International Research Journal of Finance and Economics
ISSN 1450-2887 Issue 168 July, 2018
http://www.internationalresearchjournaloffinanceandeconomics.com

The Role of Manager Characteristic to Improve Performance through Corporate Governance Implementation

Mohamad Nur Utomo
Departement of Management, Faculty of Economics
Borneo Tarakan University, Indonesia
E-mail: mohnurutomo@gmail.com

Nunung Nurhasanah
Departement of Management, Faculty of Economics and Business
Singaperbangsa University, Indonesia
E-mail: nunung_maafi@yahoo.co.id

Maximus Leonardo Taolin
Departement of Management, Faculty of Economics and Business
Timor University, Indonesia
E-mail: maxtaolin@yahoo.com

Abstract

This research is aimed to investigate empirically the effect of manager characteristic on performance through mediation of corporate governance implementation. Cooperatives which are still active in Tarakan City are determined as research sample. Result of research is explained as follows. Manager characteristic and corporate governance implementation are positively influencing performance of the cooperative. Corporate governance implementation has been positively affected by manager characteristic. Also, corporate governance implementation is the mediation factor behind the effect of manager characteristic on improving performance. Finally, it is recommended that the management of the cooperative shall improve the understanding and competency on corporate governance implementation to obtain the successful performance.

Keywords: Manager Characteristic, Corporate Governance Implementation, Performance, Welfare of the Members, Cooperatives.
JEL Classification: G30

1. Introduction

Cooperative refers to a people economic institution whose the presence is expected to contribute Indonesian economic development and to create a just and prosperous community by the respect to Pancasila (Five Principles) and UUD 1945 (National Constitution). The enactment of Law No.25/1992 has defined cooperative as a corporate body whose the founding is aimed to increase the welfare of the community in general and of the members in particular through business activities conducted. In other words, to increase the welfare of the members, the cooperative must have a good performance. Cooperative performance is usually measured with membership growth, business volume, capitalization, asset, and shared earning remainder(Sitio and Tamba, 2001).

Efforts to increase performance of cooperative cannot escape from the competency of management staffs or managing board of cooperative when they are given assignments and responsibilities by cooperative members as the owner or principal of cooperative. Agency theory has guided this research to explain the relationship between management staffs/managing board and members of cooperative. However, there is a conflict possibly emerging between owner and manager in every corporate activity because both have a control on corporate issues (Berle and Means, 1932). This conflict is usually caused by different interest between them. Manager is often required by owner to do necessary acts to increase owner's welfare, while manager always has a self-interest, precisely to maximize personal gain using corporate facilities (Jensen and Meckling, 1976).

Motivation that seduces managers to become opportunist is closely related with their background characteristic. Zouari et al. (2015)found that manager characteristic, proxied by reputation, skill, and job duality (manager-chairman), is positively related with opportunism because it gives more chances to managers to commit fraud and earnings manipulation. The higher reputation and skill the managers have, the more possible to them to engage manipulation to sustain their reputation. Managers' experience and skill on finance also convince them to be less honest in preparing their financial statement. A manager with more experiences and skills on finance is often one who is brave enough to manipulate financial statement (Jiang et al., 2013).

Agency conflict may decline cooperative performance, and few factors accelerate this decline, such as: limited independency, poor management and leadership, unreliable resource, and rampage of corruption and nepotism (Davis, 2010). To deal with this agency conflict, corporate governance concept is then introduced to become a solution for reducing the deviation (conflict) of interests. Corporate governance is a key to improve economic efficiency, and it contains with a relationship between firm management, director board, shareholder and other stakeholders (OECD, 2004).

Some literatures describe that corporate governance implementation by cooperatives has been successfully improving their performance. The successfully managed cooperatives in Winconsin, United States, are those with good corporate governance (Pitman, 2005). Better understanding and implementation of corporate governance principles shall facilitate the cooperatives to resolve complex problems they dealt with (Surroca et al., 2006). Also, corporate governance implementation, in form of supervisory board's internal monitoring, has a positive impact on development and sustainability of business at the micro finance institutions or the saving-loan type of cooperatives (Bakker et al., 2014).

