

# **LAPORAN PENELITIAN**

**Executive Compensation, Corporate Sustainability Concerns and  
Company Financial Performance in Indonesian Commercial Banking**



**Peneliti:**  
**Eriana Kartadjumena**  
NIDN: 0021097201  
NIP: 197202005011001

**FAKULTAS EKONOMI  
UNIVERSITAS WIDYATAMA**

**Januari  
2019**

## DAFTAR ISI

<b>LEMBAR PENGESAHAN</b>	<b>3</b>
<b>PENDAHULUAN</b>	<b>4</b>
<b>PREFACE</b>	<b>5</b>
<b>RINGKASAN</b>	<b>6</b>
<b>SUMMARY</b>	<b>7</b>
<b>CHAPTER 1. INTRODUCTION</b>	<b>8</b>
<b>Research Background</b>	<b>8</b>
<b>Problem Identification</b>	<b>10</b>
<b>Problem Formulation</b>	<b>11</b>
<b>CHAPTER 2. RESEARCH LITERATURES</b>	<b>12</b>
<b>Research Framework and Hypotheses</b>	<b>17</b>
<b>The Throughput Model Framework of Executive Compensation and Corporate Sustainability</b>	<b>17</b>
<b>CHAPTER 3. RESEARCH OBJECTIVES AND BENEFITS</b>	<b>20</b>
<b>Research Objectives</b>	<b>20</b>
<b>Research Benefits</b>	<b>20</b>
<b>CHAPTER 4. RESEARCH METHODOLOGY</b>	<b>23</b>
<b>Data Collection and Sampling</b>	<b>23</b>
<b>Research Instrument</b>	<b>24</b>
Executive Compensation	24
Corporate Sustainability Concerns	25
<b>Data Analysis</b>	<b>29</b>
<b>CHAPTER 5. RESULTS AND DISCUSSION</b>	<b>30</b>
<b>Results</b>	<b>30</b>
The Statistics Descriptive	30
The Measurement (Outer) Model Assessment	34
The Structural (Inner) Model Assessment	36
<b>Discussion</b>	<b>40</b>
<b>Conclusion</b>	<b>43</b>

## Lembar Pengesahaan

Title : **Executive Compensation, Corporate Sustainability Concerns and Company Financial Performance in Indonesian Commercial Banking**

### Researchers

Full Names : **ERIANA KARTADJUMENA, Ph.D, Ak, CSRS**  
NIP/NIDN : **0021097201 / 197209212005011001**  
Academic Rank : **ASSISTANT PROFESSOR (LEKTOR)**  
Department : **S1 AKUNTANSI**  
email : [eriana.kartadjumena@widyatama.ac.id](mailto:eriana.kartadjumena@widyatama.ac.id)

### Members

Full Names : **WAYMOND RODGERS, Ph.D, CPA**  
Academic Rank : **PROFESSOR**  
Department : **ACCOUNTING AND FINANCE, THE UNIVERSITY OF HULL, HULL, HU6 7RX, ACCOUNTING AND INFORMATION SYSTEMS, UNIVERSITY OF TEXAS, EL PASO, TX 79968, USA**  
email : [W.Rodgers@hull.ac.uk](mailto:W.Rodgers@hull.ac.uk); [wrodgers@utep.edu](mailto:wrodgers@utep.edu);

### PARTNERSHIP INSTITUTION

: **Accounting and Finance Dept, THE UNIVERSITY OF HULL, HULL, ENGLAND Accounting and Information Systems, UNIVERSITY OF TEXAS, EL PASO, USA**  
Address : **Cottingham Road, Hull, HU6 5RX, England, UK**  
Person in Chage : **Eriana Kartadjumena, Ph.D, Ak, CSRS**  
Grant : **Rp**

**Dean of Economics Faculty**

Bandung, April 2019  
**Researcher ,**

**Dr. Diana Sari, Ak, CA, QIA**  
NIP/NIDN

**Eriana Kartadjumena, Ph.D, Ak, CSRS**  
NIP/NIDN. 197209212005011001/0021097201

**Approved by,**  
Head of Research and Community Services Centre

**Nova Indah Saragih, Dr., S.T., M.T.**  
NIP/NIDN1130915387/0412118603

## PENDAHULUAN

Penelitian ini menguji hubungan antara kompensasi eksekutif, pengungkapan keberlanjutan dan kinerja keuangan perusahaan pada industri perbankan di Indonesia selama tahun 2007 – 2014. Penelitian memanfaatkan model pengambilan keputusan, The Throughput Model, yang dikembangkan oleh Waymond Rodgers (1997) untuk menjelaskan hubungan yang terjadi diantara konstruk dengan mengadopsi pendekatan kepemilikan saham (*shareholders*) dan pemangku kepentingan (*stakeholders*).

Data diperoleh melalui 252 tahun pengamatan dari 39 bank komersial yang terdaftar di Bursa Efek Indonesia dari 2007 s.d 2014 dalam bentuk unbalanced data panel. Selanjutnya, Partial Least Square-Structural Equation Modelling (PLS-SEM) digunakan untuk menganalisis dan menyajikan hasil penelitian tentang hubungan dan pengaruh diantara konstruk yang ada.

## **PREFACE**

This research investigates the relationship between executive compensation, corporate sustainability concerns and company financial performance for public listed of Indonesian commercial banking companies throughout the period 2007-2014. The corporate sustainability concerns are defined by the corporate social responsibility activities, which are disclosed in the bank's published reports (i.e., annual report or sustainability report).

This research also employs the combination of two different measures of company financial performance: company financial health and market value, measured by the Altman's Z-Score Revision Model and Tobin's Q, respectively. The research employs a decision-making model framework, the Throughput Model, which is developed by Waymond Rodgers (1997) to describe the relationship among those constructs by adopting the shareholder and stakeholders perspectives.

Data is presented from 252 firm-year observations as an unbalanced data panel of 39 commercial banking companies publicly listed on the Indonesia Stock Exchange throughout 2007-2014. Then, Partial Least Square-Structural Equation Modelling (PLS-SEM) is used to analyses data and provides results about potential influences among those aforementioned constructs.

## RINGKASAN

Penelitian menguji pengaruh kompensasi eksekutif terhadap kepedulian keberlanjutan dan kinerja keuangan. Dalam menguji hubungan pembayaran untuk kinerja, penelitian ini menemukan bahwa kompensasi eksekutif memiliki pengaruh positif langsung terhadap kepedulian keberlanjutan dan kedua pengukuran kinerja keuangan, yaitu internal (*financial health*) dan eksternal (*market value*).

Sementara itu, berdasarkan perspektif shareholder, penelitian ini menunjukkan kompensasi eksekutif mendorong perusahaan untuk lebih peduli terhadap aktivitas keberlanjutan untuk kepentingan manajemen. Namun, hal ini dapat menurunkan nilai perusahaan. Lebih lanjut, hal berbeda ditunjukkan apabila menggunakan perspektif pemangku kepentingan. Kompensasi eksekutif yang tinggi memotivasi manajemen untuk lebih peduli pada aktivitas keberlanjutan untuk kepentingan para pemangku kepentingan, yang berdampak meningkatnya nilai perusahaan melalui peningkatan kesehatan keuangan perusahaan.

## **SUMMARY**

This research explores the potential influence of executive compensation on corporate sustainability concerns and company financial performance. Interestingly, by investigating the pay-for-performance relationship, this study finds that executive compensation has a direct significant positive impact on corporate sustainability concerns and both company financial health and market value performance.

Meanwhile, by adopting a shareholder perspective, this study reveals that higher executive compensation can encourage managers to adopt more corporate sustainability concerns for the shareholders' and/or managers' benefits; however, this will reduce the firm's value. Moreover, a counter-balance mechanism occurs when employs the stakeholders' perspective is employed. High executive compensation motivates managers to implement more corporate sustainability concerns to serve all stakeholders' interests, which may to increase the firm's market value through company financial health.

# CHAPTER 1. INTRODUCTION

## Research Background

Over the last two decades, the research examining executive compensation, corporate sustainability (CS), and company financial performance (CFP) displayed a rich and growing literature within the management literature. Moreover, the research discussion has gradually increased among practitioners and academic scholars around the world following the steep rise of executive payment and sustainability issues in companies. Most literature examines impact of executive compensation levels in terms of various determinant factors as well as their effect on key firm-level variables, such as shareholders' profit, firm size, and workers' motivations (Bebchuk & Fried, 2003; Gomez-Mejia, Larrazakintana, & Makri, 2003; Liu & Taylor, 2008; Main, O' Relly, & Wade, 1995; van Essen, Otten, & Carberry, 2015).

However, as the recent worldwide corporate scandals led to firms' collapse and financial difficulties, the ongoing debates in popular media have shifted their main question to whether the high level of executive remuneration is worth paying in order to increase firms' performance and avoid a corporations' financial decline. Moreover, the continuing economic issues and global crisis have extended the debate on the importance of a corporate sustainability agenda toward corporate social responsibility initiatives and practices (Adams & Zutshi, 2004; Campbell, 2007; Carroll, 1991; Fleming & Jones, 2012; Hancock, 2005). Hence, another critical question also arises; whether managers should be rewarded for achieving corporate sustainability targets expected by the company. Companies expect high executive compensation to motivate them to conduct more sustainability initiatives via corporate responsibility activities, such as those related to environmental and social concerns, rather than merely focus on economic interests.

Executive compensation, corporate sustainability, and CFP are well-studied research topics. However, prior literature summarises that the link between those

three topics still has mixed and weak results. Some studies suggest that executive compensation does not necessarily promote or consider the creation of a company's sustainable value reflected in corporate responsibility initiatives and practices. It appears to follow the view underlying the shareholder model that "no good deed goes unpunished." That is, executives suffer a lower payment for "doing the right thing". This issue gives rise to an argument that executive compensation does not fit and is not in line with a socially responsible philosophy (Miles & Miles, 2013). Further, many scholars argue that companies may expect multi-faceted benefits in the long-run by being more socially responsible and engaging in sustainability activity aspects, such as profit, customers' and employees' loyalty, community empowerment, etc. This leads to a relationship that is known as "*sustainability-for-performance*". That is, the companies effectively maintain their performance through managing their activities and demonstrating transformation in stakeholder interaction in economic or financial, environmental, and/or social aspects (Van Marrewijk, 2003).

Most literature regarding executive compensation is derived from the principal-agent problem, which focuses on investigating company performance from the shareholder perspective, which is commonly known as "*pay-for-performance*" relationship. This pay-for-performance relationship can be tracked to the classical institutional issue about separation of ownership and control in the companies (Berle & Means, 1932). Company owners delegate company management to managers, or agents, resulting in different interests between agents, the company, and the shareholders. Therefore, companies through the board of directors, compensate managers with a remuneration structure (i.e. salary, bonus, stock options, and other perquisites) in an attempt to mitigate moral hazard, whereby managers or agents appear to focus only on maximising their own satisfaction rather than maximising shareholders' wealth. Thus, compensation is a way to achieve shareholders' interests linked to company performance (i.e. firm's stock price, or stockholder return) (Callan & Thomas, 2014; Frye, Nelling, & Webb, 2006).

