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Does the Role of Board Commissioners Can Increase Executive Compensation and Company Financial Performance in Indonesia Commercial Banking?

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Abstract **-** This study investigates whether the board of commissioners (BoCs) role in Indonesia commercial banks could shape the motivation of the top management or executives to achieve company goals of higher company financial performance in a concentrated ownership dominant context. This study analyses data from 252 firm-year observations as a new unbalanced data panel from the population of 39 Indonesia commercial banks listed in the Indonesia Stock Exchange for the period 2007-2014. This study implemented a decision-making framework model, specifically the Throughput Model, which considers the concepts of perception (P), information (I), and judgment (J) in the decision making process (D). This study found reveals that of the BoCs role in two-tier corporate governance (CG) systems promotes higher payment in executive compensation and better company financial performance. This study also found that the concentrated ownership structure has strengthened the positive relationship between the BoCs role and executive compensation in order to increase company financial health and market value performance. The role of the BoC in a concentrated ownership structure context could not provide effective protection of shareholders (large ownership) and other stakeholders (minority ownership) from the expropriation behaviour of managers through excessive of their compensation. This study reveals that those mechanisms are important mechanisms in making a company's decision not only to align shareholders' interests (according to the agency theoretic pathway) but also for broader stakeholders' interests (according to stakeholders' pathway) to increase both companies financial health and market value performance. This study provides lessons from the past for decision makers in understanding the stakeholders' concern of the role of BoCs that is vital to understand corporate behaviour to set up policy in order to regulate corporate activities, determine objectives and choose the strategies in a concentrated ownership dominant context.

Keywords: *Board of Commissioners, Executive Compensation, Company Financial Performance.*

1. Introduction

Indonesia is an Asian developing country. It is known as one of the twenty largest economies in the world, as member of G20 since 2009. It has a substantial growth rate, high capital formation from foreign investors and typically concentrated firm ownership. Unlike in the US, UK, and/or Japan as developed countries that are adopt a one-tiered. The Indonesian limited liability/LLP (PT) companies' monitoring control structure is separated into two tiers CG system where companies have two separate boards, the supervisory board, known as the board of commissioners (BoC) and the management board. Hence, the CG system, Indonesian companies are different both in regard to the two-tiered CG system and the concentrated ownership

structure, which follows the Continental-Asia system, as do Germany, Netherlands, Japan and China. This makes the study more relevant and meaningful to understand theories and relevant explanatory factors in a non-US, or, non-UK, or non-European context. Indonesian context has the type industry and business operation differ economically and culturally from those in the US, UK, or other European countries.

Moreover, typically in Asian emerging economies, most companies have dominant control by the business group, or family ownership, which control more than 50% of firm equity, weak institutional legal protection of minority shareholders, infrequent significant institutional changes, and absence of an external CG mechanism (Dharwadkar et al., 2000; Morck et al., 2005; Shleifer & Vishny, 1986; 1997; Young et al., 2008). In the Indonesia context, concentrated ownership by a business group or family tends to lead to an agency problem that is not follow a principal-agent (PA) conflict, as in Anglo-Saxon countries, but between principal and principal (PP conflict). PP conflict allows expropriation to occur between controlling shareholders and minority shareholders (Lukviarman, 2004). Therefore, in Indonesian companies, the traditional agency theory with the separation of ownership and control seems to work differently

The controlling shareholders in the Indonesian context are a source of governance problems instead of the solution via their control mechanism. In a concentrated ownership structure, the controlling ownership might gain investment return through tunneling activities that are facilitated by pyramid ownership structures (Shleifer & Vishny, 1986). Moreover, the companies often reveal counterproductive and ineffective control mechanisms, which they may have adopted from the CG model product of the developed countries, such as Anglo-Saxon countries. This is because the companies resemble that CG model only in form but not in substance (Young et al., 2008). It is likely to affect different goals and performance, with implications for the setting of agency problems and executive compensation.

Consequently, in the banking company context, the Bank Indonesia (BI) as the bank regulator and external supervisory body play a more active role in establishing standards and rules to make banking management practices more accountable and efficient for all stakeholders' interests. For this reason, the BI issued in 2006 regulation number 8/4/PBI/2006 and amendment number 8/14/PBI/2006 concerning mandatory implementation of CG for all Indonesian commercial banking companies. This requires all Indonesian commercial banking companies to adopt internal mandatory compliance with eleven aspects of CG to build their self-monitoring systems. The BI regulation represents the stakeholders' concern of the role of BoCs by overseeing managerial functions in setting up executive compensation (e.g., a compensation plan) with the aim of motivating executives, or managers to ensure their activities align with both shareholders' and stakeholders' interests (e.g., customers, creditors, managers, societies, and other shareholders).