This research attempts to make a connection between the effect of manager characteristic on performance and the mediation of this effect through corporate governance implementation. Research is conducted in Tarakan City, Indonesia, with a sample of 67 cooperative managers as the active respondents in research. Manager characteristic is the personal background of manager which affects manager's selection of business strategy which in turn gives impact on performance. This personal background is represented by education, skill and work experience of manager. Within cooperative context, the implementation of corporate governance can also be said as the application of corporate governance basic principles, and this application is structurally embedded into cooperative operational system. These basic principles are transparency, accountability, responsibility, independency and fairness. Meanwhile, performance refers to the achievement or the result of managerial activities, and it is measured by monetary or non-monetary terms. However, the focus of the current research is more given to non-monetary terms such as membership growth, business volume, asset increase, and shared earning remainder (SHU).

The current research has given some results. Both corporate governance implementation at the cooperative and cooperative performance are positively affected by manager characteristic. Corporate governance implementation has a positive effect on performance. The effect of manager characteristic on performance has been mediated by corporate governance implementation. This research shall contribute the literatures of corporate governance implementation at the cooperatives of Indonesia, especially those in Tarakan City.

Paper is arranged into five sections. The second contains literature review and hypothesis development. Third section is about methodology. Result is elaborated in the fourth, while final or fifth section is given for discussion and conclusion.

2. Literatur Review and Hypothesis Development

2.1 The Effect of Manager Characteristic on Performance

A theoretical base, called "The Upper Echelons" Theory, has given a perspective concerning with the relationship between the selection of strategy by the summit manager and the performance (or outcomes) of the business (Hambrick and Mason, 1984). Previous studies have shown that the selection of business strategy is affected by manager characteristic (Araujo and Neira, 2006, Halikias and Panayotopoulou, 2003). Manager characteristic can be classified by the demographic typologies, such as age, gender, and education background (Leonidau, 1998).

The classification of manager characteristic has also been made with manager personality indicators, such as risk tolerance, rigidity and aggresiveness(Araujo and Neira, 2006), or based on attributes of age, gender and socio-economical status (Philemon and Kessy, 2016). Few other studies have proxied manager characteristic on education, gender, reputation, skill, experience, job duality, and tenure (Zouari et al., 2015, Jiang et al., 2013, Manner, 2010, Huang, 2013).

Next, results of empirical studies have shown that manager characteristic influences selection of strategy, and this selection affects achievement (outcomes) of the firm (Halikias and Panayotopoulou, 2003, Araujo and Neira, 2006). Philemon and Kessy (2016)have found that top managers' characteristic has a positive effect on firm performance.

Based on theoretical and empirical reviews outlined so far, a hypothesis is then developed:

H1: Manager characteristic has a positive effect on performance.

2.2 The Effect of Manager Characteristic on Corporate Governance Implementation

There is a relationship between manager characteristic and corporate governance implementation. It is also said that corporate governance implementation can be proxied as the participation of firm into the activity of CSR (corporate social responsibility). Basically, corporate governance is not only involving relationship between manager and owner, but also representing corporate social responsibility (CSR) to the immediate communities (Tricker, 1984).

Empirical studies have indicated that there is a strong relationship between manager characteristic and performance in corporate social responsibility (CSR). Manner(2010)said that manager characteristic, represented by education background of Humanity Degree and gender of female, has a positive effect on performance in corporate social responsibility (CSR). Huang (2013) asserted that manager characteristic (indicated by education level of MBA, M.sc, and relevant tenure/work experience) has a positive effect on CSR performance.

Based on the results of empirical reviews above, a hypothesis is written as:

H2: Manager characteristic has a positive effect on corporate governance implementation

2.3 The Effect of Corporate Governance Implementation on Performance

Successful business at certain organization can emanate from good *corporate governance* implementation. *Corporate governance* plays important roles in organization because it can be a structure, a process, a culture, and also a system in organization (Keasey and Wright, 1993). The objective of *corporate governance* is to create additional values for firm stakeholders, and it is done by making rules that support relationship between shareholders, firm management, creditors, government, employees and other internal and external stakeholders, concerning with their rights and duties, and then integrating all of these into a system that regulates and controls the firm (FCGI, 2006).

Few findings of empirical studies declare that *corporate governance* implementation allows the firm to be successful in achieving performance. Pitman (2005) discovered that successful cooperatives in Winconsin-United States are those with good *corporate governance* implementation. Complex issues confronted by cooperative can be resolved with the approach of understanding and implementing good *corporate governance*(Surroca et al., 2006). Internal shareholder's monitoring on *corporate governance* implementation has given a good impact on development and sustainability of the business at the micro finance institutions or the saving-loan type of cooperatives (Bakker et al., 2014).