This agency problem raises an important question, which is whether there is a direct relationship between high executive compensation and company performance, as the observed company outcomes have not yet produced a definitive consensus. Further work is still needed to investigate the links, due to potential different effects that need to be defined regarding the relation of certain variable measures. This situation motivates further inquiry, such as to examine whether there are indirect determinant factors, such as corporate sustainability concerns, affecting the pay-for-performance relationship, which can be suggested as a new term in this study as a *"pay-for sustainability-for- performance"* relationship. This is a relationship whereby companies may influence their executives with proper compensation, expecting them to be motivated not only to achieve high financial outcomes for shareholders, but also to engage in all sustainability activity aspects (i.e. economic, environmental and social concerns) for all stakeholders' interests (Carroll, 1979, 1991, 1999).

Consequently, firms' views may shift from a shareholder perspective to a stakeholder perspective, in which managers or executives are viewed as the agents of the stakeholders, accountable not only to shareholders but also to other stakeholders (Arora & Alam, 2005; Jones, 1995). Hence, the managers, as agents, could be responsible to both of shareholders and stakeholders by maximising shareholders' returns as well as being accountable for fulfilling their responsibilities to all their primary stakeholder's interests that can affect or are affected by the achievement company's objectives (Freeman, 1984). This perspective suggests that the shareholders' interests cannot be met without satisfying to some degree other stakeholders' needs (Jamali, 2008). In other words, the company's success in serving shareholders' interests is likely to be affected by how a company treats the other stakeholders.

### **Problem Identification**

Very few studies have incorporated these topics in a single relationship, such as *"pay-for-sustainability-for-performance"* relationship, in the context of a developing country. Most prior literature has treated these relationships separately and independently as *"pay-for-performance"*, and/or *"sustainability-for-*

performance" relationships, with mixed and/or unclear results. Thus, research directed at those relationships remains far from complete, and it is understudied in financial sector companies, especially in the banking industry in South East Asia. Moreover, in developed country contexts, such as the United States (US) and United Kingdom (UK), or other European countries, the discourse of executive compensation has mostly focused on how the CEO's compensation can influence financial performance. This situation is considerably different from the Indonesian banking context, since the data regarding the compensation of individual executives and CEOs is not published in the capital market or is widely available to the public.

### **Problem Formulation**

This study advances the literature by addressing the compensation of the entire team of top executives, instead of only the CEO. Moreover, this study is among the first to assess the inter-relationships among executive compensation, CS concern, and two different CFPs (i.e. financial health and firm's value) by utilising a Partial Least Square-Structural Equation Model (PLS-SEM) technique. By using new unbalanced panel data of 252 firm-year observations (39 firms) during the period of 2007-2014, this study tests the relationship among constructs using four different research models based on shareholder and stakeholder perspectives. Both perspectives are examined by employing the Throughput Model, a decision-making model from Waymond Rodgers (1997) and Foss and Rodgers (2011), consisting of four major concepts, suggesting that decision-makers consider perception (**P**), and information (**I**) to determine a judgment (**J**) in making a decision choice (**D**).

## **CHAPTER 2. RESEARCH LITERATURES**

### **The Relationship between Executive Compensation and Corporate Sustainability**

This study suggests the existence of a direct positive relationship between executive compensation and corporate sustainability, which is in line with the shareholder and stakeholder perspectives, both of which derive from the same root of the principal-agent problem (Jensen & Meckling, 1976). According to the shareholders' perspective, executive compensation is an internal corporate governance issue that can be expected to affect managers' response. Managers are assumed to mainly represent shareholders' involvement (controlling or non-controlling interests) in the company's operations. They tend to be encouraged to pursue and disclose corporate responsibility activities properly in order to reduce information asymmetry for shareholders' purposes. In contrast, the stakeholders' perspective indicates that managers will be rewarded with high compensation if they can act as the stakeholders' managers who are responsible not only to maximize owners' or shareholders' wealth (as primary stakeholder interests), but also to create long-term value for the interests of other stakeholders, such as customers, societies, employees, and regulator (Arora & Alam, 2005; Jones, 1995).

The stakeholders' perspective assumes that managers, as agents, are rewarded not only for improving the firm's financial position, but also for motivating the company to do more corporate responsibility activities, in accordance with the stakeholders' concern. Those activities are intended to enhance customers' satisfaction and loyalty, to improve employees' safety and health, to reduce waste and pollution outcomes, and to enhance the quality of the societies, or communities, etc. (Callan & Thomas, 2014). In other words, by broadening the focus towards different stakeholders' interests, instead of merely focusing on shareholders' wealth, companies may improve their managerial decisions. However, this may result in not only the increase of shareholders'

interest expenses, but also high agency costs of being a socially responsible firm (Frye et al., 2006).

Summarising existing research, there are various results explaining the relationship between executive compensation and corporate sustainability concerns. Recently, most results appear to partially support such a relationship. Some findings show that the direct relationship indicates a positive result (Callan & Thomas, 2011, 2014; Mahoney & Thorne, 2006). However, others have documented that this relationship implies negative results (Cai, Jo, & Pan, 2011; Frye et al., 2006; Miles & Miles, 2013) and is also investigated for a pay-environmental performance relationship only (Berrone & Gomez-Mejia, 2009; Cordeiro & Sarkis, 2008; Stanwick & Stanwick, 2001; Zou, Zeng, Xie, & Zeng, 2015).

Callan and Thomas (2011) found that CEO compensation as measurement for executive compensation has positive significant on the corporate social performance. They suggest that the company's investment in corporate social responsibility may have a net benefit in the short run, which is rewarded contemporaneously. However, during over time, the benefits in terms of the company's reputation and stakeholders' appreciation from the corporate social responsibility will be diminishing, although the costs of investing in corporate social responsibility are ongoing. Therefore, the reward to CEOs for investing in socially responsible behaviour appears to be limited to the initial period in which the investment takes place.

Callan and Thomas (2014) investigate the influence of CEO compensation on corporate social performance using large balance data panel from KLD throughout 2003 - 2005. They find executive compensation have positive significant on corporate social performance parameter. They suggest that CEOs receive higher levels of remuneration in the companies which more socially responsible in the period concurrent with the activity. However, this CEO compensation does not extend into subsequent periods due to the net benefits to the company of CSR investments may be likewise short-lived period.

Mahoney and Thorne (2006) conducted a study of Canadian companies by using three components of executive compensation – CEO's salary, CEO's percent bonus, and CEO's percent stock options – as predictors for corporate social performance that measured by corporate social responsibility rating from Canadian Social Index Database (CSID). They suggest that all the three of executive compensation measure have positive significant association with corporate social responsibility rating.

The mixed findings in recent studies demonstrate that consensus on explaining this relationship has not been reached and that further studies are clearly needed in this area. Moreover, the existing studies mainly examine a one-directional relation, which is from executive compensation to corporate social responsibility or from corporate social responsibility to executive compensation. Very few studies consider testing the inverse relationship in an endogeneity test among the constructs.

This study expects the relationship between executive compensation and corporate sustainability to be positive, relying on the traditional economic view that considers money as an indicator of success and satisfaction. In this situation, high executive compensation can be an effective tool to align executive self-interest in maximising its wealth with the “company common good” results by engaging in more sustainability responsible actions.

*Hypothesis 1: Executive compensation has significant positive influence on corporate sustainability concern.*

### **The Relationship between Executive Compensation and Company Financial Performance**

Most recent studies performed in developed countries, such as the US, UK, and other Asian countries, find that pay-for-performance relationship has a positive correlation (Banker, Darrough, Huang, & Plehn-Dujowich, 2013; Firth, Fung, & Rui, 2006; Kato, Kim, & Lee, 2007; Matolcsy, 2000; Ozkan, 2007, 2011). However, some empirical studies indicate that executive pay does not in fact correlate much, if at all, with the fortunes of the company (Abdullah, 2006;

Gomez-Mejia & Wiseman, 1997; Kato et al., 2007; Main et al., 1995; O'Reilly & Main, 2010; Tosi, Werner, Katz, & Gomez-Mejia, 2000); while others report the existence of a negative correlation (Bebchuk & Fried, 2003, 2005).

Most of the positive results in pay-for-performance relationship studies rely on “the optimal contracting approach” pioneered by Mirrlees (1976) in which executive compensation is expected as a (partial) remedy of the agency problem (Bebchuk & Fried, 2003; Bebchuk, Fried, & Walker, 2002). This approach indicates that shareholders, as principal, through the board of directors agree to provide an optimal compensation contract with an efficient payment scheme for managers as the agents, who will act in accordance with shareholders’ interests, aiming to maximise their value. Hence, executive compensation can be expected to control managers’ moral hazard from maximising their self-interest and align it towards maximising the company’s return.

In contrast, studies with negative results are mostly based on “*the managerial power approach*,” which views executive compensation as a part of the agency problem (Bebchuk & Fried, 2003). This approach assumes that the separation of ownership and control leads to managers’ substantial power to influence organisational outcomes, which determines the excessive amount of their compensation and “neglects” the shareholders’ interests. In the design of executive compensation structures by the board of directors cannot be expected to handle and bargain at arm’s length with managers. The managers remain capable of performing a strong moderating role regarding the compensation arrangement scheme, which imposes substantial cost and extracts a high amount of rent from shareholders, which ultimately reduce corporate performance.

Recent studies in the US context find that current CEO salary, not CEO bonus, is positively associated with firms' past and future performance (Banker et al., 2013). CEO cash compensation should be disaggregated into salary and bonus components. Salary should be adjusted regularly to meet the reservation utility and information rent as a signal about CEO’s ability. On the other hand, CEO bonus may be used to serve moral hazard and adverse selection by separating high-ability agents and riskier contracts. Similarly, in the UK, CEOs remain

capable of arranging high own remuneration even though the company's performance (i.e. profit and share prices) is in decline and low (Ozkan, 2007, 2011).

This implies that managers do not always pay attention or concern on shareholders' interests, especially in relation to executive compensation. In contrast, some logical explanations maintain that excessive executive compensation can actually have a significant negative effect on shareholder profits (Bebchuk & Fried, 2003) and reduce workers' motivation (Main et al., 1995). In comparison, most studies in an Asian context display positive results. Positive results on the pay-for- performance relationship are found in China's SOE context (Firth et al., 2006), China's listed companies (Conyon & He, 2011; Firth et al., 2006; Kato & Long, 2006) and also in Korean non-Chaebol companies (Kato et al., 2007).

