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Corporate Governance Internal Mechanisms, Directors' Remuneration, and Financial Performance: Evidence from Indonesia Banking Industries

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Abstract

This study was conducted to analyze the effect of the corporate corporate governance mechanism and director remuneration on the company's performance. This study examines the internal mechanism comprising the size of the board of directors, internal and external directors, the Audit Committee, the Nomination and Remuneration Committee, the frequency of board meetings, and the ownership structure. Return on Assets (ROA) is used to measure a company's financial performance, while Price to Book Value (PBV) is used to measure its market performance. This study information is taken from secondary data and the company's official annual report. This study's sample was drawn from a financial institution listed on the Indonesia Stock Exchange (IDX) between 2016 and 2020. This study sampled 38 companies using a technique purposive sampling. Using the EViews software, this research employs a panel data regression model for its analysis. The data demonstrated that the Audit Committee positively affected ROA but had no effect on PBV. The frequency of board meetings had no effect on ROA, but a negative effect on PBV. ROA and PBV were unaffected by the size of the board of directors, internal directors, external directors, Nomination and Remuneration Committee, ownership structure, and compensation of directors. The most relevant finding of this research indicates that the influence of independent variables on ROA and PBV differs between large and small banks. In addition, board size had a negative effect on ROA during the Covid-19 pandemic in 2020, but a good effect on PBV. In the meantime, director's compensation had a beneficial effect on PBV, but no effect on ROA.

Keywords : performance of the company, corporate governance internal mechanism, director's remuneration
JEL Classification : G32, G34, L25

1. INTRODUCTION

One of the priority factors in the stakeholders assessment is performance of the company (Purwanto et al., 2018). Companies that achieve their goals, namely maximum profits, can be considered to have good performance (Hutabarat, 2020:1). The bank is an institution with a function as an intermediary between parties who need funds to those who have excess funds, smoothing the flow of payments and the purpose of their activities to improve people's lives so that banks play a key role in the economy of a country (Ramli dan Setiany, 2021). Banking profitability is affected by different causes, one of which is the Allowance for Impairment Losses (Cadangan Kerugian Penurunan Nilai/ CKPN).). Allowance for impairment losses is the formation of reserves by banks to anticipate the risk of loss due to investment in productive assets as regulated in PSAK 71 concerning Financial Instruments (Rahayu, 2021).

The Covid-19 pandemic has resulted in a performance decline and the ability to pay down the corporate debts that impacted the banking sector. To anticipate the pandemic effect, the Financial Services Authority (OJK) has issued policies related to the national economic stimulus and guidelines for the application of PSAK 71, namely that banks must implement a credit restructuring scheme and establish CKPN. Based on Banking statistics published by OJK in December 2020, the total net profit of commercial banks in 2020 decreased by 33.08% to Rp 104.71 trillion compared to the previous year. The decline in profits was inseparable from the banking business to enlarge CKPN in anticipation of problematic credit due to the Covid-19 pandemic (keuangan.kontan.co.id). One example is PT Bank Negara Indonesia Tbk whose net profit decreased by 81.17%, from Rp. 14.61 trillion in 2019 to Rp. 2.75 trillion in 2020. Meanwhile, ROA in 2020 was 0.5, which was previously 2.4 in 2019.

Banking management must be done carefully so that shareholders and stakeholders can get maximum benefits. Good bank or corporate management is known as good corporate governance (Ramli and Setiany, 2021). The issue of GCG is still interesting to be raised today because there are still many cases of GCG violations. Starting from the mega financial scandals in the United States such as Enron. While in Indonesia there are cases of Century Bank, Mega Bank and PT Asuransi Jiwasraya (Persero), etc. In addition, many companies in several countries that experienced economic crises were apparently caused by the corporate governance infrastructure that was not optimal in those countries (Nurharjanto et al., 2018). Based on the CG Report 2020 published by the Asian Corporate Governance Association, Indonesia is ranked 12th in the Asian region and is still struggling with CG reform despite some stronger regulations and the new e-voting system.

Many empirical studies related to the influences of corporate governance mechanisms on performance of the company, with inconsistent results. Nurharjanto et al. (2018), Ayadi et al. (2019), Kartika and Utami (2019), Saini and Singhania (2018), Vinjamury (2020), Coleman and Wu (2020), Puni and Anlesinya (2020), Musallam (2020), and Al Farooque et al. (2020) states that the CG mechanism has an influence on performance of the company. However, research by Arora dan Sharma (2016) and Wang et al. (2020) stated different results. In addition, according to Afrifa dan Adesina (2018), Al-Ahad et al. (2018), Ayadi et al. (2019), Aslam et al. (2019), Ahmed et al. (2020), and Lemma et al. (2020) states that the remuneration of directors has an influence on performance of the company. However, the results of research by Padia and Callaghan (2020) state that the remuneration of directors has no influence on return on assets, but increases total income.

This study follows up on previous research, by testing variables with different measurements. This research was conducted with the point of analyzing the influences of corporate governance mechanisms and directors' remuneration on the performance of the company. To obtain a more comprehensive measure of company performance as dependent variables, this research uses financial performance measurement (ROA) and market orientation (PBV). The corporate governance mechanism in this research focuses on internal mechanisms and is a construct that is spelled out into several variables, namely the size of the board of directors, internal directors, external directors, Audit Committee, Nomination and Remuneration Committee, board meeting frequency, and ownership structure. The difference between this research and previous research is that this research was conducted on banking companies in Indonesia listed on the IDX and used the latest data, namely the period 2016-2020. Several previous studies (Coleman and Wu, 2020; Kao et al., 2019; etc) used firm size as a control variable and found that firm size had a positive influence on ROA. Therefore, this research conducted additional analysis on a sample of large banks compared to small banks as well as 2020 data.