From empirical findings above, a hypothesis is made as follows:

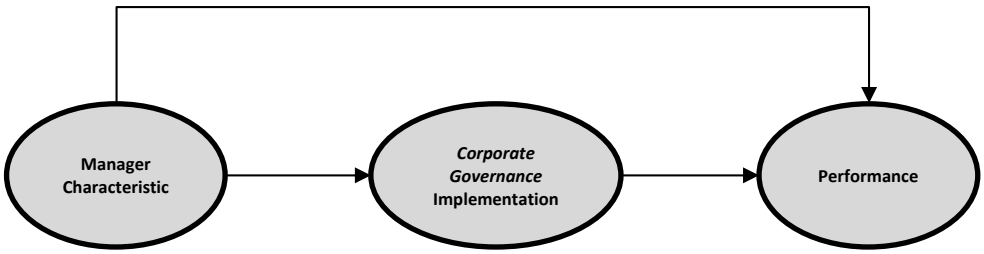
H3: *Corporate governance* implementation has a positive effect on performance

Taking into account Hypothesis 1, 2 and 3, thus final hypothesis is composed as follows:

H4: The effect of manager characteristic on performance is mediated by *corporate governance* implementation

An empirical model that outlines all hypotheses is shown in Figure 1.

Figure 1: Empirical Model of Hypotheses



Source: Theories and empirical studies examined in this research.

3. Methodology

3.1 Research Variable and Operational Definition

Three variables are measured in this research, and these include manager characteristic as independent/exogenous variable, corporate governance implementation as mediation variable, and performance as dependent/endogenous variable.

Financial performance can also be used as a research variable but as explained by a previous related study (Wijayanti and Utomo, 2016), it is always difficult to obtain completely the secondary data of financial information (financial statement). Incomplete data become a problem because the data obtained may not fulfill the minimum requirement of sampling. Giving anticipation to this problem, the current research focuses more on primary data by excavating information from respondents. Variable type in this research is latent / unobserved variable because it is proxied by using respondents' perception on the determined indicators. The operational definition of reseach variables is given in the following Table 1.

Table 1: Research Variable and Operational Definition

Variable	Operational Definition	Variable Indicator	Justification
Exogenous: Manager Characteristic (KM)	Background of cooperative's managers and staffs which affecting business strategy decision based on education classification, skill and work experience.	• Education • Skill • Experience	(Zouari et al., 2015, Jiang et al., 2013, Manner, 2010, Huang, 2013)
Mediation: *Corporate Governance*Implementation (ICG)	Implementation and application of *corporate governance* basic principles, which both activities are structured into operational system and managerial activities of all cooperative staffs.	• Transparency • Accountability • Responsibility • Independency	(OECD, 2004, KNKG, 2006)

Variable	Operational Definition	Variable Indicator	Justification
		• Fairness	
Endogenous: Performance (KIN)	Result or achievement of activities from managerial staffs or others in cooperative, which is good in sustainability, and measured in monetary and non-monetary terms.	• cooperative liveliness • membership growth • business volume • capitalization • asset • shared earning remainder (SHU)	(Sitio and Tamba, 2001)

3.2 Population and Sample of Research

Population of research is all cooperatives which are still operationally active in Tarakan City. Based on data of May 2016, number of the still-active cooperatives is 112 units. This research attempts to obtain a complete description on corporate governance implementation at the cooperatives in Tarakan City, and therefore, the sample is all operationally active cooperatives in Tarakan City, Indonesia.

3.3 Data Collection Technique

Data collection technique is using method of primary data collection. Field study is conducted in research location, and it is done through:

a. Interview, dialog, or asking question directly to the respondents to complete the data.
b. Questionnaire, from which the obtained data will be analyzed, and the data collected are manager characteristic, corporate governance implementation, and performance of the cooperative.

Questionnaire completely filled by respondents is prepared to be the source of data. The respondents are managers or staffs who still actively take care of daily activities of the cooperative, and the cooperative where they work is still functioning actively in Tarakan City. Data are arranged on time dimension into few categories, and therefore, data of this research are cross sectional.