These mixed results initiate this study to investigate the role of pay-for-performance in a distinctive national/institutional environment and complex industry. Our study posits that the executive compensation designed by the Board of Commissioners in the Indonesian context is an effective tool to control and align managers' moral hazard in maximising their self-interest so that the company's return can be maximised and achieve shareholders' interests. Moreover, this study also expects that executive compensation may have an indirect positive correlation with company financial performance through corporate sustainability concern. Therefore, the second and third hypotheses will be described as follows:

*Hypothesis 2: Executive compensation has positive influence on company financial health and market value performance.*

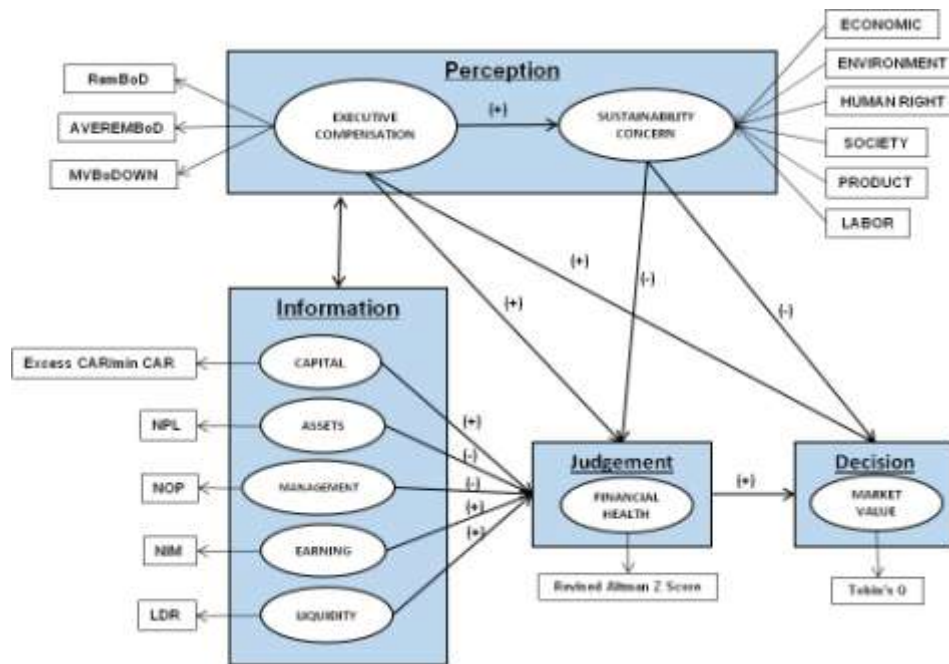
*Hypothesis 3: Executive compensation has an indirect positive correlation with company financial performance via corporate sustainability concern.*

## Research Framework and Hypotheses

### The Throughput Model Framework of Executive Compensation and Corporate Sustainability

The Throughput model (Foss & Rodgers, 2011; Waymond Rodgers, 1997; Waymond Rodgers, Guiral, & Gonzalo, 2009) is implemented since it accommodates a wide range of underlying stakeholder concerns and their interactions with the target of organisations. Further, this model allows the incorporation of organisational cognitive structures (i.e., strategic perception and judgment) within several decision pathways (Bundy, Shropshire, & Buchholtz, 2013; Mitchell, Agle, & Wood, 1997; Narayanan, Zane, & Kemmerer, 2011).

The Throughout model explains decision-making pathways by employing perception (i.e. executive compensation and corporate sustainability concerns), availability of information (i.e. bank's accounting information), judgment (i.e. financial health), and decision (i.e. firms' market value) (see Figure 5.1). This study employs two of the six possible pathways to explain and describe the relationships among the constructs, which include executive compensation, corporate sustainability concerns, and CFP (see Figure 2). These two pathways are selected since they best capture: (1) *the agency theoretic pathway position (P → D)*, and (2) *the stakeholders perspective pathway position (I → P → J → D)*.



**Figure 0.1 : Research Framework Executive Compensation on Corporate Sustainability Concerns**

**The agency theoretic pathway** describes the relationship between constructs using two concepts, “P→D.” In this context, the decision makers' (i.e. investors') perception is that executive compensation encourages managers to be more concerned about corporate sustainability initiatives and increases disclosure of corporate social responsibility to reduce information asymmetry in the decision-making process. In this pathway, managers are assumed to maximise shareholders' interests and purpose on firm's market value without any consideration of the bank's accounting “information” and “judgment” regarding the company's financial health.

**The stakeholders' perspective position pathway** describes the relationship among constructs using four concepts: “I→P→J→D.” It represents the stakeholder' perspective on the decision-making process by depicting executive compensation as well as corporate sustainability concern, emphasising a systematic and programmatic approach. This symbolises the ethics of care position, assuming that managers are compensated highly, which implies their responsibility to listen to distinct interests and to build harmony with shareholders and all stakeholders through corporate sustainability engagement, in order to gain

legitimacy to enhance company performance. The decision maker follows the guidelines from verified information by analysing it (i.e., judgment) before making a decision choice. Specifically, this pathway allows decision makers to pay attention to the utility of banks' information, in order to establish their judgments on financial health.

## Chapter 3. Research Objectives and Benefits

### Research Objectives

The purpose of this research is threefold. *First*, it aims to provide recent insights on the potential influence of higher executive compensation in affecting both corporate sustainability concerns through disclosure and corporate financial performance, according to the shareholder and the stakeholders' perspectives, by employing the Throughput Model, a decision-making model developed by Waymond Rodgers (1997). *Second*, it presents a recent picture of the implementation of higher executive compensation in publicly listed Indonesian commercial banks following the implementation of mandatory regulation of corporate governance for all Indonesian commercial banking companies, which was enacted in 2006. *Third*, it also demonstrates the implementation and practice of corporate sustainability concerns through corporate social responsibility activities and disclosure after the law related to the mandatory implementation of corporate social responsibility for public listed companies in Indonesia was published in 2007.

### Research Benefits

This research explores publicly listed Indonesian commercial banking companies throughout the period 2007-2014 for several reasons. *First, academic motivation.* The interrelationship among the aforementioned topics is very rarely published compared to research in other industries, for instance in manufacturing or the mining industry. Hence, this study can potentially fill an important gap over a given time period and create deeper understanding of the different impacts that occur among the constructs, as well as extend the potential of other explanatory factors in the literature.

*Second, industry motivation.* Commercial banking companies, such as Indonesian banks, being central in financial sector, play a very important role in modern economic systems to ensure stability for the economy of the country. This is reflected in their opportunity to be actively involved in society by practising

sustainable development through several different responsible actions in various business relations with both customers and other firms in an era of global industry, such as providing customers with security, access and liquidity.

Moreover, the banks serve as financial intermediaries by facilitating cash flow between lenders and borrowers in which they may use public resources more than other industries. The cash may mainly come from stakeholders (i.e. depositors and lenders) rather than shareholders. Hence, banks have to adopt corporate social responsibility practices and perform highly reliable, complying with relevant legal framework/s and responsible behaviour, effectively and efficiently using resources, to be healthy banks that can create external benefit for society and the environment. They also must gain profit in their short and long term business activities, and comply with relevant legal framework/s to maintain their company financial performance as profitable organisations for stakeholders' (include shareholders') interests. Especially, public-listed banks should be more pro-active in adopting and promoting high-profile corporate sustainability initiatives in economic, environmental and social activities.

***Third, the regulator motivation;*** this research takes the opportunity to see how the Indonesian commercial banks focus on implementation of corporate governance and corporate social responsibility activities after the regulators (i.e., Bank Indonesia and the Indonesian government) enacted the new regulation and law regarding mandatory corporate governance and corporate social responsibility initiatives. The Bank Indonesia (BI) has launched a new regulation (i.e., PBI number 8/4/2006 amendment PBI number 8/14/2006) regarding mandatory implementation of corporate governance for all Indonesian commercial banking companies. Moreover, the Indonesia Government also has enacted two Laws that regulate corporate social responsibility and environmental activities, namely, Investment Law number 25/2007 article 15.b and Limited Liability Company Law number 40/2007 article 66.c. These laws were first effectively mandatorily applied in 2007, requiring listed companies to disclose their corporate social responsibility and environment initiatives in their annual report or other additional reports.

*Finally, investor motivation;* since the worldwide financial crisis of 1997 and 2008 occurred, banks are being called upon to operate in a more ethically responsible manner. In the Indonesian context, integration corporate social responsibility and corporate governance may create benefit for minority shareholders and foreign investors. Foreign investors that enter emerging markets need to develop early effective corporate strategies to manage risk and to find the way to arrange activities in a complex business environment, which has a different set of characteristics from those employed in developed markets. They will avoid banks with poor sustained performance, whose pay interest rates will be more expensive, rather than ‘the sustainable’ bank, which reduces the shareholders' or investors' return. Hence, this study will provide information on investors and other stakeholders' reaction regarding the decision making process for their investment continuity when the banks determine the corporate sustainability concern to integrate with the bank governance.

## CHAPTER 4. RESEARCH METHODOLOGY

### Data Collection and Sampling

Subject of research is taken from 39 commercial banking companies publicly listed on the Indonesia Stock Exchange from the period 2007 to 2014 (see Table 3.1 and Table 3.2). All the data regarding governance mechanisms, corporate sustainability concerns through company disclosure, bank's financial ratios (capital, assets, management, earning and liquidity, or CAMEL) and company financial performance (i.e. company financial health and market value performance) were hand-extracted from secondary data.

The secondary data were primarily the mandatory and voluntary reports for the Indonesian Securities Commission and the Bank Indonesia (BI), such as the banks' annual reports, the banks' financial statement, the banks' corporate responsibility report or corporate sustainability report and the bank's corporate governance report. The secondary data were collected from the 39 banks' websites, website of the Indonesia Stock Exchange (IDX) ([www.idx.co.id](http://www.idx.co.id)), website of the Bank Indonesia ([www.bi.go.id](http://www.bi.go.id)), and Datastream.

The rationale for choosing 2007 as the beginning of the study period is that it was the first year of Indonesian banking CG reform after the implementation of the mandatory Bank Indonesia (BI) regulation number 8/4/PBI/2006 with amended number 8/14/PBI/2006 for daily operational banking. The year 2014 was chosen as the end of the study period as it was the latest financial year for which all companies published annual reports, which were available at the time when data collection started.

Table 4.1 : Number Population and Sample of Indonesian Commercial Banks that Listed on Indonesia Stock Exchange during the period of study 2007-2014

Year	Population	Samples (Observations)	Sample (%)
2007	26	26	100
2008	28	28	100
2009	29	29	100
2010	31	31	100
2011	31	31	100
2012	32	32	100
2013	36	36	100
2014	40	39	97.5
<b>Grand Total</b>		<b>252</b>	<b>99.7</b>

## Research Instrument

### Executive Compensation

The topic of executive compensation in the developing economies such as in the South East Asia region is much less documented (Cheng & Firth, 2005), since unavailability of detail or low quality of public data, including in Indonesia banking companies. The Indonesian banking companies mandates to disclose general information about total payment of their executive compensation; however, they do not mandate to disclose payment for each individual executive and its compensation structure.

Executive ~~Compensation~~compensation, which consists of three reflective indicators, ~~namely~~as follows:

- a. RemBoD is the executive (BoD) cash compensation, measured by aggregate total cash of salary, bonus, and other benefits received by the executive per year (Brick, Palmon, & Wald, 2006; Conyon, 1997; Core, Holthausen, & Larcker, 1999; Unite, Sullivan, Brookman, Majadillas, & Taningco, 2008),
- b. AveRemBoD is the average cash compensation received by executive per head, ~~measure~~measured from the total cash executive compensation divided by a total number of ~~executive~~executives (Unite et al., 2008).