2. HYPOTHESES DEVELOPMENT

According to Jensen and Meckling and Fama and Jensen, ownership and control separation can create an agency relationship between executives and shareholders making it impossible to arrange a perfect contract between the two. Corporate governance (CG) is a mechanism or legal system that specifically protects outside shareholders from expropriation or exploitation by insiders and brings together the interests of those within the company. In general, this exploitation is related to the agency problem proposed by Jensen and Meckling, namely the insider/agent uses profits for personal gain rather than returning capital/return to the principal (Rahmawati, 2017:39).

Stewardship theory assumes that managers are good company managers and can be trusted to work diligently for the sake of increasing company profits and shareholder welfare (Baker and Anderson, 2010:179). According to stewardship theory, the CG mechanism is seen as a support and input for managers in the company (Rahmawati, 2017:23). In addition, performance of the company will increase through trust and goodwill between executives and shareholders (Puni and Anlesinya, 2020),

The Effect of Board Size on ROA and PBV

The size for the board of directors is the number or number of directors on the company's board and as a key factor affecting the company's performance (Kumar and Singh, in Merendino and Melville 2019). In accordance with POJK Number 55/POJK.03/2016 in Articles 4 and 5, it states that a bank must have a member of the Board of Directors provided that the number of at least 3 (three) people and is domiciled in Indonesia. The company's board of directors is led by the president director and is an independent party from the controlling shareholder. The board should be large enough to improve communication and coordination within the board and deal with asymmetric information issues through tighter oversight (Puni and Anlesinya, 2020). Large board sizes have more resources with diverse experiences to carry out supervisory and advisory functions (Larcker dan Tayan, 2016:136). The results of research by Ofoeda (2017), Vinjamury (2020), Puni and Anlesinya (2020), and also revealed that the size of the board of directors has a positive influence on performance of the company. Therefore, the hypothesis of this research is presented as follows:

$H_{1\text{-}a}$: The size of the board of directors has an influence on ROA.

$H_{1\text{-}b}$: The size of the board of directors has an influence on PBV.

The Effect of Internal Directors on ROA and PBV

Internal directors are directors who work fully (Rahmawati, 2017:25). Internal directors have more information about the company than external directors (Larcker and Tayan, 2016:119). Research by Puni and Anlesinya (2020) reveals that internal directors have a positive influence on performance of the company. This is because the internal directors have adequate knowledge and information about internal workings and the actual state of the company. Therefore, the hypothesis of this research is presented as follows:

$H_{2\text{-}a}$: Internal Directors have an influence on performance of the ROA.

$H_{2\text{-}b}$: Internal Directors have an influence on performance of the PBV.

The Effect of External Directors on ROA and PBV

External directors minimize the possibility of management collusion and embezzlement of shareholder wealth. The supervisory role of external directors is more effective because they do not have a personal interest in the company's residual claimants than managers and are more motivated to build a reputation as experts in controlling manager decisions (Rahmawati, 2017:39). External directors have the potential to bring expertise and independence to the board of directors, so as to minimize agency costs and improve performance of the company (Larcker and Tayan, 2016:121).

Research by Puni and Anlesinya (2020) reveals that external directors have a positive influence on performance of the company, because external directors who are not affiliated with management have experience and expertise that can improve decision making, accountability and voluntary disclosure. Similar results were also revealed by Musallam (2020), Merendino and Melville (2019), Kao et al. (2019), Al Farooque et al. (2020). Therefore, the hypothesis in this research is presented as follows:

$H_{3\text{-}a}$: External directors have an influence on ROA.

$H_{3\text{-}b}$: External directors have an influence on PBV.

The Effect of Audit Committee on ROA and PBV

The Audit Committee is an independent group that is specially appointed and has views on accounting and matters relating to the system for internal control of the company. The Audit Committee is an important pillar in the implementation of GCG. The Audit Committee has the task with the Supervisory Board or the Commissioner to ensure the effectiveness of the internal control system, carry out the duties of external and internal auditors, and improve the quality of financial reports (Zarkasyi, 2018:17).

Information about the financial position and performance of the company that is useful for users of financial statements is presented with financial statements that will have an influence on making economic decisions and as a tool for predicting future conditions (Fahmi, 2017:26). In this case, financial or accounting background and qualifications are one of the important characteristics that ensure the performance of the Audit Committee and provide a good basis for testing financial information (Musallam, 2020). The results of research by Al Farooque et al. (2020), Musallam (2020), Al-Okaily and Naueihed (2020) stated that the Audit Committee has a positive influence on performance of the company by reducing asymmetric information related to agency problems. Therefore, the hypothesis in this research is presented as follows:

$H_{4\text{-}a}$: The Audit Committee has an influence on ROA.

$H_{4\text{-}b}$: The Audit Committee has an influence on PBV.

The Effect of Nomination and Remuneration Committee on ROA and PBV

The task of the Nomination and Remuneration Committee is to help the Board of Commissioners to determine the criteria for candidates for members of the Board of Directors and the Board of Commissioners and the remuneration system (Zarkasyi, 2018:99). Zraiq and Fadzil (2018) and Vinjamury (2020) state that the Nomination Committee has a positive influence on performance of the company.

The Remuneration Committee prepares an award package for management that provides satisfactory performance (Armstrong and Murlis, 2007: 340). The Remuneration Committee is formed from outside parties and ensures that the organization's compensation system is not designed to benefit management at the expense of shareholders and other stakeholders (Puni and Anlesinya, 2020). Research by Zraiq and Fadzil (2018), Vinjamury (2020), and Ayadi et al. (2019) stated that the Remuneration Committee has a positive influence on the company's performance. In addition, Harymawan et al. (2020) revealed that companies that frequently hold committee meetings have better work performance. Therefore, the hypothesis in this research is presented as follows:

$H_{5\text{-}a}$: The Nomination and Remuneration Committee has an influence on ROA.