3.4 Data Analysis Technique

The analysis process involves Partial Least Squares (PLS) - Structural Equation Modelling (SEM), and this process, including hypothesis testing, is facilitated by a computer program called WarpPLS versi 6.0. Five stages must be passed when PLS-SEM is used:

1. Conceptualization of Model
   This stage is defining conceptually the observed constructs, and determining the dimensionalities of each construct and also of indicators that shape latent constructs. This determination is to ensure whether indicator is formative, reflective, or combination of boths. In this research, latent variable is formative because indicators that explain the construct are formative (Sholihin and Ratmono, 2013).
2. Determination of Algorithm Analysis Method for Outer Model and Inner Model
   During the conduct of PLS-SEM with WarpPLS 6.0, two algorithm modes are determined before implementing model analysis either for outer model or inner model. In outer model, there are 11 algorithm options (CFM1, REG1, PTH1, PLS Regression, PLS Mode M, PLS Mode M basic, PLS Mode A, PLS Mode A basic, PLS Mode B, PLS Mode B basic). PLS Regression is used because it can handle data with collinearity problem (Latan and Ghozali, 2016). After processing for outer model, it continues with inner model. There are five options of inner model algorithm in WarpPLS 6.0 program (linear, warp2, warp2 basic, warp3, warp3 basic). Linear option is chosen because hypotheses constructed in structural model have a linear relationship.

3. Determination of Resampling Method
   Resampling is a procedure to redesign the sample because significance value of the estimated PLS model is unknown (Latan and Ghozali, 2016). In general, there are two resampling methods, namely boot-strapping and jack-knifing. Usually, it will be more stable to use jack-knifing when the number of original sample is less than 100. If data collected are equal to or more than 100 samples, boot-strapping method is more favorable because it is more stable. Other reason why this method is chosen is that WarpPLS Version 6.0 needs more stable method to be set as default in WarpPLS program (Latan and Ghozali, 2016).
4. Delineation of Path Diagram
5. Evaluation of Model
   Evaluation of model in PLS-SEM is distinguished into evaluation of measurement model and of structural model. Evaluation of measurement model (outer model) is aimed to assess reliability and validity of indicators that constitute latent constructs. Evaluation of structural model (inner model) is done to predict relationship of latent variables by examining how many variances are the latent variables can explain, and also to estimate significance level of p-value.

4. Result

4.1 The Analysis on Evaluation of Research Models

As explained previously, there are two evaluation modes in this research, respectively evaluation of measurement model and evaluation of structural model. The evaluation of research models is analyzed using PLS-SEM method supported by WarpPLS Version 6.0. Algorithm method is applied on outer model by operating PLS Mode A because all constructs in this research are explained by reflective indicators. For inner model, linear method is used because it is assumed that all relationships among the constructs are linear. Determination of resampling method is using Stable option on WarpPLS program although the sample is only 66 (<100). This option is then utilized because the resultant method has the greater Average R-squared (ARS) and the smaller P-value if compared to other method (Sholihin and Ratmono, 2013).

4.2 Evaluation of Measurement Model

Evaluation of measurement model is carried out to assess reliability and validity of indicators constituting latent constructs in this research. According to Latan and Ghozali (2016),the measurement of reliability and validity (outer model) through reflective constructs must attend the following terms:

1. Indicator reliability is fulfilled when factor loading value is > 0.7.
2. Internal consistency of reliability is met when composite reliability value is > 0.7.
3. Convergent validity is fulfilled when Average Variance Extraced (AVE) value is > 0.5.
4. Discriminant validity is produced when AVE root-squared value is >cross-constructs correlation value.

Indicator reliability of all constructs has been analyzed. Two indicators are found as failing to meet the term. One is transparency, an indicator that constitutes the construct of corporate governance implementation because it has factor loading value of 0.538. The second is cooperative liveliness, an indicator that explains the construct of cooperative performance, with factor loading value of 0.598. Both indicators have factor loading value less than 0.7, and as a result, these indicators are excluded from measurement model. However, indicator of transparency is still retained recalling a fact that transparency is very important and vital element for corporate governance implementation. Consequently, only cooperative liveliness is eliminated from model. Complete detail of factor loading values, composite reliability, and AVE of all indicators is shown in Table 2.