- c. MVBoDOWn is the market value of stock held by ~~executive~~executives as compensation, measured by total amount of stock outstanding held by executive multiplied by market value of stock (Brick et al., 2006).

### Corporate Sustainability Concerns

The corporate sustainability concerns consist of three main areas of performance, namely (see Table 4.2): the following:

- (1) Economic performance (EC), which consists of nine indicators;
- (2) Environment performance (EN), which consists of 16 indicators;
- (3) Social performance (SOC), which consists of four ~~part~~ parts of valuation performance:
  - (a) Human rights performance (HR), which consists of six indicators;
  - (b) Labour practices and decent work performance (LA), which consists of 11 indicators;
  - (c) Product responsibility performance (PR), which consists of five indicators; and
  - (d) Society performance (SO), which consists of seven indicators.

Prior studies have used the content analysis technique to analyse corporate sustainability, or CSR disclosure (Al-Tuwaijri, Christensen, & Hughes II, 2004; Beattie & Thomson, 2007; Gray, Kouhy, & Lavers, 1995). This study employs this technique to analyse the company narration in the sustainability reporting, or the annual report, or the corporate responsibility reporting of Indonesian commercial banks, based on requirement from the modification of GRI 3.1 indicators, which are differentiated into disclosure of six performance areas (EC, EN, HR, LA, PR, and SO).

Then, this study individually quantifies the company narrative for each performance disclosure into a range of three scores: 0 (not disclosed), 1 (partially disclosed), or 2 (fully disclosed). The aggregate score for each company is determined and divided by the maximum score of each indicator. It is contended that quantitative disclosure ~~by~~ using this content analysis technique ~~are~~is more

objective and informative than qualitative analysis to provide information for the stakeholders' interests.

**Table 4.2 : GRI 3.1 Modification**

<b>ECONOMIC PERFORMANCE INDICATORS</b>	
EC1	Direct economic value generated and distributed, including revenues, operating costs, employee compensation, donations and other community investments, retained earnings, and payments to capital providers and governments.
EC2	Financial implications and other risks and opportunities for the organization's activities due to climate change.
EC3	Coverage of the organization's defined benefit plan obligations.
EC4	Significant financial assistance received from government
EC5	Range of ratios of standard entry level wage compared to local minimum wage at significant locations of operation.
EC6	Policy, practices, and proportion of spending on locally-based suppliers at significant locations of operation.
EC7	Procedures for local hiring and proportion of senior management hired from the local community at significant locations of operation.
EC8	Development and impact of infrastructure investments and services provided primarily for public benefit through commercial, in-kind, or pro bono engagement.
EC9	Understanding and describing significant indirect economic impacts, including the extent of impacts.
<b>ENVIRONMENT PERFORMANCE INDICATORS</b>	
EN1	Materials used by weight or volume.
EN2	Percentage of materials used that are recycled input materials
EN3	Direct energy consumption by primary energy source.
EN4	Indirect energy consumption by primary source.
EN5	Energy saved due to conservation and efficiency improvements.
EN6	Initiatives to provide energy-efficient or renewable energy-based products and services, and reductions in energy requirements as a result of these initiatives.
EN7	Initiatives to reduce indirect energy consumption and reductions achieved.
EN8	Total water withdrawal by source.
EN9	Water sources significantly affected by withdrawal of water.
EN10	Percentage and total volume of water recycled and reused.
EN11	Strategies, current actions, and future plans for managing impacts on biodiversity.
EN12	Total water discharge by quality and destination.
EN13	Total weight of waste by type and disposal method.
EN14	Initiatives to mitigate environmental impacts of products and services, and extent of impact mitigation.
EN15	Significant environmental impacts of transporting products and other goods and materials used for the organization's operations, and transporting members of the workforce.
EN16	Total environmental protection expenditures and investments by type.
<b>SOCIAL PERFORMANCE INDICATORS</b>	

<b>HUMAN RIGHT PERFORMANCE INDICATORS</b>	
HR1	Percentage and total number of significant investment agreements that include human rights clauses or that have undergone human rights screening.
HR2	Percentage of significant suppliers and contractors that have undergone screening on human rights and actions taken.
HR3	Total hours of employee training on policies and procedures concerning aspects of human rights that are relevant to operations, including the percentage of employees trained.
HR4	Total number of incidents of discrimination and actions taken.
HR5	Operations identified in which the right to exercise freedom of association and collective bargaining may be at significant risk, and actions taken to support these rights.
HR6	Percentage of security personnel trained in the organization's policies or procedures concerning aspects of human rights that are relevant to operations.
<b>LABOR PRACTICES and DECENT WORK PERFORMANCE INDICATORS</b>	
LA1	Total workforce by employment type, employment contract, and region.
LA2	Total number and rate of employee turnover by age group, gender, and region.
LA3	Benefits provided to full-time employees that are not provided to temporary or part-time employees, by major operations.
LA4	Percentage of employees covered by collective bargaining agreements.
LA5	Rates of injury, occupational diseases, lost days, and absenteeism, and total number of work-related fatalities by region.
LA6	Health and safety topics covered in formal agreements with trade unions. Health and safety topics covered in formal agreements with trade unions.
LA7	Average hours of training per year per employee by employee category.
LA8	Programs for skills management and lifelong learning that support the continued employability of employees and assist them in managing career endings.
LA9	Percentage of employees receiving regular performance and career development reviews.
LA10	Ratio of basic salary of men to women by employee category.
LA 11	Return to work and parental leave, by gender
<b>PRODUCT RESPONSIBILITY PERFORMANCE</b>	
PR1	Practices related to customer satisfaction, including results of surveys measuring customer satisfaction.
PR2	Programs for adherence to laws, standards, and voluntary codes related to marketing communications, including advertising, promotion, and sponsorship.
PR3	Total number of incidents of non-compliance with regulations and voluntary codes concerning marketing communications, including advertising, promotion, and sponsorship, by type of outcomes.
PR4	Total number of substantiated complaints regarding breaches of customer privacy and losses of customer data.
PR5	Monetary value of significant fines for non-compliance with laws and regulations concerning the provision and use of products and services
<b>SOCIETY PERFORMANCE INDICATORS</b>	
SO1	Nature, scope, and effectiveness of any programs and practices that assess and manage the

	impacts of operations on communities, including entering, operating, and exiting.
SO2	Percentage of employees trained in organization's anti-corruption policies and procedures.
SO3	Actions taken in response to incidents of corruption.
SO4	Total value of financial and in-kind contributions to political parties, politicians, and related institutions by country.
SO5	Monetary value of significant fines and total number of non-monetary sanctions for compliance with laws and regulations
SO6	Operations with significant potential or actual negative impacts on local communities.
SO7	Prevention and mitigation measures implemented in operations with significant potential or actual negative impacts on local communities

Company ~~Financial Health~~financial health, which consists of one reflective indicator using the Altman ~~Revision ZScore Model~~revision Z score model, is a score that indicates a distressed company condition for non-manufacturing companies in emerging countries (Altman, Hartzell, Peck, Levich, & Mei, 1995), where Z" Scores **below 1.10** indicate a distressed condition, with the following formula:

$$\bullet Z'' = 6.56 (X1) + 3.26 (X2) + 6.72 (X3) + 1.05 (X4);$$

Where

Where:

X1 = working capital/total assets, X2 = retained earnings/total assets, X3 = earnings before interest and taxes/total assets, and X4 = market value equity/book value of total liabilities.

Company ~~Market Value~~market value, which consists of one reflective indicator from Tobin's Q, is the ratio of the market value of equity and the book value of liabilities, scaled by the book value of assets (Waymod Rodgers, Choy, & Guiral, 2013).

The ~~Banks Financial Information consist~~banks' financial information consists of five constructs, with one reflective indicator each, which are as follows:

- a. CAR (~~Capital Adequacy Ratio~~capital adequacy ratio) is the ratio between capital in excess of regulatory requirements over the minimum capital requirements-

- b. NOP (~~Net Open Position~~net open position) is the net sum of all foreign currency assets and liabilities of a bank or financial institution inclusive of all of its ~~spot~~spot and forward transactions and off-balance-sheet items in that foreign currency.
- c. NPL (~~Non-Performing Loan~~non-performing loan) is a sum of borrowed money upon which the debtor has not made his or her scheduled payments for at least 90 days. A nonperforming loan is either in default or close to being in default.
- d. NIM (~~Net Interest Margin~~net interest margin) is the ratio of the difference of investment return with interest expenses divided by average earning assets.
- e. LDR (~~Loan Debt Ratio~~loan to debt ratio) is the ratio of bank liquidity to cover of unforeseen fund requirements.

### Data Analysis

This research analyses the relationships between the constructs using two different research frameworks and provides the results in findings. Each findings describes a different research framework, latent variables or constructs (i.e., variables that are not directly measured) and types of indicator measurement, such as formative and reflective indicators. The data characteristics of the study, which contains a latent variable with formative measures, the relatively small size of the sample (i.e., 252 firm-year observations) and apparently non-normal distribution led to the use of a PLS-SEM approach.

This research uses the structural equation modelling (SEM) technique in particular partial least square-structural equation modelling (PLS-SEM) to examine the complex or multiple relationships among latent variables or constructs of the bank's governance mechanisms, sustainability concerns, financial ratios information and company financial performance (i.e., financial health and firm value). This study investigates two different research models in order to gather new and complete empirical knowledge concerning the relationship between the constructs of the bank's governance mechanisms, sustainability concerns, financial ratios information and company financial performance.

## Chapter 5. Results and Discussion

### Results

#### The Statistics Descriptive

Table 5.1 contains a statistical description of the indicators of the impact of executive compensation on company financial performance through its sustainability concerns. To provide additional assurance that the results are not partially attributable to an incomplete first stage model, the first and second stage models are augmented by including the lagged time effect for executive compensation and sustainability concern in the third model. In addition, an endogeneity test with a reverse direction between executive compensation and sustainability concern is also applied in the fourth model.

Table 5.1 shows the average total cash compensation received by all executives in Indonesian commercial banks per year (RemBoD, which is IDR Rp 37,682 Million (maximum = IDR Rp. 254,915 Million and minimum = IDR Rp 867 Million); the average cash compensation received by individual executive in a year (AVERemBoD), which is IDR Rp. 4,497.48 Million (maximum = IDR Rp. 25,492 Million and minimum = IDR Rp. 289 Million); and the market value stock compensation received by the executive (RemBoDOWN), which is IDR Rp. 30,192 Million (maximum = IDR Rp. 517,755 Million and minimum = IDR Rp. 0 Million). One U.S. Dollar equals approximately IDR 13,514.

Based on data observation, I find most Indonesian commercial banks can be considered as healthy companies with the average revised Altman Z-score is 1.146 (maximum = 3.4542 and minimum = -2.905). This score is higher than the cut-off limit score of 1.1 for a non-distressed company. However, the score also indicates that the companies are still in the grey area, which means that they are not yet categorised as safe companies. It is also known that the average company's market value is 109 percent (maximum = 161 per cent and minimum = 87 per cent), which means that the banking company's market value is over-valued.