This study addresses the issue whether excessive compensation received by Indonesian bank executives were affected by the increased scrutiny of CG mechanisms with particular reference to the role of the BoCs. Moreover, this study attempts to identify the implication for executive compensation as well as reducing corporate malfeasance and wastefulness by following the process of investors' CG-pay-performance decision-making framework model depicted in the Throughput Model, according to agency theoretic position and stakeholders' position pathways (Foss & Rodgers, 2011; Waymond Rodgers, 1997). This model was implemented because it allows to study of organizational cognitive structures (i.e., strategic perception and judgment) and decisions in different decision pathways (Narayanan et al., 2011). From this model, this study raises three questions. First, what is the effect of the stakeholders' concern of the role of BoCs in executive compensation? Second, what are the effects of the stakeholders' concern of the role of BoCs and executive compensation on company financial performance? Third, what are the complementary, or substitution effects that exist among the role of BoCs and executive compensation on company financial performance?

2. Research Background

2.1. Corporate Governance Reforms and Executive Compensation in Indonesia Commercial Banking

The Indonesian financial and capital market policy has been reformed by Government Regulation 29/1999, which initiated liberalizing, internationalizing and inviting capital inflow from the foreign investors. The regulation allows foreign investors to own up to 99% of shareholders' equity of Indonesian companies. Since this regulation, the ownership structure of Indonesian commercial banking has changed by the increase of the role of foreign investors in the domestic banking market. Quite a few significant domestic share ownerships have changed their ownership to be controlled by foreign investors. Moreover, several government banks have been privatized by reducing their ownership to public domestic or foreign organization ownership. However, changes in the Indonesian banks' ownership were not followed by significant reformation of the bank governance structures until the new CG regulation was enacted in 2006.

Certainly, publicly listed companies in Indonesia have three important modern CG features in common with other developing countries: "professional" managers, shareholders, and a supervisory board. In Indonesia, the agent, or manager as the CEO, or the president of board of director (BoD) is appointed in the general meeting of shareholders and must be an independent party of the controlling shareholders. The controlling shareholders act significantly through a supervisory board called the BoCs. It has a great influence in control, monitoring responsibility and advising the managers, who are responsible for a company's daily operations. Traditionally, the BoC acts as the primary internal governance mechanism and representative of the controlling shareholders or the principals. It is expected to mitigate agency problem by overseeing management operations to fulfill legal compliance, avoid improper behaviour such as managerial malfeasance and letting the controlling shareholders have significant shares outstanding (Eugene F Fama, 1980; Eugene F. Fama & Jensen, 1983a; Shleifer & Vishny, 1997). They supervise the company's strategic policies and operational management by providing advice and ensure managers adhere to any internal or external supervision recommendation including its implementation (Berle & Means, 1932; Eugene F. Fama & Jensen, 1983b; Jensen & Meckling, 1976). They also become primary actors in designing and determining executive compensation, with the aim of aligning the executives and the principals' best interest by providing appropriate management compensation schemes (Ayadi & Boujèlbène, 2013; Conyon & He, 2011; Jensen, 1993; Jensen & Murphy, 1990; Ward et al., 2009).

One of important aspects of the implementation of mandatory CG according to the BI regulations 8/4/PBI/2006 amendment The Financial Services Authority (OJK) regulations 55/POJK 3/2016 is mandatory CG, which relates to the compulsory status of the BoCs requirements. Like the managers, the BoC members are legally appointed by shareholders at the annual general meeting of shareholders to determine strategic decisions and "supervise affairs of managers" on behalf of the shareholders. The chairman of the BoCs can be held by one of the controlling shareholders or an independent individual. Furthermore, according to the regulation, the BoCs shall consist of at least three individuals as members (i.e. independent and executive commissioners); and no less than 50% of the BoC members must be non-executives (independent) commissioners. Furthermore, the BoC mandates a meeting at least four times per year and members must attend no less than twice per year. All members of the BoCs (including BoDs) must disclose share ownership of amounts exceeding 5%. Furthermore, this regulation states that banking companies are required to submit a CG Report with their self-assessment of CG quality to the Bank of Indonesia and publish it on their website annually.

The publicly listed banks are required to have independent commissioners who are designated by the banks. These commissioners are expected to represent the stakeholders such as public or minority shareholders.

The regulation is intended to alleviate potential agency conflict between majority (controlling) and minority (public) shareholders. Hence, the Indonesia governance reforms through the new BI regulation are expected to create internal mechanisms that can reduce the supremacy of shareholders as well as empower the other stakeholders at the same time. It serves as an active device together with the bank's management to create and develop internal control systems and risk management, as protection for a broad range of stakeholders' interests.

Hence, in the Indonesian banking context, the role of BoC which focuses on the stakeholders' concern is more important and appropriate than the shareholders' concern only. The stakeholders' concern of the BoC role is essential for different stakeholder groups in bank's governance practices to prevail regulations and legal responsibilities in their decision-making practices and strategic aims. Therefore, this study focuses on the most important aspect relating to the stakeholders' concerns, which are the BoCs' tasks, functions and requirements in the company structure. Moreover, unlike in nonfinancial companies, a failure to oversee the executives', or managers' operations of banks by the BoCs can cause various serious negative implications for the broader national economic obligations and macro-financial stability.