Table 2: Factor Loading, Composite Reliability and Average Variance Extract

Construct	Indicator	Factor Loading	Composite Reliability	AVE
	Skill	0.93		
	Experience	0.80		
Corporate Governance Implementation (ICG)	Transparency	0.55	0.895	0.631
	Accountability	0.84		
	Responsibility	0.79		
	Independency	0.83		
	Fairness	0.78		
Performance (KIN)	Membership Growth	0.83	0.873	0.583
	Business Volume	0.74		
	Capitalization	0.73		
	Asset	0.83		
	SHU	0.83		

Source: Primary data are processed (2017)

Table 2 shows that all indicators (except for Transparency) that constitute the constructs of Manager Characteristic, Corporate Governance Implementation, and Performance, are valid with factor loading value more than 0.7. It can be said that all indicators have good indicator reliability. It is also shown that AVE value of each construct is very good, precisely > 0.5, and thus, it fulfills convergent validity term. Composite Reliability value of each construct is also very good, respectively > 0.7, and therefore, it fulfills the term of internal consistency reliability.

Result of analysis on AVE root-squared, compared with cross-constructs correlation, is indicated in Table 3.

Table 3: AVE Root-Squared and Cross-Constructs Correlation

Constructs	AVE Root-Squared	Correlations		
		KM	ICG	KIN
Manager Characteristic	0.857	-	0.522	0.36
Corporate Governance Implementation	0.764	0.522	-	0.485
Performance	0.795	0.36	0.485	-

Source: Primary data are processed (2017)

It is indicated in table above that AVE root-squared value of each construct is higher than cross-constructs correlation value, and thus, every construct in this research has fulfilled discriminant validity term.

4.3 Evaluation of Structural Model

Evaluation of structural model (inner model) is aimed to predict relationship of variables by examining variances explained by these variables, and also to estimate significance level of P-value (Latan and Ghozali, 2016). This research claims that evaluation of structural model can be used for hypothesis testing on Hypothesis 1, 2 and 3. Concerning Hypothesis 4 (mediation effect), it is tested with mediation test.

Evaluation of cross-constructs relationship must be preceded by evaluation of goodness-of-fit on research model. The output of this evaluation is shown in Table 4.

Table 4: Goodness-of-Fit of Structural Model

Criteria	Parameter
Average path coefficient (APC)	0.359/ P<0.001
Average R-squared (ARS)	0.261/ P=0.001
Average adjusted R-squared (AARS)	0.244/ P=0.002

Criteria	Parameter
Average block VIF (AVIF)	1.374
Average full collinearity VIF (AFVIF)	1.444
Tenenhaus GoF (GoF)	0.412
Sympson's paradox ratio (SPR)	1.000
R-squared contribution ratio (RSCR)	1.000
Statistical suppression ratio (SSR)	1.000
Nonlinear bivariate causality direction ratio (NLBCDR)	1.000

Source: Primary data are processed (2017)

As indicated by the table above, research model has a good fit because P-value for APC, ARS and AAR is mostly < 0.05, precisely APC = 0.359, ARS = 0.261 and AARS = 0.244. The value of AVIF dan AFVIF is < 3.3, meaning that there is no multicollinearity problem across indicators and also across exogenous variables. Goodness-of-Fit (GoF) is valued at 0.412 (> 0.36), which means that model has a very good fit. All values of SPR, RSCR, SSR and NLBCDR equal to 1, meaning that it shall be no causality problem in the model (Latan and Ghozali, 2016).

Result of estimated cross-constructs relationship, and also levels of variance and effect size, are given in Table 5.

Table 5: Result of Estimated Cross-Constructs Relationship

Description Path	Path Coefficient	R^2	Effect Size
Manager Characteristic → Corporate Governance Implementation	0.522***	0.261	0.272
Manager Characteristic → Performance	0.147**	0.227	0.053
Corporate Governance Implementation → Performance	0.408***		0.198

***, **, * denotes significance levels at 0.001, 0.05 and 0.1, respectively.
Source: Primary data are processed (2017)

It is shown in Table 5 that the value of Adjusted R-squared (R^2) of the variance affecting Corporate Governance Implementation is 0.261, which means that the effect of the variance of Manager Characteristic on the variance of Corporate Governance Implementation is 26.1%, while the remaining variance of 73.9% is affected by other variable outside the model. Variance level that affects Performance is 0.227, meaning that the effect of the variance of both Manager Characteristic and Corporate Governance Implementation on the variance of Performance is 22.7 %, while the remaining variance of 77.3 % is affected by other variable beyond the model. Variance level of Adjusted R-squared (R^2) which affects Corporate Governance Implementation(ICG)belongs to moderate category ($0.25< R^2< 0.45$), whereas variance level of Adjusted R-squared (R^2) which affects Performance is included into weak category, respectively $R^2< 0.25$ (Latan and Ghozali, 2016).