Moreover, this study shows that company sustainability concern in Indonesian commercial banking companies is still in the early stage with poor and patchy implementation, based on their corporate social responsibility disclosure. Overall, the six indicators of corporate sustainability concern reveal that the average level of disclosure on economic, environment, and social aspects, which consist of product responsibility, labour, human rights, and society is below 50 per cent. The highest average on sustainability concerns was found in society performance disclosure with 41 per cent (maximum = 93 per cent and minimum = 14 per cent); and the lowest sustainability concern was found in environmental performance disclosure, with 9 per cent (maximum = 75 per cent and minimum = 0 per cent).

**Table 0.1 : The Statistic Descriptive**

<b>Indicators</b>	<b>Min</b>	<b>Max</b>	<b>Mean</b>	<b>Std. Dev</b>	<b>VIF</b>
Tobins	0.87	1.61	1.09	0.13	1.00
ZScore	-2.9	3.45	1.15	0.69	1.00
RemBoD	867	254915	37682.45	46845.24	18.28
AveRemBoD	289	25492	4497.48	4474.76	18.11
RemBoDOWN	0	517755	30192.58	79356.70	1.8
CAR	-2.38	9.94	1.15	0.98	1.00
NPL	0.00	0.18	0.02	0.02	1.00
NOP	-0.02	1.32	0.03	0.09	1.00
NIM	0.00	0.1664	0.06	0.02	1.00
LDR	0.09	1.13	0.78	0.15	1.00
SO	0.14	0.93	0.41	0.15	1.89
PR	0.00	0.80	0.29	0.20	2.32
LA	0.00	0.95	0.24	0.21	4.40
HR	0.00	0.92	0.08	0.15	4.08
EN	0.00	0.75	0.09	0.16	6.34
EC	0.06	0.94	0.23	0.19	6.20
<b>Valid N (listwise)</b>	<b>252</b>				

**Notes:** **REM BoD** : Total Board of directors cash compensation in a year; **AveREM BoD** : Average of board of director compensation per person in a year; and **MV BoDOWN** : market value Board of Directors shareholders ownership; **CAR** : Capital Adequacy Ratio; **NPL**: Non-Performing Loan; **NOP** : Net Open Position; **NIM** : Net Interest Margin; **LDR** : Loan to Debt Ratio; **Z Score**: Revision Altman's Z score for financial health measurement and **TOBINS**: Tobin's Q for firm market value performance; **SO**: disclosure of corporate society activities concern; **PR**: disclosure of corporate product responsibility activities concern; **LA**: disclosure of corporate labour practices concern; **HR**: disclosure of corporate human right activities

concern; **EN**: disclosure of corporate environmental activities concern; and **EC**: disclosure of corporate economic activities concern

Table 5.2 shows that the inter-correlation among the constructs of executive compensation as part of internal corporate governance mechanisms and company sustainability concerns is strongly positive in order to maintain corporate financial performance ( $r = 0.67$ ;  $\rho < 0.01$ ). Moreover, I found a statistically significant correlation between constructs of executive compensation (“P”) and financial information sources (“I”) of capital, assets, and earning ( $r = -0.13$ ;  $\rho < 0.05$ , and  $r = -0.27$ ,  $r = 0.24$ ,  $\rho < 0.01$ ); and in corporate sustainability concerns (“P”) with financial information sources (“I”) of capital, assets, earnings, and liquidity ( $r = -0.17$ ,  $r = -0.20$ ,  $r = 0.15$ , and  $r = 0.21$ ;  $\rho < 0.01$ ).

**Table 0.2 : The Constructs Inter-Correlations Matrix**

CONSTRUCTS	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)
EXECOMPEN (1)	1.00								
SUSTAINCONCERN (2)	0.67***	1.00							
CAPITAL (3)	-0.13**	-0.17***	1.000						
ASSET (4)	-0.27***	-0.20***	-0.24***	1.00					
MANAGEMENT (5)	-0.084	-0.045	-0.09	0.23***	1.00				
EARNING (6)	0.24***	0.15***	-0.01	-0.03	-0.15***	1.00			
LIQUIDITY (7)	0.060	0.21***	-0.18***	0.03	-0.04	0.28***	1.00		
FINHEALTH (8)	0.28***	-0.081	0.46***	-0.48***	-0.45***	0.37***	0.10	1.00	
MARKET VALUE (9)	0.35***	-0.072	0.23***	-0.12*	-0.03	0.25***	0.02	0.47***	1.00

Notes: \*\*\*Significant at  $\rho < 0.01$  (or 1 per cent) level (two-tailed) ( $t$  value  $> 2.33$ )

Furthermore, a correlation analysis was conducted to examine the potential substitution or complementary effect among indicators on executive compensation as an internal corporate governance mechanism construct. In Table 5.3, complementary effect is shown, with significant positive association between total cash compensation received by executive, cash compensation received by each individual executive, and the market value of stock ownership by the executive ( $r = 0.99$ ,  $r = 0.66$ , and  $r = 0.66$ ;  $\rho < 0.01$ ).

**Table 0.3 : The Indicators Correlation Matrix**

INDICATORS	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)	(12)	(13)	(14)	(15)	(16)
Tobin Q (1)	1															
ZScore (2)	0.47**	1														
RemBoD (3)	0.29**	0.27**	1													
AveRemBoD (4)	0.30**	0.25**	0.97**	1												
RemBoDOWN (5)	0.42**	0.26**	0.66**	0.66**	1											
CAR (6)	0.23**	0.46**	-0.15*	-0.17**	-0.03	1										
NPL (7)	-0.12	-0.48**	-0.26**	-0.27**	-0.21**	-0.24**	1									
NOP (8)	-0.03	-0.45**	-0.07	-0.08	-0.08	-0.09	0.235**	1								
NIM (9)	0.25**	0.37**	0.22**	0.21**	0.23**	-0.00	-0.03	-0.15*	1							
LDR (10)	0.02	0.10	0.12	0.14*	-0.15*	-0.17**	0.03	-0.04	0.28**	1						
SO (11)	0.05	0.12	0.57**	0.54**	0.26**	-0.16*	-0.28**	-0.09	0.15*	0.18**	1					
PR (12)	-0.04	-0.03	0.61**	0.60**	0.19**	-0.19**	-0.06	0.02	0.09	0.21**	0.53**	1				
LA (13)	0.01	0.18**	0.64**	0.61**	0.21**	-0.08	-0.16*	-0.09	0.17**	0.27**	0.64**	0.70**	1			
HR (14)	0.02	0.15*	0.50**	0.47**	0.15*	-0.05	-0.15*	-0.07	0.11	0.17**	0.64**	0.66**	0.77**	1		
EN (15)	-0.01	0.14*	0.62**	0.58**	0.19**	-0.09	-0.17**	-0.05	0.07	0.18**	0.62**	0.73**	0.83**	0.85**	1	
EC (16)	0.03	0.11	0.66**	0.64**	0.32**	-0.10	-0.16**	-0.04	0.13*	0.18**	0.62**	0.72**	0.85**	0.82**	0.88**	1

**Notes: \*** Correlation is significant at the 0.05 (or 5 per cent) level (two-tailed). **\*\***. Correlation is significant at the 0.01 (or 1 per cent) level (two-tailed).

**REM BoD** : Total Board of directors cash compensation in a year; **AveREM BoD** : Average of board of director compensation per person in a year; and **MV BoDOWN** : market value Board of Directors shareholders ownership; **CAR** : Capital Adequacy Ratio; **NPL**: Non-Performing Loan; **NOP** : Net Open Position; **NIM** : Net Interest Margin; **LDR** : Loan to Debt Ratio; **Z Score**: Revision Altman's Z score for financial health measurement and **TOBINS**: Tobin's Q for firm market value performance; **SO**: disclosure of corporate society activities concern; **PR**: disclosure of corporate product responsibility activities concern; **LA** : disclosure of corporate labour practices concern; **HR**: disclosure of corporate human right activities concern; **EN**: disclosure of corporate environmental activities concern; and **EC**: disclosure of corporate economic activities concern

## **The Measurement (Outer) Model Assessment**

The measurement (outer) model focuses on the relationship between a latent variable or construct and its indicators. This can be examined on individual item reliability, internal consistency or construct reliability, average variance extracted analysis, and discriminant validity in order to analysis and assess reliability and validity both formative and reflective constructs.

In this study, the reflective measure consists of seven constructs with a single indicator, which are CAPITAL, ASSET, MANAGEMENT, EARNING, LIQUIDITY, FINANCIAL HEALTH, and MARKET VALUE, and one reflective construct with three indicators for EXECOMPEN. Moreover, this study also has one formative construct; SUSTAINABILITY CONCERNS that consists of six indicators (see Figure 5.1 and Table 5.4). Table 5.4 shows loading and weight magnitudes, composite reliability (CR), average variance extracted (AVE) and observed t values, as well as the significance value for each indicator associated with its respective latent construct. All of the seven reflective constructs with a single indicator and the other three indicators exceed the acceptable reliability criterion of 0.700 (Chin, 1998). Table 5.4 also displays all reflective indicators of executive compensation, bank financial ratio information and company financial performance have significant values at the 1% level.

Discriminant validity assessment was also conducted by following Hair, Hult, Ringle, and Sarstedt (2014) recommendation to employ the heterotrait-monotrait ratio of correlations (HTMT) criterion from Henseler, Ringle, and Sarstedt (2015), instead of the Fornell-Larcker and cross-loadings criterion, due to its superior performance, to ensure that the reflective construct has the strongest relationships with its own indicators. All reflective constructs' HTMT values are below 0.90, which means that the discriminant validity between pairs of reflective constructs has been established.

However, assessing internal consistency with the same method used for reflective measurements, for constructs with formative measurements (i.e., corporate sustainability concern), is not appropriate and illogical because all indicators might be completely

uncorrelated (independent) across two or more components, multidimensional and does not have similar measures (in a convergent validity sense) reflecting the same underlying construct (Chin, 1998, 2010). Instead of using factor loadings, formative measures should use weight factors, which represent canonical correlations and display the values with the totally different meaning of reliability. The weights provide information about the configuration or composition of indicators, which are relatively important to create or form of the construct. Further, in PLS is appropriate to employ the traditional parametric procedure to test significance level because data is assumed as non-normal distribution.

Hence, PLS should use the non-parametric resample procedure with bootstrapping method to assess the significance level of the factor loadings or weights and path coefficient model estimation (Chin, 1998). This study estimates those by using 5,000 bootstrap samples with no sign change option for 1% significance level ( $\alpha = 0.01$ ; one-tailed test) as a recommendation by Hair et al. (2014). It is the most conservative outcome procedures in order to avoid systematically biased significance test results. Therefore, for *t*-value above 2.33, 1.97, and 1.67 are reflected the loadings or weights and path coefficients have significantly different from zero at 1%, 5% and 10% of significance levels respectively.