Furthermore, the Indonesian securities regulators have mandated that the public should be provided with information about the total compensation that a company gives to the board of directors and the managers in the CG Report or the Annual Report. However, it is not compulsory to disclose information relating to any individual executive's compensation, such that of the CEO, or Chairman, and other individual commissioners or directors. Hence, data on any individual executive's compensation in Indonesian banking corporations is not available to the public. Unlike most of the world's business communities, the management compensation structures in Indonesia companies are still a relatively well-kept secret.

Interestingly, the continuing increased payment of executive compensation in Indonesian banking started in 2007 after this CG banking regulation was made mandatory for all commercial banking companies. A BI survey in 2012 reported that the executive compensation (salaries, bonuses, allowances, and other benefits) received in four of the largest banks in Indonesia was categorized as the highest among all banks in the South East Asia region (www.bi.go.id). Further, the survey revealed that the average executive compensation was more than Rp.12billion/year ($1million/year) with a ratio of salary to overhead cost of 2.44%. This average payment was higher than that of other banks in South East Asian countries, such as Malaysia, Philippines and Thailand (except for Singapore banks) where the average of executive compensation was only $560 thousand, $110 thousand, and $730 thousand per year respectively (www.bi.go.id).

3. Theoretical Review

3.1. The Throughput Model Framework on the Board of Commissioners' Role and Executive Compensation

Our study uses the Throughput Model framework, which provides a broad conceptual framework to capture interrelated processes that influence organization decision making (Foss & Rodgers, 2011; Waymond Rodgers, 1997). This framework depicts six different pathways affecting the decision-making process in several sequential arguments, which incorporate and interact four major concepts: perception (P), information (I), judgment (J), and decision choice (D), while the double-ended arrow between "P" and "I" represents the interdependence between the two concepts (see Figure 1).

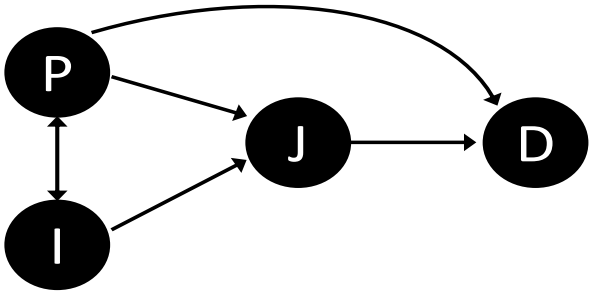

Figure 1: The Throughput Model (Waymond Rodgers, 1997)

Based on Figure 1, six decision pathways can be established from these four major concepts, namely:

1. **P→D** **agency theoretic position (or ethical egoism)**
2. **P→J→D** **rule-based (or deontology)**
3. **I→J→D** **principle-based (or utilitarian)**
4. **I→P→D** **relativist-based**
5. **P→I→J→D** **virtue ethics-based**
6. **I→P→J→D** **stakeholders' perspective (or ethics of care)**

The framework shows how decision-makers are encouraged to articulate the shared sense of the company's value creation and how to bring its core stakeholders together based on those pathways. This study depicts a combination of CG mechanisms from the constructs of stakeholders' concern in the BoCs' role in concentrated ownership dominant context and executive compensation as "perception (P)" in the model framework. Decision-makers (i.e., BoCs and managers) evaluate the quality of the BoC's role to seek influences and interrelationships with the extent of executive compensation. Decision makers use capital, assets, management, earning and liquidity (CAMEL) ratio to capture "information (I)" that can determine "judgment (J)" on company financial health in order to make a "decision (D)" on the company's market value.