The level of effect size concerning the effect of Manager Characteristic on Corporate Governance Implementation is 0.272 (< 0.35), while effect size level for the effect of Corporate Governance Implementation on Performance is 0.198 (<0.35). The position of effect size of both relationships is in the moderate category. Meanwhile, effect size level relating with the effect of Manager Characteristic on Performance is 0.053 (< 0.15), which means that this level resides at weak or small category. When effect size levels between the effect of Manager Characteristic or Corporate Governance Implementation on Performance are compared, it is shown that Corporate Governance Implementation has higher effect size, meaning that it has more important role to improve performance.

Concerning with estimated path coefficient and p-values previously described, it is shown Manager Characteristic (KM) has a significant and positive effect on Performance (KIN) proved by P-value of < 0.05 and path coefficient value of dan 0.147, and thus, it can be said that Hypothesis 1 is supported. This result supports previous findings indicating that manager characteristic affects strategy selection which then impacts on achievement of business outcomes (Halikias and Panayotopoulou, 2003, Araujo and Neira, 2006). Furthermore, it is also demonstrated that Manager Characteristic (KM)

has a positive and significant effect on Corporate Governance Implementation (ICG) proved by P-value < 0.001 and path coefficient value of 0.522, which means that Hypothesis 2 is supported. This finding supports previous studies asserting that there is a strong relationship between manager characteristic and corporate governance implementation (Manner, 2010, Huang, 2013).

Corporate governance implementation (ICG) has a positive and significant effect on Performance (KIN) indicated by P-value < 0.001 and coefficient path value of 0.408, and this result supports Hypothesis 3. This finding sustains previous studies claiming that corporate governance implementation allows the firm to be successful in achieving performance (Pitman, 2005, Surroca et al., 2006, Bakker et al., 2014).

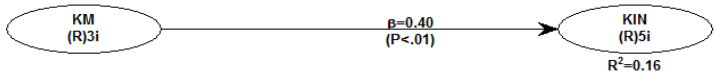
This research uses Variance Accounted For (VAF) as mediation test method for testing Hypothesis 4. Hair et al. (2013)in a book written bySholihin and Ratmono (2013)have said that VAF is a more suitable and appropriate method than others in testing mediation effect in PLS-SEM because PLS-SEM involves the use of resampling method and does not need any assumptions on variable distribution, and also VAF is very usable in small sample. According to Hair et al. (2013),mediation test procedure with VAF involves activities as following:

1. The direct effect of exogenous variable on endogenous variable is tested without involving mediation variable.
2. If the direct effect is significant, it is continued with the testing of the indirect effect of exogenous variable on endogenous variable with the involvement of mediation variable.
3. If the indirect effect is significant, then both VAF value and mediation effect level are determined with the following criteria:
   a. If VAF is > 80%, there must be full mediation.
   b. If the condition is 20% ≤ VAF ≤ 80%,it results in partial mediation .
   c. If VAF is < 20%,there is no mediation effect.

The value of Variance Accounted For (VAF) is obtained by dividing the indirect effect with the total effect (direct effect plus indirect effect).

The direct effect of Manager Characteristic on Performance without mediation variable (ICG) has been depicted in Figure 2.