Table 5.4 shows among the formative indicators, EC, HR, SO ( $\rho < 0.01$ ) and PR ( $\rho < 0.05$ ) have significant value with weight 0.796, -0.515, 0.394 and 0.215 respectively, but the other two remaining indicators (EN and LA) do not have significant values. This empirically suggests that corporate sustainability concern is primarily formed by corporate responsibility activities that relate to economic, human right, society and product responsibility performances.

Furthermore, the potential multicollinearity among the indicators is important for formative measures as it can generate unstable estimates. In this study, all indicators in the formative construct have variance inflation factors (VIF) ranging between 1.05 and 6.34 (see Table 5.1). The highest VIF value is 6.34 for environment indicators (EN). It is quite far above 5, as the rule of thumb, but it is still below 10, implying that all indicators do not have a multicollinearity problem and are independent of each other (Hair et al., 2014)

**Table 0.2 : The Measurement (Outer) Model Result**

Constructs	Loadings	Weights	Observed <i>t</i> -value	CR	AVE	Signi.-level one-tailed
Executive Compensation (Reflective)				0.94	0.85	
RemBoD	0.972	0.405	252.15			0.00
AVERemBoD	0.971	0.394	197.81			0.00
RemBoDDown	0.806	0.278	17.86			0.00
Company Sustainability Concerns (Formative)						
EC						
EN	0.914	0.796	3.75			0.00
HR	0.808	0.010	0.04			0.485
LA	0.659	0.515	2.83			0.00
PR	0.849	0.155	0.93			0.18
SO	0.777	0.215	1.711			0.04
	0.775	0.394	4.544			0.00
Capital CAR	1.00	1.00		1.00	1.00	0.00
Asset NOP	1.00	1.00		1.00	1.00	0.00
Management NPL	1.00	1.00		1.00	1.00	0.00
Earning NIM	1.00	1.00		1.00	1.00	0.00
Liquidity LDR	1.00	1.00		1.00	1.00	0.00
Financial Health Z Score	1.00	1.00		1.00	1.00	0.00
Market Value Tobin's Q	1.00	1.00		1.00	1.00	0.00

**Notes:** **REM BoD** : Total Board of directors cash compensation in a year; **AveREM BoD** : Average of board of director compensation per person in a year; and **MV BoDOWN** : market value Board of Directors shareholders ownership; **CAR** : Capital Adequacy Ratio; **NPL**: Non-Performing Loan; **NOP** : Net Open Position; **NIM** : Net Interest Margin; **LDR** : Loan to Debt Ratio; **Z Score**: Revision Altman's Z score for financial health measurement and **TOBINS**: Tobin's Q for firm market value performance; **SO**: disclosure of corporate society activities concern; **PR**: disclosure of corporate product responsibility activities concern; **LA** : disclosure of corporate labour practices concern; **HR**: disclosure of corporate human right activities concern; **EN**: disclosure of corporate environmental activities concern; and **EC**: disclosure of corporate economic activities concern

### The Structural (Inner) Model Assessment

In SEM-PLS, structural model assessment represents the relationship (the path) among constructs hypothesised in the research model that can be interpreted as standardised beta weights in regression analysis. In research model 1 (see Table 5.5 and Figure 5.2), both executive compensation and company sustainability concerns are incorporated as

investors' perception of the extended impact on the bank's performance in financial health and market value. It shows that nine of the initial set of eleven paths are significant at 0.99, one initial path is significant at 0.95, and the remaining one is significant at 0.90. However, for simplicity, the inter-correlations between perception ("P"), which consists of the constructs of executive compensation, corporate sustainability concerns, and five aspects of bank's information ("I") are provided in Table 5.3 instead of in Figure 5.2.

In detail, research model 1 shows that executive compensations have a direct positive significant impact on corporate sustainability concerns and indirect significant impact on firms' market value through the mediation effect of corporate sustainability concerns ( $\beta_1 = 0.67, \rho < 0.01; R^2 = 0.45$ ). Moreover, there is a direct positive significant influence of executive compensation on firms' market value ( $\beta_2 = 0.47, \rho < 0.01; R^2 = 0.33$ ).

These findings confirm hypotheses 1, 2 and 3. The result also shows a direct positive significant effect between executive compensation on companies' financial health, as well as an indirect significant positive effect of executive compensation on firms' market value through companies' financial health ( $\beta_3 = 0.29, \rho < 0.01; R^2 = 0.62$ ). It reveals that both corporate sustainability concerns and company financial health are partial mediators in the relationship between executive compensation and firms' market value.

**Table 0.3 : The Executive Compensation Leading to Higher Sustainability Concerns and Company Financial Performance**

Pathways	Model 1	Model 2
Executive Compensation → Sustainability Concern ( $\beta_1$ )	0.67***	-
(P→D) Executive Compensation → Firm's Market Value ( $\beta_2$ )	0.47**	0.27***
(P→J) Executive Compensation → Firm's Financial Health ( $\beta_3$ )	0.29***	0.16***
(P→D) Sustainability Concern → Firm's Market Value ( $\beta_4$ )	-0.32***	-0.08
(P→J) Sustainability Concern → Firm's Financial Health ( $\beta_5$ )	-0.17***	0.16**
(I→J) Capital → Financial Health ( $\beta_6$ )	0.40***	0.40***
(I→J) Asset → Financial Health ( $\beta_7$ )	-0.28***	-0.24***
(I→J) Management → Financial Health ( $\beta_8$ )	-0.29***	-0.27***
(I→J) Earning → Financial Health ( $\beta_9$ )	0.24***	0.26***
(I→J) Liquidity → Financial Health ( $\beta_{10}$ )	0.12*	0.08*

(J→D) Financial Health → Firm's Market Value ( $\beta_{11}$ )	0.36***	0.41***
Executive Compensation * Sustainability Concern → Firm's Financial Health ( $\beta_{12}$ )	-	-0.13**
Executive Compensation * Sustainability Concern → Firm's Market Value ( $\beta_{13}$ )	-	-0.007
Multiple $R^2$ (explained variance): Sustainability Concerns	0.45	-
Financial Health	0.62	0.63
Firm's Market Value	0.33	0.30

Notes: \*Significant at  $\rho < 0.1$  (t value > 1.66); \*\*Significant at  $\rho < 0.05$  (t value > 1.96);  
 \*\*\*Significant at  $\rho < 0.01$  (t value > 2.33)

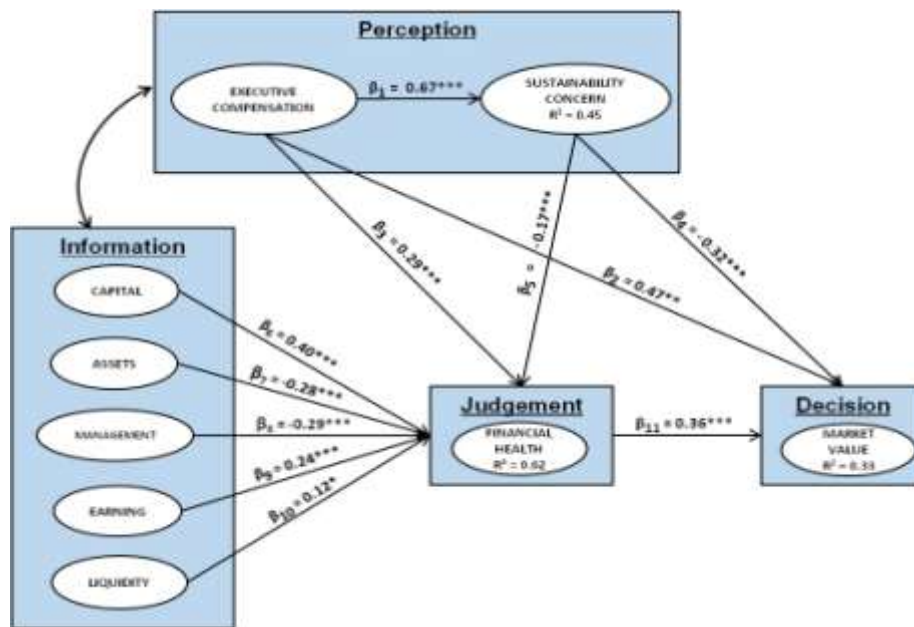
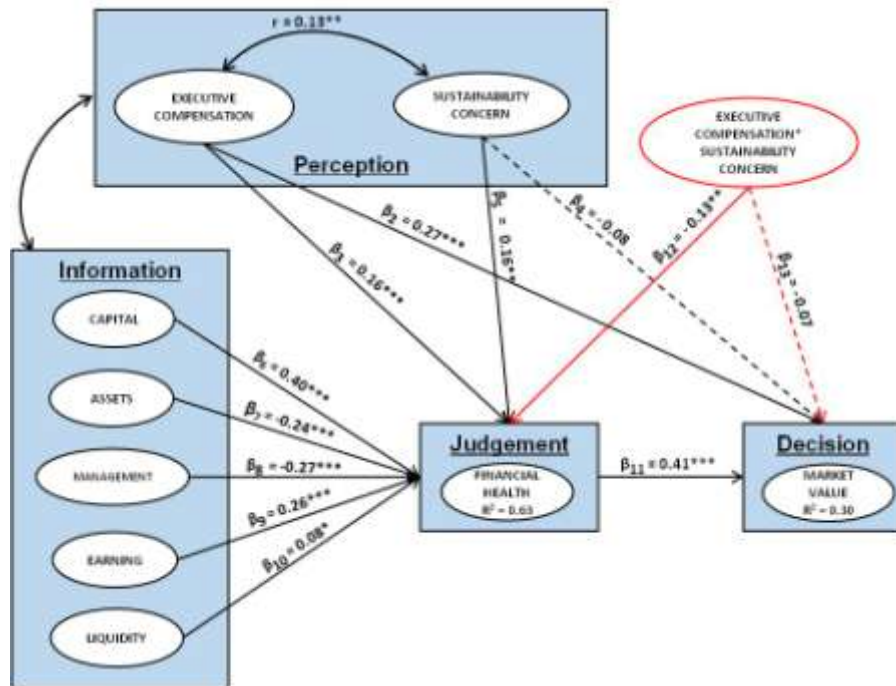


Figure 0.1 : Research Model 1 Executive Compensation on Corporate Sustainability Concerns

Moreover, a direct negative significant influence of corporate sustainability concerns on firms' value, as well as an indirect negative significant effect of corporate sustainability concerns on firms' market value through company financial health ( $\beta_4 = -0.32$  and  $\beta_5 = -0.17$ ,  $\rho < 0.01$ ) are found. This finding does not confirm hypothesis 4. Further, this study finds that the judgment of financial health has a direct positive significant influence on the decision on banks' market value ( $\beta_{11} = 0.36$ ,  $\rho < 0.01$ ), which support and consistent with prior research.