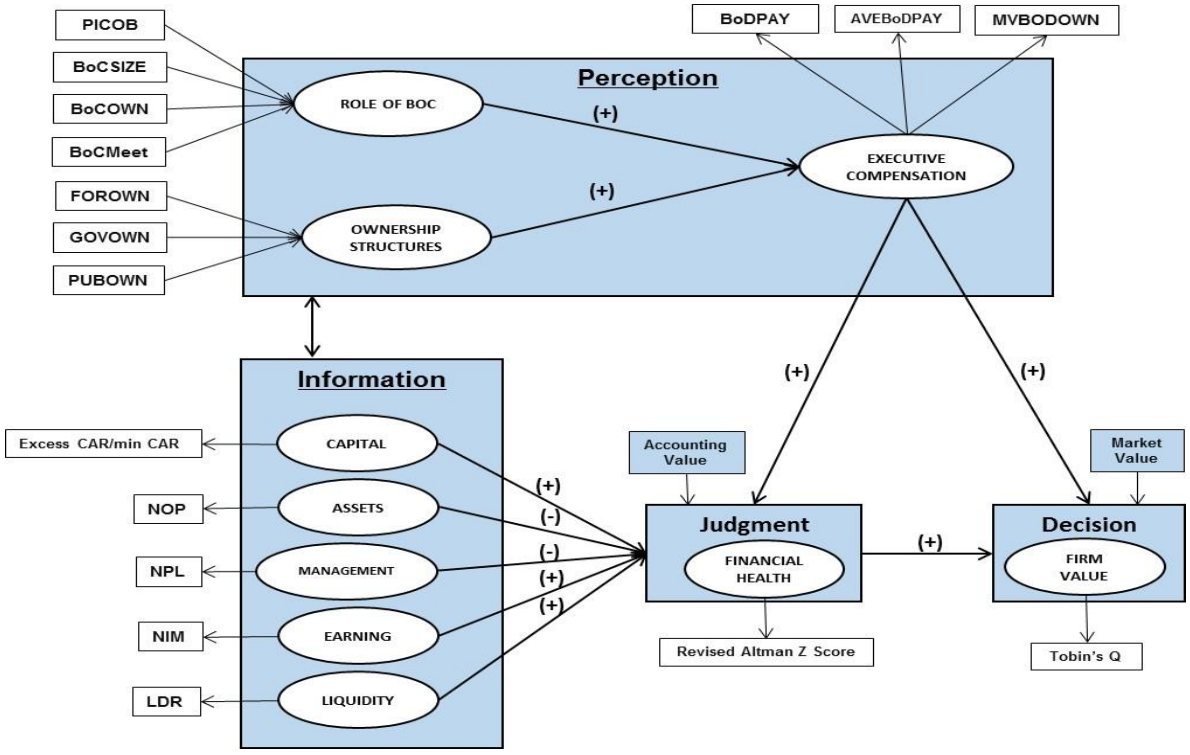

Figure 2: Research Framework

This study employs two of the six possible pathways to explain and describe the relationships among the variables of the role of BoCs, executive compensation and company financial performance (see Figure 2). These two pathways are: (1) the agency theoretic pathway position (P→D), and (2) the stakeholders' perspective pathway position (I→P→J→D). The agency theoretic pathway describes the relationship between constructs according to two concepts, "P→D," representing that decision makers are assumed to maximize their self-interest as an egoist viewpoint when making bank decisions. In this research context, the decision makers' framing of the role of BoCs together with executive compensation leads them to make decisions on the firm market value without any judgment on the financial health (i.e., downplaying or ignoring "J"), as well as disregarding all of the bank's information (i.e., downplaying or ignoring "I"). The tenets of this position rest on the rational choice perspective, in that the behaviour of decision makers are fundamentally described as outcomes established by the maximization of individuals' objective functions, such as the shareholders' and managers' interests.

The stakeholders' position pathway describes the relationship among constructs according to four concepts; "I→P→J→D." It represents the BoCs' viewpoint in decision making by framing their roles as well as executive compensation by emphasizing a systematic and programmatic approach. This symbolizes the ethics of care position in which the decision makers focus on a readiness to listen to distinct and previously unacknowledged perspectives and build harmony among stakeholders, such as employees, suppliers, customers, shareholders, and the community. This focus of stakeholder position is on responsiveness to need, empathetic understanding, and the interrelatedness of people, rather than on individual rationality or universal moral rules. It emphasizes relations between people rather than the preferences or dispositions of individuals; it entails thoughtful relations that are thought to have primary value. This indicates how decision makers should consider outside parties' influences and follow the guidelines in the verified information through analysis (i.e., judgment) and then make a decision choice. Specifically, this pathway allows the decision makers' concern about the utility of the bank's information, in order to establish their

judgments of financial health.

3.2. The Relationship of the Role of Board of Commissioners, Executive Compensation and Company Financial Performance

Literature on CG-pay-performance mostly documents that companies implement CG mechanisms to ensure the CEOs or managers are paid fairly in order to mitigate CEOs', or managers' expropriation behaviour of the shareholders' wealth (Conyon, 1997; Conyon, 2014; Conyon & He, 2011; 2012; Core et al., 1999; Filatotchev & Allcock, 2010; Ozkan, 2007; Randøy & Nielsen, 2002; Sapp, 2008). However, the implementation of "effective" CG mechanisms does not necessarily have a direct impact on the optimal corporate performance (Ward et al., 2009). Moreover, companies with poor implementation of CG, (i.e. a broader stakeholders' viewpoint) may not only tend to be forced to overpay their executives (Bebchuk & Fried, 2003), but also moderate the use of executive compensation in order to set up executive payment based on executive performance targets (Coles et al., 2001).