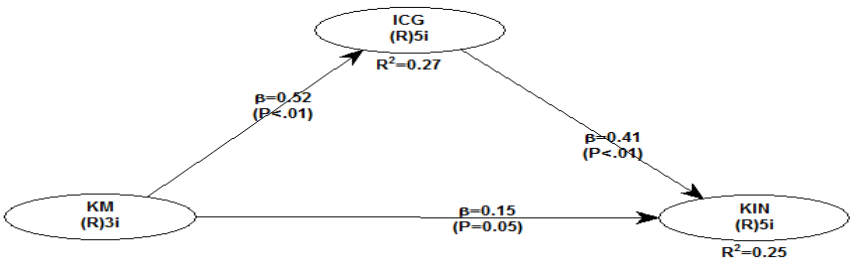
Figure 2: Direct Effect of KM on KIN



Source: Primary data are processed (2017)

Figure 2 shows that Manager Characteristic (KM) has a positive and significant effect on Performance (KIN) indicated by P-Value < 0.001 and path coefficient value of 0.403. Analysis process proceeds to the next stage, mainly testing the indirect effect of KM on KIN through mediation variable (ICG), as depicted in Figure 3.

Figure 3: Indirect Effect of KM on KIN through ICG Mediation



Source: Primary data are processed (2017)

As indicated by Figure 3, the indirect effect of KM on KIN through ICG mediation is positive and significant (P-value < 0.001) with path coefficient value of 0.213 (0.522 x 0.408). Moreover, VAF value must be determined to ensure whether mediation effect is existing or not. The determination of VAF can be seen in Table 6.

Table 6: VAF for The Effect of KM on KIN through ICG Mediation

Description	Path Coefficient
Indirect effect	0.213
Direct effect	0.403
Total effect	0.616
VAF (indirect effect/total effect)	0.346

Source: Primary data are processed (2017)

Table 6 indicates that VAF value is 0.346 or 34.6%, and thus, it can be said that mediation effect is included within category of partial mediation (20% ≤ VAF ≤ 80%). This result supports Hypothesis 4, that the effect of Manager Characteristic on Performance is done through mediation of Corporate Governance Implementation. It can be claimed that not only performance improvement is merely affected by manager characteristic, but also performance can be improved more successfully by implementing basic principles of corporate governance.

5. Discussion and Conclusion

The objective of this research is to conduct empirical test on the effect of manager characteristic on performance achievement through the implementation of corporate governance basic principles. Research is located in Tarakan City involving 66 active cooperative managers as the respondents of research. Manager characteristic is the background affecting manager to select certain business strategy which in turn impacts on performance. In this research, manager characteristic is represented by manager background concerning education, skill and work experience.

Corporate governance implementation is the application of corporate governance basic principles which have been structured internally in cooperative operational system. The basic principles of corporate governance include transparency, accountability, responsibility, independency and fairness. Performance refers to the achievement or result of managerial activities conducted in manner of sustainability. Performance can be measured in monetary or non-monetary terms. This research gives more consideration to non-monetary terms, such as membership growth, business volume, asset increase, and shared earning remainder (SHU).

This research has given some results and these can be explained as follows. Manager characteristic has affected the selection of business strategy to achieve the expected cooperative performance. This position supports “The Upper Echelons” Theory that gives a perspective that there is a relationship between the selection of strategy by the summit manager and the performance (outcomes) of a business (Hambrick and Mason, 1984). It is said that the selection of business strategy is affected by manager characteristic (Araujo and Neira, 2006, Halikias and Panayotopoulou, 2003).

Other result indicates that manager characteristic may affect a manager who is then convinced to implement corporate governance basic principles in cooperative’s business activity. The better is the characteristic the manager has, represented by manager background concerning education, skill, and reputation of work experience, the more increasing is corporate governance implementation in cooperative operational management. This research also discovers that corporate governance implementation helps the manager to be successful in improving cooperative performance. This finding supports corporate governance theory indicating that corporate governance has many roles to play, such as to become a structure, a process, a culture, and also a system in organization, which all of them are important, if properly implemented, for the successful performance of organization (Keasey and Wright, 1993).

Finally, the result demonstrates that corporate governance implementation has mediated the effect of manager characteristic on cooperative performance achievement. This position can be described as that cooperative performance can be improved in two ways. One is through manager characteristic while the second involves corporate governance implementation. Of these two, corporate governance implementation is more dominant and also plays more important role in improving cooperative performance. Corporate governance implementation is only realized through the presence of a manager with good characteristic and also who acknowledges that implementation of corporate governance basic principles will give a positive impact on organizational success.

Limitation

The limitation of research is described as follows. Research sample includes only active cooperatives but excludes less active cooperatives. Other variables with possible effect on corporate governance implementation, such as regulation and business competition, are not considered in research.

Future research shall involve less active cooperatives to create more comprehensive sample. Other variables such as government role, regulation, or business competition, must be added into the research because all of them possibly affect corporate governance implementation.

