998982	0.0001
X2	2.563277	0.554955	4.618895	0.0000
C	0.599274	1.853769	0.323273	0.7465
McFadden R-squared	0.899550	Mean dependent var		0.587786
S.D. dependent var	0.494123	S.E. of regression		0.100747
Akaike info criterion	0.181943	Sum squared resid		1.299199
Schwarz criterion	0.247787	Log likelihood		-8.917248
Hannan-Quinn criter.	0.208698	Restr. log likelihood		-88.77269
LR statistic	159.7109	Avg. log likelihood		-0.068071
Prob(LR statistic)	0.000000			
Obs with Dep=0	54	Total obs		131
Obs with Dep=1	77			

PAIRED T-TEST SAMPLE

T-TEST

```
PAIRS = SPBefore RiskBefore WITH SPAfter RikAfter (PAIRED)
/CRITERIA = CI(.95)
/MISSING = ANALYSIS.
```

T-Test

Paired Samples Statistics

	Mean	N	Std. Deviation	Std. Error Mean
Pair 1 SPBefore	1134.0278	72	1814.38838	213.82772
SPAAfter	1747.9865	72	3948.84254	465.37556
Pair 2 RiskBefore	2.3800	72	.41044	.04837
RikAfter	.4974	72	.49717	.05859

Paired Samples Correlations

	N	Correlation	Sig.
Pair 1 SPBefore & SPAAfter	72	.833	.000
Pair 2 RiskBefore & RikAfter	72	.558	.000

Paired Samples Test

		Paired Differences					t	df	Sig. (2-tailed)
		Mean	Std. Deviation	Std. Error Mean	95% Confidence Interval of the Difference				
					Lower	Upper			
Pair 1	SPBefore - SPAfter	-613.959	2637.41792	310.82268	-1233.72	5.80408	-1.975	71	.052
Pair 2	RiskBefore - RikAfter	1.88264	.43337	.05107	1.78080	1.98447	36.862	71	.000

ADDITIONAL TESTING:

T-Test

Paired Samples Statistics

		Mean	N	Std. Deviation	Std. Error Mean
Pair 1	SPBeforeR	630.8329	28	619.57824	117.08928
	SPBeforeN	1829.5243	28	2675.82674	505.68372
Pair 2	SPAAfterR	747.8579	28	1212.46101	229.13359
	SPAAfterN	3086.1307	28	5752.69519	1087.157
Pair 3	RiskBforeR	2.4093	28	.40734	.07698
	RiskBforeN	2.3064	28	.45462	.08592
Pair 4	RiskAfterR	.4564	28	.47190	.08918
	RiskAfterN	.4336	28	.48571	.09179

Paired Samples Correlations

		N	Correlation	Sig.
Pair 1	SPBeforeR & SPBeforeN	28	-.326	.091
Pair 2	SPAAfterR & SPAAfterN	28	-.188	.338
Pair 3	RiskBforeR & RiskBforeN	28	.070	.722
Pair 4	RiskAfterR & RiskAfterN	28	-.078	.694

Paired Samples Test

		Paired Differences					t	df	Sig. (2-tailed)
		Mean	Std. Deviation	Std. Error Mean	95% Confidence Interval of the Difference				
					Lower	Upper			
Pair 1	SPBeforeR - SPBeforeN	-1198.69	2936.58813	554.96299	-2337.38	-60.00142	-2.160	27	.040
Pair 2	SPAAfterR - SPAAfterN	-2338.27	6098.13412	1152.439	-4702.88	26.33670	-2.029	27	.052
Pair 3	RiskBforeR - RiskBforeN	.10286	.58866	.11125	-.12540	.33111	.925	27	.363
Pair 4	RiskAfterR - RiskAfterN	.02286	.70306	.13287	-.24976	.29548	.172	27	.865