Other studies suggest that performance increases when the bundles of governance mechanisms work together as complements (Aguilera et al., 2008; Misangyi & Acharya, 2014). In turn, together with compensation policy, the complementary mechanisms may provide proper managerial incentives that align the interest between managers and shareholders (Jensen et al., 2004). That is, complementary mechanisms aim to avoid any attempt of the managers that might destroy long-run shareholder value, as well as to enhance shareholder economic value (Forbes & Watson, 1993; Hoskisson et al., 2009; Jensen & Meckling, 1976). Accompany has to set the optimal combination or "bundle" of internal and external CG mechanisms through the effectiveness of executive compensation (Jensen, 1993; Jensen et al., 2004; Rediker & Seth, 1995) in order to shape company performance. This set of mechanism needs to be performed not only for cost-efficient monitoring purposes (Ozkan, 2007; 2011), but also to make it more difficult for management to misbehave, contrary to the shareholder interests (Dicks, 2012).

4. Hypothesis Development

4.1. The Relationship the Role of Board of Commissioners and Executive Compensation

The BoCs in banks differs from those in industrial companies; typically they are larger, more independent and have more authority (Core et al., 1999). That is because, banks are more regulated and have some specific features, such as regulation, supervision, capital structure, risk, trust relationships, property and deposit insurance (Levine, 2004; Macey & O'hara, 2003).

The role of BoCs to conduct an effective monitoring with the impact on company performance may be affected by its composition and size as well as the ownership structure (Singh & Davidson III, 2003). The presence of qualified independent directors has an important role to create good monitoring and provide valuable advisory services based on their specific knowledge, experience, and objectivity (Eugene F Fama, 1980; Eugene F. Fama & Jensen, 1983b) to make unbiased opinions, develop fairness and increase protection of minority shareholders' rights against expropriation behaviour by the controlling shareholders. They also arguably can improve quality of the boards' services in the stakeholders' interests by consistently striving to satisfy stakeholder concerns using their contacts, specific knowledge and expertise, which are intertwined with their own reputations (Balsmeier et al., 2014; Zou et al., 2015), and together with compensation policy can control executive compensation (Ayadi & Boujèlbène, 2013) by reducing the boards' tendency to approve excessive payments of executive compensation (Chalevas, 2011).

Moreover, they are also likely to act as a substitution mechanism that can influence strategic corporate decisions for CEO's poor performance (Conyon & He, 2011; Firth et al., 2006). However, they may present

a host of problems such in firms' poor performance if they do not have adequate experience and are unfamiliar with the complexities of the firm's environment complexities (Franks et al., 2001). Then, they may fail as a good internal control tool, leading to inefficiencies in controlling the extent of executive compensation (Mehran et al., 2011). In the situation in which the board monitoring is inefficient, the management tends to have potential substantial power to fulfill their own benefit at the expense of shareholders' wealth via strategic options that affect organizational outcomes without the board realizing (Bebchuk & Fried, 2003; Bebchuk et al., 2002; Gedajlovic & Shapiro, 1998; Hambrick & Finkelstein, 1987).

This study investigates and depicts differences across the banks' BoCs function and performance behaviour by investigating the effect of the construct of role of BoCs with four formative indicators according to stakeholders' concerns of BoCs requirements from the governance codes of BI regulation. Hence, this study posits that stakeholders' concern in the role of BoCs in Indonesian banking companies is an essential factor to create good internal monitoring. By attaching more responsibility to the BoCs' tasks, they will be efficient in aligning the shareholders', managers' and stakeholders' interests by providing internal control using compensation motivation schemes with increased payment of executive compensation. Hence, the first hypothesis is formulated as follows:

Hypothesis 1: The board of commissioners role has a positive influence on the executive compensation.

This study investigates the effect of the construct of ownership structures in a context of predominantly concentrated shareholding through reflective indicators from foreign ownership (FOROwn), public ownership (PUBOWN) and government ownership (GOVOWN). Hence, this study suggests that investors who own major shareholders' positions can influence the level and policy of executive compensation. In the Indonesian banking context, most in Indonesian banking context, most banks are owned by institutional ownership from foreign, government and public investors, which could cause the banking company to have to pay higher executive compensation. Hence, the second hypothesis is formulated as follows:

Hypothesis 2: The concentrated structure ownership has a positive influence on the executive compensation.

Moreover, as a consequence of policy reformation, the internationalization of corporate ownership through institutional concentration ownership, the presence of foreign ownership and different characteristics of ownership have become key factors in understanding the board's monitoring role (Desender et al., 2014) in making decisions pertaining to higher risk (and reward) for their executives (Oxelheim & Randøy, 2005). Hence, the third hypothesis is formulated as follows:

Hypothesis 3: The ownership structure has positively moderation effect on the relationship of the board of commissioner with executive compensation.