$H_{5\text{-}b}$: The Nomination and Remuneration Committee has an influence on PBV.

The Effect of Board Meeting Frequency on ROA and PBV

The role of the board of directors as a supervisor is carried out in board meetings, where the frequency of meetings of the board of directors will determine the effectiveness of the responsibilities and functions of the board. The Board of Directors can evaluate and improve the current strategy and performance of executive management in board meetings (Puni and Anlesinya, 2020).

Research by Al Farooque et al. (2020) revealed that the board meeting frequency has a positive influence on performance within the company. This incident is caused by the frequent meetings of the board of directors which will make the board of directors carry out their duties in accordance with the interests of shareholders. Research by Arora and Sharma (2016), Saini and Singhania (2018), (Harymawan et al., 2020) and Puni dan Anlesinya (2020) also reveal the same statement. Therefore, the hypothesis in this research is presented as follows:

$H_{6\text{-}a}$: The board meeting frequency has an influence on ROA.

$H_{6\text{-}b}$: The board meeting frequency has an influence on PBV.

The Effect of Ownership Structure on ROA and PBV

A large or concentrated ownership structure is one or several investors with a combined ownership of 10 or 20%, which can be in the form of ownership owned by families, groups (institutional) and the government. Concentrated ownership has a positive influence in reducing agency conflict and improving firm performance. The higher the concentration of ownership, the greater the power of the majority shareholder to monitor and influence decision making (Rahmawati, 2017:28-29).

The research of Darko et al. (2016), Kao et al. (2019), Puni and Anlesinya (2020) reveal that the structure in concentrated ownership has a positive influence on performance of the company. Therefore, the hypothesis in this research is presented as follows:

$H_{7\text{-}a}$: Ownership structure has an influence on ROA.

$H_{7\text{-}b}$: Ownership structure has an influence on PBV.

Directors' Remuneration on ROA and PBV

Remuneration is the sum of basic salary, contingent salary, and employee benefits (Armstrong and Murlis, 2007:9). According to stewardship theory, the use of reward packages such as bonuses to attract directors and managers to align their interests with the interests of shareholders is irrelevant. Executives are seen as stewards who are employed by the owners and their interests tend to align with the interests of the owners, which will ultimately lead to an increase in performance of the company. However, according to agency theory, remuneration can limit agency problems and bridge the gap in interests between directors and shareholders. The assumption of agency theory is that companies design contracts for directors and managers with optimal incentives as their motivation to improve performance (Afrifa and Adesina, 2018).

Research by Al-Ahad et al. (2018), Afrifa and Adesina (2018), Ayadi et al. (2019), Aslam et al. (2019), Ahmed et al. (2020), and Lemma et al. (2020) concludes that the remuneration of the directors has a positive influence on the company's performance. Therefore, the hypothesis of this research is presented as follows:

$H_{8\text{-}a}$: Directors' remuneration has an influence on ROA.
$H_{8\text{-}b}$: Directors' remuneration has an influence on PBV.

3. METHODS, DATA, AND ANALYSIS

Operational Variables

The dependent variable in this research is the company's performance with measurements in the form of financial performance (Return on Assets/ROA) and market performance (Price to Book Value/PBV). ROA measures the effectiveness of the company by calculating the level of income based on the results of the use of assets owned by the company (Alexander, 2018:31). The ROA measurement is appropriate if financial performance is associated with corporate governance, because corporate governance shows the management of a company (Purwanto et al., 2018). PBV is a comparison between the book value of a stock and its market price. The book value of the company will increase along with the increase in the company's performance (Hutabarat, 2020:42-43).

The independent variables consist of the size of the board of directors, internal directors, external directors, Audit Committee, Nomination and Remuneration Committee, board meeting frequency, ownership structure, and remuneration of directors. Firm size is used as a control variable for this research to be conducted. Large banks and small banks have different complexities, so that the implementation of the corporate governance mechanism and the remuneration of directors in large and small banks is also different. Therefore, it is interesting to examine how the influence of the corporate governance mechanism and the remuneration of directors on financial performance if controlled through company size. The operational variables in this research are shown in Table 1.

Table 1. Operational Variables

No	Variables	Indicator	Measurement
1	Financial performance (ROA) (Coleman and Wu, 2020)	*Return on Asset*	$\frac{\textit{Net Income}}{\textit{Total Assets}}$
2	Market performance (PBV) (Kartika and Utami, 2019)	*Price to Book Value*	$\frac{\textit{Market price per share}}{\textit{Book value per share}} \times 100\%$

No	Variables	Indicator	Measurement
3	Board of directors size (BS) (Puni and Anlesinya, 2020)	Total directors on the board	Total directors on the board
4	Internal Directors (PI) (Song, et al., 2017)	Internal director proportion	Number of internal directors / Total directors on the board
5	External Directors (PO) (Song, et al., 2017)	External director proportion	Number of external directors / Total directors on the board
6	Audit Committee (AC) (Musallam, 2020)	Proportion of financial expert committee members	Number of financial expert members of the committee / Total size of the Audit Committee in company i in year t
7	Nomination and Remuneration Committee (NRC) (Harymawan et al., 2020)	Meeting of Nomination and Remuneration Committee	Number of Nomination and Remuneration Committee meetings per year
8	Board meetings (BMF) (Saini and Singhania, 2018)	Yearly meeting	Number of yearly meetings
9	Ownership structure (OC) (Al Farooque et al., (2020)	Concentrated ownership	Total 5 largest shareholders / Number of outstanding shares
10	Directors' remuneration (REMU) (Ayadi, et al., 2019)	Total cash remuneration	Ln (annual salary + bonus)
11	Company size (SIZE) (Coleman and Wu, 2020)	Total Assets	Ln (total assets)

Population and Sample

This research is a causality quantitative research. The population in this research are banking companies listed on the IDX (Indonesia Stock Exchange) for the 2016-2020 period, which total 45 companies. The sampling technique in this research is a purposive sampling technique, where the determination of the sample is carried out with certain criteria (Sugiyono, 2018:85). This research used a sample of 38 companies for 5 years (n = 190). The criteria to be used to determine the sample in this research are presented as follows:

1. Banking sub-sector companies listed on the IDX before 2016.
2. Did not merge during 2016 to 2020 with other banking companies listed on the IDX.
3. Publish financial statements that have been audited from 2016 to 2020.
4. Have data on the variables in this research.