**Figure 0.2 : Research Model 2 Interaction between Executive Compensation and Corporate Sustainability Concerns**

Moreover, in research Model 2 (see Table 5.5, Figure 5.3), the model is expanded by allowing the perceptions of both executive compensation and CS concern separately as well as interactively to influence company financial performance. Similar to Model 1, the executive compensation continues to have a direct positive significant effect on financial health and firm value. Moreover, the result shows that executive compensation has direct and indirect significant positive effects on firms' market value through companies' financial health ( $\beta_2 = 0.27, \rho < 0.01; R^2 = 0.30$  and  $\beta_3 = 0.16, \rho < 0.01; R^2 = 0.63$ ). These results reconfirm hypotheses 1 and 2. Thus, the banking sustainability concern continues to show a direct significant negative influence on financial health ( $\beta_5 = -0.16, \rho < 0.05; R^2 = 0.63$ ). This finding does not reconfirm hypothesis 4. However, a direct negative significant banking sustainability concern is not found on firms' market value ( $\beta_4 = -0.08, \rho > 0.1$ ). More importantly, it is revealed that corporate sustainability concerns can only moderate

negative significant impact on the relationship between executive compensation and financial health, not firms' market value ( $\beta_{12} = -0.13, \rho < 0.05$ ;  $\beta_{13} = 0.07, \rho > 0.1$ ).

## **Discussion**

While there are rich and abundant studies on executive compensation, corporate sustainability concern, and CFP, the pay-for-sustainability performance relationship as a single study has not generally been explored extensively in a developing country's commercial banking companies' context, particularly in Indonesia. Moreover, gigantic corporate scandals and economic failures around the world, especially in the Asian region, have been brought to companies' attention so that they try to remain sustainable by engaging in CSR initiatives in their operations and by focusing on the deep investigation regarding excessive executive payment. Those actions are aimed to achieve higher company financial performance. Considering those facts, this study provides some interesting and intriguing findings.

The shareholder perspective which depict from the agency theoretic pathways shows in research Model 1 in Table 5.5 and documents that executive compensation in Indonesian commercial banking is designed to motivate managers to attend more to corporate sustainability concern by engaging in more CSR activities. It was found through this study that executive compensation has significant positive influence on corporate sustainability concern. Moreover, the linkage of pay-for-performance has a positive result, in which executive compensation has direct and indirect significant positive influences on firms' market value through corporate sustainability concerns. Those findings confirm both the first and the second hypotheses in this research. Moreover, those results reflect that executive compensation is linked not only to market value performance, but also to corporate responsibility practices at a fundamental level of shareholders' view. This result also supports the prior studies suggesting that the pay-for-performance relationship is positive (Banker et al., 2013; Firth et al., 2006; Kato et al., 2007; Matolcsy, 2000; Ozkan, 2007, 2011), and more likely to support the shareholders' interests .

Furthermore, within the shareholder perspective on the linkage of pay-for-performance and sustainability-for-performance based on the Throughput Model, particularly the agency theoretic pathway ( $P \rightarrow D$ ), it is found that corporate sustainability concerns have a negative significant influence on the firm's market value. The result represents the notion that high executive compensation designed to encourage managers to pursue more corporate sustainability concerns aimed at shareholder interests would lead to reduced firm's market value. In this situation, the result tends to support the managerial power approach, in which high executive compensation integrates itself in the agency problem. This means that managers do not pay attention to and care less about shareholders' interests regarding the firm's market value. They tend to utilise their substantial power to increase sustainability concern by creating expense using the firm's resources for managerial purposes, such as charitable and philanthropic activities, rather than for shareholders' interests.

In comparison, based on the shareholder perspective, the study results depicted in Table 5.5 reveal the relationship of sustainability-for-performance to have a significant negative result. Contrary to the hypothesised positive relationship, this study finds that corporate sustainability concerns in Indonesian commercial banking has a significant negative influence on both a company's financial health and market value. The managerial purposes alter the company's image to one that is more concerned with sustainability, which signals a good, sensitive, informed, balanced, and modern corporation. Besides, corporate sustainability concern reflected through corporate responsibility activities does not always relate to higher corporate financial performance, especially when it is not included as a part of a corporate strategic decision posture that requires sensitivity, responsiveness, and efficiency. This, ultimately, results in lower corporate performance.

Moreover, the linkage of both pay-for-performance and sustainability-for-performance based on Throughput Model perspective, which is the ethics of care (stakeholder) pathway, is the counter-balance of the agency theoretic (shareholder) perspective pathway. Utilising both Tables 5.3 and 5.5, it can be suggested that significant influences exist along the stakeholders' perspective pathway of " $I \rightarrow P \rightarrow J \rightarrow D$ ." First, Table

5.3 implies a statistically significant relationship between the bank accounting information sources (“**I**”) of capital, management and earnings, and executive compensation and corporate sustainability concern (“**P**”); implying “**I**→**P**.” Second, Table 5.5 supports the negative relationship of “**P**→**J**” (i.e. corporate sustainability concern→financial health); whereas the significant positive relationship of “**J**→**D**” is viewed as showing a significant positive impact of financial health on firms' market value. The ethics of care (stakeholder) pathway suggests that the expectation of investors' decisions on high market value is effective and acceptable.

In contrast high executive compensation is exerted to motivate managers to implement more corporate sustainability concerns to serve all stakeholders' interests, including shareholders as the primary stakeholders, as a counter-balance mechanism to the agent theoretic pathway. Executive compensation aiming to encourage managers to engage corporate responsibility practices for all stakeholders' interest could be an important mechanism as a remedy to align and to mitigate the principal-agency problem. By following the stakeholders perspective, this study suggests that corporate sustainability becomes an executive remuneration target that signals a company's commitment to sustainability concerns, not just a form of window dressing and/or yet to be another perverse mechanism that maintains high executive payment agreed by the board of directors in return of shareholder interests. The stakeholders pathway's position provides an executive compensation decision process to facilitate corporate sustainability concern motivation, which affects company financial performance both as an intermediate outcome (as a judgment in financial health) and in the final stage (as investors' decisions based on market value).

In research Model 2, by allowing executive compensation and corporate sustainability concern independently and interact each other to influence company financial performance, this study identified corporate sustainability concern can serve as both a negative moderator and partial mediator construct for the positive relationship between executive compensation and company financial health. The result supports the argument that executive compensation, as the implementation of internal CG, with CSR initiatives are interrelated

and should not be considered and sustained separately in the company strategic decision process, in order to enhance company performance (Jamali & Mirshak, 2007; Jamali, Safieddine, & Rabbath, 2008) Further, based on the manual content analysis method from disclosure in sustainability reporting according to GRI 3.1 indicators, this study reveals that the motivation most of the Indonesian banking companies to engage in corporate sustainability concerns is regulation compliance, in which corporate sustainability is perceived as a duty and obligation, or correct behaviour (Van Marrewijk, 2003). Moreover, this study discovers that the average disclosure score of corporate sustainability indicators is mostly below 50%, which is considered low. Thus, corporate sustainability activities tend to be conducted for companies' own interests only with an altruistic motive aimed to fulfil normative principles, not to be aligned with the company's vision or to be integrated into strategic decisions. This altruism motive may contribute to reduced company financial performance (Baron, 2001; Wu & Shen, 2013).

## **Conclusion**

This study-modelled discussion about the linkage of pay-for-performance and sustainability-for-performance provides a richer context including two major perspectives, shareholder and stakeholder views, in a single model of the pay-for sustainability-for-performance relationship by employing the Throughput Model, a framework of decision-making model developed by Waymond Rodgers (1997). The Throughput Model enables to examine about what and how the types of information sources are captured, which are relied upon for making a decision regarding the effect of executive compensation on corporate sustainability concern. This type of analysis suggests future avenues of study when modelling important theories (i.e., agency, legitimacy and stakeholder) within the executive compensation and corporate sustainability area for other types of business environment or for cross-industry analysis.

As noted, this study reveals that executive compensation, as a determinant factor of corporate sustainability concern, is designed to motivate managers to implement better and

to disclose more CSR activities that are tightly linked to company financial performance, according to the shareholder and stakeholder perspectives, as suggested by Mahoney and Thorne (2006) and Callan and Thomas (2014). Executive compensation is designed by the board of directors to encourage managers to serve multiple stakeholders' interests, an assertion supported by stakeholder theory (Belkaoui, 1992). However, it might explain managers' support for more CS concerns as they represent responses to demands from various company constituencies, which would have a negative effect that will dampen company financial results (Cordeiro & Sarkis, 2008; Stanwick & Stanwick, 2001).

## References

- Abdullah, S. N. (2006). Directors' remuneration, firm's performance and corporate governance in Malaysia among distressed companies. *Corporate Governance*, 6(2), 162-174.
- Adams, C., & Zutshi, A. (2004). Corporate Social Responsibility: Why Business Should Act Responsibly and Be Accountable. *Australian Accounting Review*, 14(34), 31-39. doi:10.1111/j.1835-2561.2004.tb00238.x
- Al-Tuwaijri, S. A., Christensen, T. E., & Hughes Li, K. (2004). The Relations among Environmental Disclosure, Environmental Performance, and Economic Performance: A Simultaneous Equations Approach. *Accounting, Organizations and Society*, 29(5), 447-471.
- Altman, E., Hartzell, J., Peck, M., Levich, R., & Mei, J. (1995). *Future of emerging market flows*. New York: Salomon Brothers, Inc.
- Arora, A., & Alam, P. (2005). CEO Compensation and Stakeholders' Claims. *Contemporary Accounting Research*, 22(3), 519-547.
- Banker, R. D., Darrrough, M. N., Huang, R., & Plehn-Dujowich, J. M. (2013). The Relation between CEO Compensation and Past Performance. *The Accounting Review*, 88(1), 1-30. doi:doi:10.2308/accr-50274
- Baron, D. P. (2001). Private politics, corporate social responsibility, and integrated strategy. *Journal of Economics & Management Strategy*, 10(1), 7-45.
- Beattie, V., & Thomson, S. J. (2007). Lifting the lid on the use of content analysis to investigate intellectual capital disclosures. *Accounting Forum*, 31(2), 129-163.
- Bebchuk, L. A., & Fried, J. M. (2003). Executive compensation as an agency problem. *The Journal of Economic Perspectives*, 17(3), 71-92. doi:0895-3309
- Bebchuk, L. A., & Fried, J. M. (2005). Pay without performance: Overview of the issues. *Journal of Applied Corporate Finance*, 17(4), 8-23.
- Bebchuk, L. A., Fried, J. M., & Walker, D. I. (2002). *Managerial power and rent extraction in the design of executive compensation*. Retrieved from Cambridge:
- Belkaoui, R.-A. (1992). Executive compensation, organizational effectiveness, social performance and firm performance: An empirical investigation. *Journal of Business Finance & Accounting*, 19(1), 25-38. doi:10.1111/j.1468-5957.1992.tb00608.x
- Berle, A. A., & Means, G. C. (1932). *The modern corporation & private property*. New York: The MacMilan Company.
- Berrone, P., & Gomez-Mejia, L. R. (2009). Environmental performance and executive compensation: An integrated agency-institutional perspective. *Academy of Management Journal*, 52(1), 103-126.
- Brick, I. E., Palmon, O., & Wald, J. K. (2006). CEO compensation, director compensation, and firm performance: evidence of cronyism? *Journal of Corporate Finance*, 12(3), 403-423.
- Bundy, J., Shropshire, C., & Buchholtz, A. K. (2013). Strategic cognition and issue salience: Toward an explanation of firm responsiveness to stakeholder concerns. *Academy of management review*, 38(3), 352-376.
- Cai, Y., Jo, H., & Pan, C. (2011). Vice or virtue? The impact of corporate social responsibility on executive compensation. *Journal of Business Ethics*, 104(2), 159-173.