4.2. Executive Compensation and Company Financial Performance

In spite of a considerable number of theories and empirical research around the world on the topic of executive compensation-performance, no clear conclusion and convincing answer emerges. These mixed results prompt us to study the linkage compensation-performance in a distinctive national/institutional environment and complex industry. Especially in the US and UK (or European) context, discussion on executive compensation has gradually increased following the rising trend of executive compensation payment in companies. Prior empirical research offers the logical explanation that excessive payment for the executive or CEO is insufficiently linked to the CEOs', or the company's performance (Bebchuk & Fried, 2009; Bebchuk et al., 2002), and it can actually significantly negatively affect the shareholders' profits

(Bebchuk & Fried, 2003).

In the UK context, a study on a large dataset (Ozkan, 2007) and non-financial companies (Ozkan, 2011) found a significant positive association between firm performance and the CEO's cash compensation. It implies that the shareholders' interests have not always been an important concern from the managers' perspective, especially relating to executive compensation. The managers, or CEOs are able to set up their own high remuneration, even though the company profit and share prices are low. Moreover, research in the US banking industry showed that CEO compensation had a weak relationship with accounting-based and market-based company performance (Crumley, 2008). Similarly, in the Norwegian and Swedish trading companies, no association was found between company performance and CEO compensation (Randøy & Nielsen, 2002).

In comparison, studies in the Asian context also displayed mixed results. Many studies in Asia concluded that the CEO/executive compensation is an important incentive and motivation system for company performance (Conyon, 1997; Conyon & He, 2011; Firth et al., 2006; Firth et al., 2007; Kato et al., 2007; Kato & Long, 2006; Unite et al., 2008). In contrast, consistent with studies from Jensen (1993), Shivdasani and Yermack (1999), a study in Malaysia market by Abdullah (2006) found a negative significant association between directors' remuneration and companies' distressed status, whereas both corporate performance (measured by ROA) and healthy company condition were not associated with directors' remuneration package. Hence, this study measures two different indicators of firms' performance: (1) investors' decision on market value based performance by Tobin's Q ratio; and, (2) their judgments on the company's financial health, by the Altman Z-score revision model. The reason for using the aforementioned was due to the executive compensation packages, which mostly have elements of both financial and accounting performance.

Hence, the fourth hypothesis is formulated as follows:

Hypothesis 4: Executive compensation is associated with positive impact both on company' financial health and market value performance.

This study also proposes the hypothesis that the bank's accounting information have a significant influence to predict a firm's financial health (as judgment) for determining firms' market value (for decision choice).

Hypothesis 5: The bank's financial information consisting of capital, asset, management, earning, and liquidity will be associated with the company's financial health.

5. Methodology

5.1. The sample and data

This study used the whole population of 39 commercial banking companies listed on the Indonesian Stock Exchange (IDX) starting from 2007, as this was the first year of Indonesian banking CG reformation after the implementation of the mandatory BI regulation number 8/4/PBI/2006 for daily operational banking, and ending in 2014. Because one of the latent constructs is the firm's market value, this study required information for the market value of stock price at the closing dates. Further, we found 13 banking companies were listed on IDX after 2007. Therefore, we eliminated 60 firm-years for which the required data are not available. Therefore, we excluded all banks with incomplete year-observations, and at the end our final data sample was unbalanced data panel from 252 firm-year observations instead of 312 firm-year observations. All data for CG indicators, executive compensation, financial health, and market value data performance were extracted from bank's annual reports, banks' financial statements, and banks' CG reports collected from 36 banks' private websites, the Indonesian Stock Exchange (IDX) website (www.idx.co.id), and the

Bank Indonesia website (www.bi.go.id).

5.2. The methodology

This study adopts two pathways of the Throughput Model involving ten latent variables (constructs). The constructs consist of seven formative indicators (ROLE BOC, OWNSTRUC, CAPITAL, ASSET, MANAGEMENT, EARNING and LIQUIDITY) and three reflective indicators (EXECOMPEN, FINANCIAL HEALTH and FIRM VALUE). The formative constructs assume the indicators to be causing or "forming" latent variables with the direction of the relationship arrow coming from indicators to construct. In contrast, reflective constructs measure the latent variables as the cause for observed indicators and "reflect" any change in the latent variables (Waymond Rodgers & Guiral, 2011).

Hence, the presence of the formative constructs in this study led to the use of Partial Least Squares (PLS), a Structural Equation Modelling (SEM) modeling technique using a principal component or variance-based approach to analyze the overall relationship among the constructs. PLS can easily handle both reflective and formative measurement in a complex model (Joseph et al., 2014). PLS can simultaneously assess the relationship between indicators or manifest variables, and their corresponding constructs or latent variables as well as the relationship between the constructs.

5.3. Data

The constructs and all indicators used in this study are defined in systematic arrangement below.

1) Executive Compensation, which consists of three reflective indicators:

a. BoDPay is the executive (BoD) cash compensation, measured by aggregate total cash of salary, bonus and other benefits received by the executive per year (Ayadi & Boujèlbène, 2013; Brick et al., 2006; Conyon, 1997; Core et al., 1999; Unite et al., 2008),

b. AveBoDPay is the average cash compensation received by executive per head, measure from the total cash executive compensation divided by total number directors/executive (Unite et al., 2008).