Data Collection and Analysis Techniques

This research uses secondary data obtained from the official annual report published by the company on the IDX website. The data of this research is panel data with the characteristics of time series (one entity with time dimension/long period) and cross section (more than one entity) simultaneously. The data analysis method in this research uses panel data regression with the help of the Eviews 10 program. Below is the regression equation model for this research:

$$Y_{it-1} = \alpha + \beta_1 BS_{it} + \beta_2 PI_{it} + \beta_3 PO_{it} + \beta_4 AC_{it} + \beta_5 NRC_{it} + \beta_6 BMF_{it} + \beta_7 OC_{it} + \beta_8 REMU_{it} + \varepsilon_{it}$$

$$Y_{it-2} = \alpha + \beta_1 BS_{it} + \beta_2 PI_{it} + \beta_3 PO_{it} + \beta_4 AC_{it} + \beta_5 NRC_{it} + \beta_6 BMF_{it} + \beta_7 OC_{it} + \beta_8 REMU_{it} + \varepsilon_{it}$$

In the above model Y shows the company's performance (Y_{it-1} = ROA and Y_{it-2} = PBV), independent variables (BS, PI, PO, AC, NRC, BMF, OC, and REMU), α is constant, $\beta_{1\text{-}8}$ is a regression coefficient, ε is error, *i* is company data and *t* is time period data.

4. RESULTS

Regression on panel data for the total sample and multiple regression for the 2020 sample were carried out using Eviews 10. The results of the descriptive statistical calculations for this research are presented in Table 3. The average board size is 6.52 people. The board of directors has an average proportion of internal directors of 0.22 (22%) and external directors of 0.78 (78%). The average members of the Audit Committee are financial experts, which have a background in Accounting and Finance education of 0.69 or 2.66 people. The Nomination and Remuneration Committee holds an average of 7.26 meetings per year. The average board meeting frequency is 10.65 times per year. Concentrated ownership structure has an average of 0.77. The average remuneration for directors is 23.94 or Rp 59.54 billion per year. The average ROA value is 0.58 and PBV is 1.79. The average company size is 31.25 or Rp. 165.2 trillion.

Table 3. Descriptive Statistics

Variable	BS	PI	PO	AC	NRC	BMF	OC	REMU	ROA	PBV	SIZE
Mean	6,52	0,22	0,78	0,69	7,26	10,65	0,77	23,94	0,58	1,79	31,25
Maximum	14,00	1,00	1,00	1,00	24,00	51,00	1,00	26,86	4,00	37,88	34,95
Minimum	3,00	0,00	0,00	0,00	1,00	1,00	0,40	21,52	-15,89	0,19	27,22
Std. Dev.	2,71	0,31	0,31	0,27	4,66	8,60	0,17	1,30	2,76	2,88	1,80

Based on regression analysis, this research showed different results on the influence of independent variables on the two dependent variables, namely ROA which is presented in Table 4 and PBV which is presented in Table 5 below.

Influence on Return on Assets

In accordance with the test results, Chow test stated that this research has a cross-section probability value of F of 0.6192 which is greater than 0.05 so that the model chosen is a common influence model. Based on the Lagrange Multiplier test, the random cross-section value is 0.1602 where the value is greater than 0.05 and it can be concluded that the selected model is a common influence model (Wati, 2018:301-303). The results of the regression analysis for the value of the common effect model can be seen in Table 4 below.

Table 4. Regression Using Common Effect Model And Multiple Regression 2020

Variable	ROA (Model 1)	ROA at Biggest Banks (Model 2)	ROA At Small Banks (Model 3)	ROA 2020 (Model 4)
Intercept	24.1503	10.3395	-349.9428	159.9371
	(0.8109)	(0.8405)	(0.3450)	(0.3649)
BS	-0.3118	-0.0400	-0.5918	-1.0168
	(0.0515)	(0.6825)	(0.2378)	(0.0254)
PI	-56.7972	-23.9382	300.6760	-221.3628
	(0.5731)	(0.6430)	(0.4115)	(0.2212)
PO	-57.1703	-24.5947	300.3561	-221.0631
	(0.5708)	(0.6342)	(0.4123)	(0.2224)
AC	2.2578	2.5608	1.4000	1.1519
	(0.0019) **	(0.0000) ***	(0.2677)	(0.4543)
NRC	0.0456	-0.0154	-0.0315	-0.0632
	(0.2541)	(0.5299)	(0.7840)	(0.4576)
BMF	0.0154	0.0086	0.0886	0.0236
	(0.4555)	(0.4662)	(0.1959)	(0.5393)
OC	0.5957	-0.9468	2.6934	1.6521
	(0.5592)	(0.2387)	(0.1859)	(0.4225)
REMU	0.5782	1.1227	0.6931	-0.2041
	(0.1281)	(0.0000) ***	(0.4676)	(0.8022)
SIZE	0.6151	-0.4020	1.0802	2.2679
	(0.0455) **	(0.1609)	(0.0585) *	(0.0043)***
Adj. R^2	0.270050	0.450772	0.060933	0.263627
F-Statistic	8.769095	9.572146	1.677711	2.471810
	0.000000	0.000000	0.106968	0.032274
N	190	95	95	38

*,**,*** show significant at 10%, 5%, and 1% respectively.