- Callan, S. J., & Thomas, J. M. (2011). Executive compensation, corporate social responsibility, and corporate financial performance: A multi-equation framework. *Corporate Social Responsibility and Environmental Management*, 18(6), 332-351.
- Callan, S. J., & Thomas, J. M. (2014). Relating CEO Compensation to Social Performance and Financial Performance: Does the Measure of Compensation Matter? *Corporate Social Responsibility and Environmental Management*, 21(4), 202-227. doi:10.1002/csr.1307
- Campbell, J. L. (2007). Why would corporations behave in socially responsible ways? An institutional theory of corporate social responsibility. *Academy of management review*, 32(3), 946-967.
- Carroll, A. B. (1979). A Three-Dimensional Conceptual Model of Corporate Performance. *Academy of management review*, 4(4), 497-505. doi:10.5465/amr.1979.4498296
- Carroll, A. B. (1991). The Pyramid of Corporate Social Responsibility: Toward the Moral Management of Organizational Stakeholders. In (Vol. 34, pp. 39-48). Greenwich, CT, USA: Elsevier Inc.
- Carroll, A. B. (1999). Corporate social responsibility evolution of a definitional construct. *Business & Society*, 38(3), 268-295.
- Cheng, S., & Firth, M. (2005). Ownership, Corporate Governance and Top Management Pay in Hong Kong. *Corporate Governance: An International Review*, 13(2), 291-302. doi:10.1111/j.1467-8683.2005.00423.x
- Chin, W. W. (1998). The partial least squares approach to structural equation modeling. from Lawrence Erlbaum
- Chin, W. W. (2010). How to write up and report PLS analyses. In V. Esposito Vinzi, W. W. Chin, J. Henseler, & H. Wang (Eds.), *Handbook of Partial Least Squares* (pp. 655-690): Springer.
- Conyon, M. J. (1997). Corporate governance and executive compensation. *International journal of industrial organization*, 15(4), 493-509.
- Conyon, M. J., & He, L. (2011). Executive compensation and corporate governance in China. *Journal of Corporate Finance*, 17(4), 1158-1175.
- Cordeiro, J. J., & Sarkis, J. (2008). Does explicit contracting effectively link CEO compensation to environmental performance? *Business Strategy and the Environment*, 17(5), 304-317.
- Core, J. E., Holthausen, R. W., & Larcker, D. F. (1999). Corporate governance, chief executive officer compensation, and firm performance. *Journal of Financial Economics*, 51(3), 371-406.
- Firth, M., Fung, P. M., & Rui, O. M. (2006). Corporate performance and CEO compensation in China. *Journal of Corporate Finance*, 12(4), 693-714. doi:<http://dx.doi.org/10.1016/j.jcorpfin.2005.03.002>
- Fleming, P., & Jones, M. T. (2012). *The end of corporate social responsibility: Crisis and critique* (K. Smy Ed. First ed.). London: SAGE Publication Ltd.
- Foss, K., & Rodgers, W. (2011). Enhancing information usefulness by line managers' involvement in cross-unit activities. *Organization Studies*, 32(5), 683-703.
- Freeman, R. E. (1984). *Strategic management: A stakeholder approach*. Cambridge: MA: Cambridge University Press.
- Frye, M. B., Nelling, E., & Webb, E. (2006). Executive compensation in socially responsible firms. *Corporate Governance: An International Review*, 14(5), 446-455.
- Gomez-Mejia, L. R., Larraza-Kintana, M., & Makri, M. (2003). The determinants of executive compensation in family-controlled public corporations. *Academy of Management Journal*, 46(2), 226-237.

- Gomez-Mejia, L. R., & Wiseman, R. M. (1997). Reframing executive compensation: An assessment and outlook. *Journal of Management*, 23(3), 291-374. doi:[http://dx.doi.org/10.1016/S0149-2063\(97\)90035-0](http://dx.doi.org/10.1016/S0149-2063(97)90035-0)
- Gray, R., Kouhy, R., & Lavers, S. (1995). Constructing a research database of social and environmental reporting by UK companies. *Accounting, Auditing & Accountability Journal*, 8(2), 78-101.
- Hair, J. F., Hult, G. T. M., Ringle, C., & Sarstedt, M. (2014). *A primer on partial least squares structural equation modeling (PLS-SEM)*. Thousand Oaks, CA, USA: SAGE Publications, Inc.
- Hancock, J. (2005). *Investing in Corporate Social Responsibility: A Guide to Best Practice, Business Planning & the UK's Leading Companies* (J. Hancock Ed.). London: Kogan Page Publishers.
- Henseler, J., Ringle, C., & Sarstedt, M. (2015). A new criterion for assessing discriminant validity in variance-based structural equation modeling. *Journal of the Academy of Marketing science*, 1(43), 115-135.
- Jamali, D. (2008). A Stakeholder Approach to Corporate Social Responsibility: A Fresh Perspective into Theory and Practice. *Journal of Business Ethics*, 82(1), 213-231. doi:10.1007/s10551-007-9572-4
- Jamali, D., & Mirshak, R. (2007). Corporate Social Responsibility (CSR): Theory and Practice in a Developing Country Context. *Journal of Business Ethics*, 72(3), 243-262.
- Jamali, D., Safieddine, A. M., & Rabbath, M. (2008). Corporate Governance and Corporate Social Responsibility Synergies and Interrelationships. *Corporate Governance: An International Review*, 16(5), 443-459. doi:10.1111/j.1467-8683.2008.00702.x
- Jensen, M. C., & Meckling, W. H. (1976). Theory of firm - managerial behavior, agency cost and ownership structure. *Journal of Financial Economics*, 3(4), 305-360. doi:10.1016/0304-405x(76)90026-x
- Jones, T. M. (1995). Instrumental Stakeholder Theory: A Synthesis of Ethics and Economics. *Academy of management review*, 20(2), 404-437.
- Kato, T., Kim, W., & Lee, J. H. (2007). Executive compensation, firm performance, and chaebols in Korea: Evidence from new panel data. *Pacific-Basin Finance Journal*, 15(1), 36-55.
- Kato, T., & Long, C. (2006). Executive compensation, firm performance, and corporate governance in China: Evidence from firms listed in the Shanghai and Shenzhen Stock Exchanges. *Economic Development and Cultural Change*, 54(4), 945-983.
- Liu, J., & Taylor, D. (2008). Legitimacy and corporate governance determinants of executives' remuneration disclosures. *Corporate Governance*, 8(1), 59-72.
- Mahoney, L. S., & Thorne, L. (2006). An examination of the structure of executive compensation and corporate social responsibility: A Canadian investigation. *Journal of Business Ethics*, 69(2), 149-162.
- Main, B. G., O' Reilly, C. A., & Wade, J. (1995). The CEO, the board of directors and executive compensation: Economic and psychological perspectives. *Industrial and Corporate Change*, 4(2), 293-332.
- Matolcsy, Z. P. (2000). Executive Cash Compensation and Corporate Performance During Different Economic Cycles. *Contemporary Accounting Research*, 17(4), 671-692.
- Miles, P. C., & Miles, G. (2013). Corporate social responsibility and executive compensation: Exploring the link. *Social Responsibility Journal*, 9(1), 76-90.

- Mirrlees, J. (1976). The optimal structure of incentives and authority within an organization. *Bell Journal of Economics*, 7, 105 - 131.
- Mitchell, R. K., Agle, B. R., & Wood, D. J. (1997). Toward a theory of stakeholder identification and salience: Defining the principle of who and what really counts. *Academy of management review*, 22(4), 853-886.
- Narayanan, V., Zane, L. J., & Kemmerer, B. (2011). The cognitive perspective in strategy: An integrative review. *Journal of Management*, 37(1), 305-351.
- O'Reilly, C. A., & Main, B. G. (2010). Economic and psychological perspectives on CEO compensation: a review and synthesis. *Industrial and Corporate Change*, dtp050.
- Ozkan, N. (2007). Do corporate governance mechanisms influence CEO compensation? An empirical investigation of UK companies. *Journal of Multinational Financial Management*, 17(5), 349-364. doi:<http://dx.doi.org/10.1016/j.mulfin.2006.08.002>
- Ozkan, N. (2011). CEO compensation and firm performance: an empirical investigation of UK panel data. *European Financial Management*, 17(2), 260-285.
- Rodgers, W. (1997). *Throughput modeling: Financial information used by decision makers*: JAI Press Greenwich, CT.
- Rodgers, W., Choy, H. L., & Guiral, A. (2013). Do investors value firm's commitment to social activities? *Journal of Business Ethics*, 113(2). doi:10.1007/s10551-013-1707-1
- Rodgers, W., Guiral, A., & Gonzalo, J. A. (2009). Different Pathways That Suggest Whether Auditors' Going Concern Opinions Are Ethically Based. *Journal of Business Ethics*, 86(3), 347-361. doi:10.1007/s10551-008-9851-8
- Stanwick, P. A., & Stanwick, S. D. (2001). CEO compensation: does it pay to be green? *Business Strategy and the Environment*, 10(3), 176-182.
- Tosi, H. L., Werner, S., Katz, J. P., & Gomez-Mejia, L. R. (2000). How much does performance matter? A meta-analysis of CEO pay studies. *Journal of Management*, 26(2), 301-339. doi:[http://dx.doi.org/10.1016/S0149-2063\(99\)00047-1](http://dx.doi.org/10.1016/S0149-2063(99)00047-1)
- Unite, A. A., Sullivan, M. J., Brookman, J., Majadillas, M. A., & Tangingco, A. (2008). Executive pay and firm performance in the Philippines. *Pacific-Basin Finance Journal*, 16(5), 606-623.
- van Essen, M., Otten, J., & Carberry, E. J. (2015). Assessing managerial power theory: A meta-analytic approach to understanding the determinants of CEO compensation. *Journal of Management*, 41(1), 164-202. doi:10.1177/0149206311429378
- Van Marrewijk, M. (2003). Concepts and definitions of CSR and corporate sustainability: Between agency and communion. *Journal of Business Ethics*, 44(2-3), 95-105.
- Wu, M. W., & Shen, C. H. (2013). Corporate social responsibility in the banking industry: Motives and financial performance. *Journal of Banking and Finance*, 37(9), 3529-3547. doi:10.1016/j.jbankfin.2013.04.023
- Zou, H. L., Zeng, S. X., Xie, L. N., & Zeng, R. C. (2015). Are Top Executives Rewarded for Environmental Performance? The Role of the Board of Directors in the Context of China. *Human and Ecological Risk Assessment: An International Journal*, 21(6), 1542-1565. doi:10.1080/10807039.2014.958943