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

2) Company Financial Health, which consists of one reflective indicator using the Altman Revision Z-Score Model is the score indicates a distressed company condition (Altman et al., 1995), where Z" Scores below 1.10 indicate a distressed condition with formula:

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

while 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

3) Company Market Value, which consists of one reflective indicator 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 (Hu et al., 2010; Waymod Rodgers et al., 2013)

4) The Role of BoCs, which consists of four formative indicators:

a. PICOB is the proportion of independent commissioner on the BoC (Ayadi & Boujèlbène, 2013; Conyon & He, 2011; Core et al., 1999; Jensen, 1993; OECD, 2004; Zajac & Westphal, 1994)

b. BoCSize is the ratio of the excess amount from the mandatory at least three persons as board of commissioner (Ayadi & Boujèlbène, 2013; Core et al., 1999; Jensen, 1993)

c. BOCOWN is the ratio of outstanding stock held by the board of commissioners (Brick et al., 2006;

Core et al., 1999; Zou et al., 2015)

d. BoCMeet is the ratio of excess number of the board of commissioners meeting from minimum 4 times meeting per year (Andres & Vallelado, 2008; Ayadi & Boujèlbène, 2013)

5) The Ownership Structures, which consists of three formative indicators:

a. FOROWN is the ratio of shares held by foreign investors in a firm's total outstanding shares (Colpan & Yoshikawa, 2012; Firth et al., 2007; Lipsey & Sjoholm, 2001; 2003; Yoshikawa et al., 2010)

b. GOVOWN is the ratio of government/state ownership in company (Conyon & He, 2011)

c. PUBOWN is the ratio of shares held by public in the capital market

6) The Bank's Financial Information, which consists of five constructs with one reflective indicator each:

a. CAR is the ratio between capital in excess of regulatory requirements over the minimum capital requirements

b. NOP (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 spots and forward transactions and off-balance sheet items in that foreign currency

c. NPL (Nonperforming 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) is the ratio of the difference of investment return with interest expenses divided by average earning assets

e. LDR (LDR) is loan to debt ratio is the ratio of bank liquidity to cover of unforeseen fund requirements

6. Results

6.1. Descriptive statistics

Table 1 contains the statistical description for the indicators as proxy of the constructs of the role of BoCs, ownership structure, executive compensation and company financial performance. The construct of the role of BoCs in Indonesian commercial banking shows that most of the banks have followed the reforms of CG regulation by fulfilling the mandatory minimum 50 per cent of BoCs being independent commissioner with a minimum of three commissioners as members of the board. It shows the average proportion of independent commissioners was 58 per cent (maximum = 100% and minimum = 25%) and the average BoCs size was 165.3 per cent equal with five commissioners on the board (maximum = 400% and minimum = 67%).

However, the Bank Indonesia as the regulator needs to pay more attention to the BoCs ownership. The reason is that the average BoCs ownership in Indonesian commercial banks slightly exceeded 5 per cent as the maximum of BoCs ownership to disclose, while the average was 5.8 per cent (maximum = 72% and minimum = 0%). Moreover, the average number of board of commissioners meetings per year is 374 per cent, which equals 15 times per year (maximum = 1,600 percent and minimum = 75 percent).

The executive compensation measurement reports that the average total executive payment per year in Indonesia commercial banks in rupiahs (Rp.) is 36,682 Million (maximum = Rp.254,915 Million and minimum = Rp.867 Million). One U.S. dollar equals approximately Rp.13,514. The average board of director' payment per year is Rp.4,497 Million (maximum = Rp.25,492 Million and minimum = Rp.289 Million) and the average market value stock compensation received by the executives is Rp. 30,193 Million (maximum = Rp. 517,755 Million and minimum = Rp. 0 Million). Moreover, most Indonesian commercial banks are healthy companies, as the average Z-score shows 1.146 (maximum = 3. 4542 and minimum = -2.905). It is slightly above the cut-off limit score 1.1 for a healthy company; however, it is considered still in

the gray area. Thus, the average company market value is 109.05 per cent (maximum = 160.81% and minimum = 86.88%).

Moreover, an analysis was conducted using a correlation analysis to examine the potential of a substitution or complementary effect among indicators of CG in the construct of the role BoC and ownership structures. In Table 2.a, this study found a significant negative association between proportion of independent commissioners and BoCs ownership with BoC size (r = -0.41 and r = -0.19; $\rho < 0.01$). We also found a significant positive association between BoC meeting with BoCs size (r = 0.21; $\rho < 0.01$). Moreover, in terms of the ownership structures that there is a negative significant association foreign ownership with government and public ownership stockholders (r =-0.29 and r = 0.31; $\rho < 0.01$).