Source: Data processed Eviews 10 (2021)

Model:

$ROA_{it} = \alpha + \beta_1 BS_{it} + \beta_2 PI_{it} + \beta_3 PO_{it} + \beta_4 AC_{it} + \beta_5 NRC_{it} + \beta_6 BMF_{it} + \beta_7 OC_{it} + \beta_8 REMU_{it} + \varepsilon_{it}$ (1)

$ROA_{it} = \alpha + \beta_1 BS_{it} + \beta_2 PI_{it} + \beta_3 PO_{it} + \beta_4 AC_{it} + \beta_5 NRC_{it} + \beta_6 BMF_{it} + \beta_7 OC_{it} + \beta_8 REMU_{it} + \varepsilon_{it}$ (2)

$ROA_{it} = \alpha + \beta_1 BS_{it} + \beta_2 PI_{it} + \beta_3 PO_{it} + \beta_4 AC_{it} + \beta_5 NRC_{it} + \beta_6 BMF_{it} + \beta_7 OC_{it} + \beta_8 REMU_{it} + \varepsilon_{it}$ (3)

$ROA = \alpha + \beta_1 BS + \beta_2 PI + \beta_3 PO + \beta_4 AC + \beta_5 NRC + \beta_6 BMF + \beta_7 OC + \beta_8 REMU + \varepsilon$ (4)

The empirical results of Model 1 for the entire sample of 190 in Table 4 state that the Adjusted R-squared value is 0.27005, so that the dependent variable, namely ROA includes the eight independent variables, namely board size, internal directors, external directors, the Audit Committee, the Nomination Committee and Remuneration, board meeting frequency, ownership structure and remuneration of directors are 27%, while the remaining 73% is explained through other independent variables outside the model in this research. The value of F_{stat} is 8.769095 while F_{table} which has a level of = 5% is 2.355373. It can be concluded that the value of $F_{stat} > F_{table}$, while it can be seen from the probability value of 0.000000 is smaller than $\alpha = 0,05$ and it can be concluded that the independent variables simultaneously have a significant influence on the ROA variable. Based on Table 4, only the Audit Committee (AC) has a significant influence on the positive direction for the ROA variable with a probability value of 0.0019 which is smaller than 0.05. The model of the ROA regression equation value is presented in the description below:

$$ROA = 24{,}1503 - 0{,}3118BS - 56.7972PI - 57{,}1703PO + 2{,}2578AC + 0{,}0456NRC + 0{,}0154BMF + 0{,}5957OC + 0{,}5782REMU + \varepsilon$$

Influence on Price to Book Value

The results of the Chow value test state that the value for the probability of cross-section F is 0.0002, whose value is less than 0.05, so the model chosen is the fixed influence model. Furthermore, it can perform Hausman test where the prob value. random cross-section is smaller than 0.05 so that the most appropriate regression model used to measure PBV is the fixed influence model described in Table 5.

Table 5. Regression Using Fixed Influence Model and Multiple Regression 2020

Variable	PBV (Model 5)	PBV At Biggest banks (Model 6)	PBV At Small Banks (Model 7)	PBV 2020 (Model 8)
Intercept	-207.4495	20.6533	-30.0136	-325.7188
	(0.0979)	(0.5496)	(0.9399)	(0.4569)
BS	0.4797	-0.0030	1.2829	2.2105
	(0.0510)	*	(0.0619) *	(0.0483) **
		(0.9651)		
PI	57.0718	-32.9301	-224.6430	454.9900
	(0.6358)	(0.3087)	(0.5612)	(0.3098)
PO	58.1050	-32.4391	-224.1216	452.4789
	(0.6298)	(0.3158)	(0.5624)	(0.3131)
AC	0.7709	-1.1701	1.7210	0.6670
	(0.7378)	(0.1168)	(0.7200)	(0.8610)
NRC	0.0217	0.0021	0.3446	0.1480
	(0.7319)	(0.9053)	(0.0420) **	(0.4837)
BMF	-0.1367	-0.0119	-0.0474	0.0189
	(0.0065)	***	(0.6215)	(0.8430)
		(0.4505)		
OC	-4.0616	0.9654	-0.0169	-4.0243
	(0.2235)	(0.3868)	(0.9981)	(0.4318)
REMU	1.3002	0.3809	3.2614	4.1182
	(0.0914)	(0.1898)	(0.0464) **	(0.0496)
SIZE	3.8726	0.1331	5.8247	-7.5274

Variable	PBV (Model 5)	PBV At Biggest banks (Model 6)	PBV At Small Banks (Model 7)	PBV 2020 (Model 8)
	(0.0005) ***	(0.7551)	(0.0037) ***	(0.0003) ***
Adj. R^2	0.264848	0.737658	0.340438	0.226049
F-Statistic	2.480211 0.000023	10.78930 0.000000	2.796996 0.000343	2.200741 0.053398
N	190	95	95	38

*,**,*** show significant at 10%, 5%, and 1% respectively.