References

[1] Araujo. M. L. d. R. and Neira. M. C. V,2006, Managerial characteristics and export performance in spanish SMEs, *esic market*, 191-221.

[2] Bakker, A., Schaveling, J. and Nijhof, A., 2014, Governance and microfinance institutions', *Corporate Governance,* 14(5), 637 - 652

[3] Berle and Means ,1932, The Modern Corporation and Private Property, *New York: The Macmillan Company*.

[4] Davis. P, 2010,*Strategies For Building an Effective Co-operative Movement in Indonesia*,unpublished.

[5] FCGI, 2006, Roles of the Board of Commissioners and Audit Committee in the Implementation of Corporate Governance, Corporate Governance Series I, Volume I.

[6] Hair, J. F., Hult, G. T. M., Ringle, C. and Sarstdett, M., 2013,*A Primer on Partial Least Squares StructuralEquation Modeling (PLS-SEM),* Los Angeles:Sage.

[7] Halikias and Panayotopoulou, 2003, Chief executive personality and export involvement, *Management Decision,* 41(4), 340 - 349.

[8] Hambrick, D. C. and Mason, P. A., 1984, Upper Schelons : The Organization as a Reflection of its Top Management', *Academy of Management Review,,* 9(2), 193-206.

[9] Huang, S. K., 2013, The Impact of CEO Characteristics on Corporate Sustainable Development, *Corporate Social Responsibility Environmental Management,* 20, 234-244.

[10] Jensen, M. C. and Meckling, W. H., 1976, Theory of the Firm: Managerial Behavior, Agency Costs and Ownership Structure , *Journal of Financial Economics,* 3(4), 305-360.

[11] Jiang, F., Zhu, B. and Huang, J., 2013, CEO's financial experience and earnings management , *J. of Multi. Fin. Manag.,* 23, 134-145

[12] Keasey, K. and Wright, M.,1993, lssues in Corporate Accountability and Governance: An Editorial, *Accounting and Business Research,* 23(91A), 291-303.

[13] KNKG ,2006,General Guidelines for Good Corporate Governance Indonesia.

[14] Latan, H. and Ghozali, I., 2016,*Partial Least Square Concepts, Methods and Applications Using WarpPLS 5.0*, Semarang: Diponegoro University Publishing Agency.

[15] Leonidau, L. C., 1998, Factors stimulating export business: An empirical investigation., *Journal of Applied Business Research,* 14(2), 43-68.

[16] Manner, M. H., 2010, The Impact of CEO Characteristics on Corporate Social Performance, *Journal of Business Ethics,* 93, 53-72.

[17] OECD ,2004, OECD Principles of Corporate Governance, *Organisation For Economic Co-Operation And Development*.

[18] Philemon, J. R. and Kessy, S. S.,2016, Top Management Characteristics and Firms Performance in Tanzania: A Case of Selected Firms, *Business Management Review Vol.18; No. 2,* 18(2).

[19] Pitman, L., 2005, Cooperatives in Winconsin', *University of Wiconsin, Center of Cooperatives, Madison*.

[20] Sholihin, M. and Ratmono, D., 2013,*Analysis of SEM-PLS with Warp PLS 3.0 for Nonlinear Relations in Social and Business Research*, Yogyakarta: ANDI Publisher.

[21] Sitio, A. and Tamba, H., 2001, *Cooperative Theory and Practice*, Jakarta: Erlangga Publishers.

[22] Surroca, J., García, M. A. and Santamaria, C. L., 2006, Corporate Governance and the Mondragón Cooperatives, *Journal of the Iberoamerican Academy of Management,* 4(2), 99 - 112.

[23] Tricker, R., 1984,*Corporate Governance: Practices, procedures and powers in British companies and their boards of directors,* UK:Gower Press, Aldershot.

[24] Wijayanti, A. K. and Utomo, M. N., 2016, *Evaluation Review of the Implementation of Good Corporate Governance (Study on Cooperatives in Tarakan City)*, unpublished thesis Borneo University Tarakan.

[25] Zouari, Z., Lakhal, F. and Nekhili, M., 2015, Do CEO characteristics affect earnings management ? Evidence from France, *International Journal of Innovation and Applied Studies,* 12(4), 801-819.