Source: Data processed Eviews 10 (2021)

Model:

$PBV_{it} = \alpha + \beta_1 BS_{it} + \beta_2 PI_{it} + \beta_3 PO_{it} + \beta_4 AC_{it} + \beta_5 NRC_{it} + \beta_6 BMF_{it} + \beta_7 OC_{it} + \beta_8 REMU_{it} + \varepsilon_{it}$ (5)

$PBV_{it} = \alpha + \beta_1 BS_{it} + \beta_2 PI_{it} + \beta_3 PO_{it} + \beta_4 AC_{it} + \beta_5 NRC_{it} + \beta_6 BMF_{it} + \beta_7 OC_{it} + \beta_8 REMU_{it} + \varepsilon_{it}$ (6)

$PBV_{it} = \alpha + \beta_1 BS_{it} + \beta_2 PI_{it} + \beta_3 PO_{it} + \beta_4 AC_{it} + \beta_5 NRC_{it} + \beta_6 BMF_{it} + \beta_7 OC_{it} + \beta_8 REMU_{it} + \varepsilon_{it}$ (7)

$PBV = \alpha + \beta_1 BS + \beta_2 PI + \beta_3 PO + \beta_4 AC + \beta_5 NRC + \beta_6 BMF + \beta_7 OC + \beta_8 REMU + \varepsilon$ (8)

The empirical results of Model 5 for the entire sample of 190 in Table 5 above state that the Adjusted R-squared is 0.264848 so that the dependent variable PBV is described in the eight independent variables in the form of board size, internal directors, external directors, Audit Committee, Nomination and Remuneration Committee , board meeting frequency, ownership structure and remuneration of directors is 26.48%, while the remaining 73.52% is explained by other independent variables outside the model in this research. The value of F_{stat} is 2.480211 while F_{table} with a level of α = 5% is 1,985032. Therefore, $F_{stat} > F_{table}$, while the probability value is 0.000023 which is smaller than α = 0,05 so it can be concluded that the independent variables have an influence on PBV simultaneously. Based on Table 5, only the board meeting frequency (BMF) has a significant negative influence on PBV with a probability value of 0.0065 which is smaller than 0.05. The model for the regression equation on the PBV variable can be seen in the explanation below:

$PBV = -207{,}4495 + 0{,}4797BS + 57{,}0718PI + 58{,}1050PO + 0{,}7709AC + 0{,}0217NRC - 0{,}1367BMF - 4{,}0616OC + 1{,}3002REMU + \varepsilon$

5. DISCUSSION

Board of Directors Size Has No Influence on ROA and PBV

ROA and PBV are not impacted by the size of the board of directors. These findings align with the opinion of Darko et al. (2016) and Wang et al. (2020). While the research results of Ofoeda (2017), Vinjamury (2020), Puni and Anlesinya (2020), and Al Farooque et al. (2020) shows that board size has a positive influence on performance company.

This research reveals that the bank has a minimum of three board members and an average of 6.52 board members. The basis for this condition is Articles 4 and 5 of POJK Number 55/POJK.03/2016. There are fourteen banks, or 36.84 percent of the whole sample, with an average board size of more than seven individuals. According to the recommended board size, there should be no more than seven members (Jensen, dalam Merendino and

Melville, 2019).

Increasing firm performance through the size of the board of directors is only possible if it increases the board's diversity (Darko et al., 2016). A larger board of directors is less successful in enhancing the company's performance because new ideas and opinions are not effectively communicated and the monitoring process is less efficient. This was demonstrated by numerous researchers (Jensen, Einsenberg et al., de Andres et al.) regarding agency theory (Merendino and Melville, 2019). In addition, a board of directors that is overly broad will produce coordination issues and other communication difficulties that tend to increase agency expenses (Puni and Anlesinya, 2020).

Internal Directors Has No Influence on ROA and PBV

Internal Directors have no effect on either ROA or PBV. Contrary to the stewardship notion that managers are good company managers and can be relied upon to work diligently for the purpose of maximizing company profits and shareholder welfare, this is the case. This outcome is consistent with the reasoning for Song et al. (2017). Meanwhile, the results of the research by Puni and Anlesinya (2020) show that internal directors have a favorable impact and a major impact on the firm's performance since they have appropriate knowledge and information about how the company operates and its current status.

The average bank in this study has a ratio of 21.84 percent internal directors. The majority of the banks in this study are controlled by families (39.47 percent) and the government (21.05 percent), which can enhance agency conflict due to board members that originate from specific families or have political ties. In addition, ROA is more directly tied to how a company does business through its strategy than to the board's composition. (Song et al., 2017).

External Directors Has No Influence on ROA and PBV

External Directors have no effect on either ROA or PBV. This contradicts the agency theory that external directors lower the likelihood of management collaboration and shareholder wealth looting (Rahmawati, 2017:39). These results are in line with the findings of Song et al. (2017). While the research results of Kao et al. (2019), Merendino and Melville (2019), Puni and Anlesinya (2020), Al Farooque et al. (2020), and Musallam (2020) reveal that external directors have a positive and significant influence on performance of the company.

The average bank in this study has a ratio of 78.19 percent external directors. This signifies that there are more external directors than internal directors at the bank. Information pertaining to companies held by external directors is less than that of internal directors, resulting in information gaps that can diminish their efficacy. Information gaps can hinder decision-making, particularly when specialized knowledge is necessary to run a business (Larcker and Tayan, 2016:120-121). Additionally, it may be caused by a moderating or mediating effect of the company's strategy (Song et al., 2017).

The Audit Committee Has a Positive and Significant Influence on ROA, but Has No Influence on PBV

The Audit Committee influences ROA positively. According to agency theory, the Audit Committee has the ability to decrease asymmetric information. The Audit Committee is responsible for safeguarding shareholder interests through financial control and oversight (Musallam, 2020). In addition, the Audit Committee is an important pillar in the implementation of GCG (Zarkasyi, 2018:17). This result is in line with the opinion of Al-

Okaily and Naueihed (2020), Al Farooque et al. (2020), and Musallam (2020) namely the Audit Committee has a positive influence on financial performance (ROA).

However, the Audit Committee has no influence on PBV. This research is similar to that of Darko et al. (2016) which found that the Audit Committee's committee size indicators have no effect on market performance, as determined by Tobin's Q measures.

This study uses the proportion of Audit Committee members with a background in accounting and finance as an indicator variable. This is due to the fact that a financial or accounting background and qualifications are one of the essential qualities that ensure the Audit Committee's performance and give a solid foundation for testing financial information (Musallam, 2020). This result reveals that, on average, 68.87 percent or 2.66 members of the bank's Audit Committee have an accounting or finance education background, which is in accordance with Article 41 of POJK Number 55/POJK.03/2016, which requires at least one person. This shows that, according to industry standards, the bank already has an audit committee.

Nomination and Remuneration Committee Has No Influence on ROA and PBV

The Nomination and Remuneration Committee has no influence on ROA or PBV. These results are the same as Zakaria (2018) research. While the results of research by Zraiq and Fadzil (2018), Vinjamury (2020), Ayadi et al. (2019) and Harymawan et al. (2020) revealed that the Nomination and Remuneration Committee has a significant influence on performance of the company in a positive direction.

Several banks have not complied with the provisions of POJK Number 34/POJK.04/2014, which contains a discussion on the Nomination and Remuneration Committee of Issuers or Public Companies. Consequently, the Nomination and Remuneration Committee has no impact on the company's performance. This is mentioned in Article 12, paragraph 1, which specifies that committee meetings must be held at least three times every year. However, in a given year, five banks hold fewer than three sessions. Several banks have fewer than three members on the Nomination and Remuneration Committee, which is in violation of Article 3, paragraph 1. This shows that the Nomination and Remuneration Committee exists solely to comply with applicable requirements, hence its performance is not optimized to enhance the company's success.

In addition, the test results indicate a negative correlation between board size and financial performance, albeit the results are not statistically significant. This research is comparable to that conducted by Vinjamury (2020) that the Nomination and Remuneration Committee plays a role in limiting the size of the board to overcome the coordination and communication problems associated with a larger board size.

Board Meeting Frequency Has No Influence on ROA, But Has a Negative and Significant Influence on PBV

The board meeting frequency has a negative and significant influence on PBV. This result is in line with the opinion of Armeliyas and Patrisia (2020) shows the board meeting has a negative impact on PBV, however the effect is not statistically significant. However, the frequency of board meetings has little effect on financial performance. This result is consistent with the viewpoint of Wang et al. (2020). While the results of research by Arora and Sharma (2016), Saini and Singhania (2018), Harymawan et al., (2020), Al Farooque et al. (2020), Puni and Anlesinya (2020) find the opposite, namely that the board meeting frequency has a positive and significant influence on performance of the company.

In accordance with Article 16 of POJK Number 33/POJK.04/2014 regarding the

Board of Commissioners and Board of Directors of Issuers/Public Companies, the Board of Commissioners and Board of Directors are required to hold a joint meeting at least once every four months. With an average meeting frequency of 10.65 times per year, the majority of banks in this study adhere to these standards. This indicates that the board meeting did not make its greatest contribution, which may have been the result of a lack of time to debate strategy and pressing issues. Moreover, the proportion of external directors in this study's sample is bigger than that of internal directors, thus the majority of directors have limited time and will limit the monitoring function.

Ownership Structure Has No Influence on ROA and PBV

Concentrated ownership structure has no influence on ROA or PBV. This result is in line with the opinion of Merendino and Melville (2019), Armeliyas and Patrisia (2020) and Al Farooque et al. (2020). However, the research of Darko et al. (2016), Kao et al. (2019), Puni and Anlesinya (2020) The ownership structure of a corporation has a favorable and significant effect on its success, contrary to previous findings.

The bank examined in this study has an averagely concentrated ownership structure, with 77.21 percent of shares held by the five largest shareholders. 39.47 percent of the 38 sample banks in this study are owned primarily by particular families or conglomerate groups, 28.95 percent are owned by foreign corporations, and 21.05 percent are owned by the state. Various researchers (La Porta et al, Shleifer and Vishny, etc.) argue that in certain family companies or conglomerate groups, families have a strong drive to maximize their own welfare at the expense of minority investors (Kao et al., 2019). In contrast to state-owned companies (BUMN), managers have more incentive to pursue certain political agendas (Gao et al., 2019). In addition, the ownership structure concentrated in developing countries can lead to agency conflicts among shareholders and weak protection of minority ownership (Rahmawati, 2017:29).

Directors' Remuneration Has No Influence on ROA and PBV

The compensation of directors has no effect on ROA or PBV. The findings of this study contradict agency theory, but are consistent with stewardship theory, in that the use of compensation packages such as bonuses to entice directors and managers to align their interests with those of shareholders is irrelevant (Afrifa and Adesina, 2018). This result is the same as the opinion of Padia and Callaghan (2020) which revealed that executive remuneration has an influence on total income, but does not increase ROA. While the results of research by Al-Ahad et al. (2018), Afrifa and Adesina (2018), Ayadi et al. (2019), Aslam et al. (2019), Ahmed et al. (2020), and Lemma et al. (2020) revealed that the remuneration of directors has a positive and significant influence on performance of the company.

In this study, the average compensation of bank directors is 59.54 billion Rp. The Financial Services Authority has established a policy for the remuneration of directors, which should be based on performance, potential future income of the Bank, compliance with rules, risks, goals, and long-term strategy of the Bank, as well as fairness relative to peers. In accordance with Article 49 of POJK Number 55/POJK.03/2016, one of the responsibilities of the Nomination and Remuneration Committee is to regularly examine remuneration policies and their execution. However, according to the findings of this study, a number of banks have not organized committee meetings in line with applicable statutes or rules. This is the reason why the compensation of directors has no effect on the performance of the company.

Additional Analysis

On the basis of testing on all samples, it is clear that firm size has a considerable beneficial effect on performance, such as financial performance (ROA) or market performance (PBV). Therefore, it examines in further detail the impact of board size, internal and external directors, the Audit Committee, the Nomination and Remuneration Committee, board meeting frequency, ownership structure, and director compensation in large and small companies/banks. This research classifies large and small banks based on the sample's mean total assets.

According to the test results of Model 2 given in Table 4 for a sample of large banks, only the Audit Committee and director compensation variables had a positive and statistically significant effect on financial performance. Other variables independent of financial performance have little effect. These results enhance the test on all samples, which indicates that the Audit Committee has a substantial impact on the financial performance's good trajectory. While all of the test results on a sample of small banks (Model 3) are independent variables and control variables have no effect on financial performance, all of the test results are independent variables.

According to the Model 6 test results shown in Table 5 for the sample of large banks, none of the independent variables effect market performance. In the meantime, the test results on a sample of small banks (Model 7) indicate that the Nomination and Remuneration Committee and director compensation have a favorable and considerable impact on market performance. The market performance is unaffected by the other independent variables.

The test results for this group of small and major banks differ from those of the overall sample. The discrepancy in test results can be attributed to the quantity of observations conducted at major and small banks, respectively. There are only 95 observations of large and small banks, which is equivalent to 50 percent of the total 190 observations.

The COVID-19 crisis in 2020 has had a significant impact on various industries, including banking institutions. Therefore, this study examines in greater depth the effects of the corporate governance mechanism and the compensation of directors on the performance of banking firms in 2020. In 2020, the test was conducted on all samples with a total of 38 observations.

Based on the results of Model 4's tests, as shown in Table 4, it can be concluded that internal directors, external directors, the Audit Committee, the Nomination and Remuneration Committee, board meeting frequency, ownership structure, and director compensation have no effect on financial performance. The size of the board has a considerable and bad impact on financial performance. This occurrence was caused by the Covid-19 Pandemic in 2020, resulting in a 33.08 percent decline in net income for the bank (keuangan.kontan.co.id.). As a result of the Covid-19 pandemic, the banking industry increased its reserve for impairment losses, which served as a type of anticipation for non-performing loans. According to the findings of this study, the average ROA in 2019 was 0.61, but it dropped to 0.36 in 2020.

Based on the test findings for Model 8, which can be shown in Table 5, internal directors, external directors, the Audit Committee, the Nomination and Remuneration Committee, the frequency of board meetings, and the ownership structure have no effect on the performance of the banking market in 2020. In 2020, the performance of the banking market is positively and significantly influenced by the size and compensation of boards of directors.

Board size has a substantial impact on market performance due to its diverse skill sets and ability to observe management actions (Ofoeda, 2017). However, board size has a substantial negative effect on the financial performance indicator. So that it can cause a board of directors that is too large to lose coordination and face other communication issues, so that agency costs can be increased (Puni and Anlesinya, 2020). In addition, the larger the board size can also result in ineffective monitoring of the company due to free rider problems and failure of internal control mechanisms (Kao et al., 2019).

6. CONCLUSION, LIMITATIONS, AND SUGGESTIONS

Conclusion

This study aims to examine the relationship between the size of the board, internal directors, external directors, the Audit Committee, the Nomination and Remuneration Committee, the frequency of board meetings, the ownership structure, and the compensation of the directors and the financial performance (ROA) and market performance of the company (PBV). The results of the hypothesis testing indicate that board size has no effect on financial performance or market performance. Therefore, a board of directors that is too large can result in coordination issues and other communication difficulties, which tend to increase agency expenses. Additionally, the ratio of internal to external directors has little effect on financial performance or market performance.

The Audit Committee has a positive and substantial impact on financial performance, but none on market performance. The bigger the proportion of Audit Committee members with a background in accounting or finance, the greater the improvement in financial performance, as it can eliminate asymmetric information and increase the quality of financial reports.

The Nomination and Remuneration Committee has no effect on the financial performance or market performance of the organization. This may be owing to the fact that a number of banks have not complied with the provisions requiring the minimum number of meetings per year held by the Nomination and Remuneration Committee, and the committee's sole purpose is to implement the applicable regulations, resulting in subpar performance.

The frequency of board meetings has a negative and significant impact on market performance, but no impact on financial performance. Due to time constraints, the board meeting may not have provided the maximum amount of input. This ownership structure has little effect on the company's performance, therefore the concentration of ownership in developing nations might lead to agency disputes among shareholders and a lack of protection for minority ownership. In addition, the compensation of directors has little effect on the performance of the organization. This is consistent with the stewardship hypothesis and may also be the result of a number of banks failing to hold Nomination and Remuneration Committee meetings in compliance with laws in order to assess compensation policies.

According to additional testing conducted on a sample of large banks, only the Audit Committee and director compensation factors have a significant impact and a positive direction on financial performance. The factors of the Nomination and Remuneration Committee and director compensation have a significant and favorable effect on market performance in the sample of small banks.

The test results for the whole sample of 2020 indicate that board size has a significant and negative impact on financial performance, but a good impact on market performance. In addition, director compensation has a strong and beneficial effect on market performance but no effect on financial performance.

Limitations and Suggestions

This research focuses on the internal mechanism of corporate governance and reveals conclusions that differ from those of earlier studies about the impact of numerous variables on the functioning of the company's governance system. Therefore, suggestions for future research include seeking more appropriate indicators to measure remuneration variables, such as the total remuneration of directors and commissioners, and examining the impact of concentrated ownership structure on the financial performance of companies with the majority of shares owned by families, countries, and foreign investors in greater detail.

When deciding the makeup of the board of directors and whether or not to replace internal or external directors, banks may consider diversifying the board of directors and maximizing the role of the Nomination and Remuneration Committee. In addition, banking organizations may explore enhancing their financial performance by boosting the proportion of Audit Committee members with a background in accounting or finance. The Nomination and Remuneration Committees of banking businesses are urged to implement the applicable regulations more methodically. When making investment decisions in banking firms, investors and potential investors should assess the execution of corporate governance processes, particularly those related to the Audit Committee.

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