In addition, this study found various monitoring mechanisms from the role of BoC and ownership structures with executive compensation which had a strong positive correlation between them (see Table 2.b; r = 0.58, r = 0. 62 and r = 0.56; $\rho < 0.01$). Thus, a statistically significant positive correlation was found between the role of the BoC ("P") and information sources ("I") of earning and liquidity (r = 0.19 and r = 17; $\rho < 0.01$) as well as a significant negative correlation with capital and assets (r = -0.21 and r = -0.19; $\rho < 0.01$). Moreover, there was also a statistically significant negative correlation between ownership structure ("P") and information sources ("I") of assets (r = -0.25; $\rho < 0.01$). Finally, a statistically significant negative correlation exists between executive compensation ("P") and information sources ("I") of capital and assets (r = -0.13; $\rho < 0.05$ and r = -0.27; $\rho < 0.01$), and a significant positive correlation with earnings (r = 0.24; $\rho < 0.01$).

Table 1: Descriptive Statistics

Indicators	Min	Max	Mean	SD	VIF
PICOB	0.25	1.00	0.58	0.12	1.20
BOCSIZE	0.67	4.00	1.65	0.61	1.24
BOCOWN	0.00	0.72	0.06	0.15	1.04
BOCMEET	0.75	16.00	3.74	3.58	1.96
FOROWN	0.00	0.99	0.35	0.34	1.37
PUBOWN	0.00	0.86	0.23	0.16	1.11
GOVOWN	0.00	1.00	0.14	0.29	1.32
BODPAY	867	254915	36682	46845	18.28
AVEBODPAY	289	25492	4497	4474	18.11
MVBODOWN	0	517755	30193	79357	1.80
CAR	-2.38	9.94	1.15	0.98	1.00
NPL	0.000	0.184	0.02	.02	1.00
NOP	-0.02	1.32	0.03	0.08	1.00
NIM	0.00	0.16	0.06	0.02	1.00
LDR	0.09	1.13	0.78	0.15	1.00
ZSCORE	-2.91	3.45	1.15	0.69	1.00
TOBINSQ	0.87	1.61	1.09	0.13	1.00

6.2. The measurement (outer) model assessment

In this study, there were three reflective measures (i.e., EXECOMPEN, FINHEALTH and MARKETVALUE), consisting of five indicators: BoDPAY, AVEBODPAY, MVBODOWN, Z-SCORE

and TOBINS. All of the five indicators reached an acceptable level of reliability, over 0.700 (Chin, 1998).
This study found that the three dimensions of executive compensation, consisting of BoD payment, the average of BoD payment and MV BoD ownership, were positively correlated with one another. Their correlations with the loadings factors ranged from 0.82 to 0.97 (see Table 3). These values indicated that more than fifty per cent of the variance of the reflective indicators is due to this construct. This study examined the outer loadings value and found all the values of CR and AVE are above 0.700 in order to assess the individual reliability of the construct with reflective measures (see Table 3). Instead of using factor loadings, the formative measures should use weight factors, which represent canonical correlations while the value meaning is very different in terms of reliability measures. Further, this study used 5000 non-parametric bootstrapping resample procedures with no sign change option for the 1% significance level to assess the coefficient of significance in estimating the factor loadings and path coefficients of the model (Chin, 1998; Hair et al., 2014).
Therefore, our results reflect for every empirical "t" value above 2.36, 1.98 and 1.66 that the path coefficients are significantly different from zero at the significance levels of 1%, 5% and 10% respectively. Table 3 shows the weight magnitude and the level of significance for each indicator associated with its respective latent construct as well as the twelve indicators that form each latent construct. This study found that three indicators for the BoC role (BOCOWN, BOCMeet and BOCSIZE) and three indicators for ownership structure (FOROWN, GOVOWN and PUBOWN) have significant values at the 1% level and one remaining indicator (PICOB) was not significant at 10%. This empirically suggests that the board of commissioners role in Indonesian commercial is mainly created by mandatory requirement of board of commissioners' ownership, number meeting in a year and size. Moreover, the presence of significant foreign, government and public ownership are affecting the Indonesian banks' ownership structure.
However, the potential multicollinearity among the indicators is important for formative measures, which could generate unstable estimates. This study found all indicators of the formative constructs to have variance inflation factor (VIF) ranging between 1.04 and 1.96 (see Table 1). The highest VIF value was 1.96 for BoCMeet. This was far below the score of five as a rule of thumb implying that all indicators did not have a multicollinearity problem and were independent from one another (Joseph F Hair et al., 2014).

Table 2.a: The indicators correlation matrix

	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	17
PICOB (1)	1.00																
BOCSIZE (2)	-0.41***	1.00															
BOCOWN (3)	0.08	-0.19***	1.00														
BOCMEET (4)	-0.07	0.21***	-0.02	1.00													
FOROWN (5)	-0.17***	0.42***	-0.27***	-0.19**	1.00												
GOVOWN (6)	-0.11*	0.19***	-0.18***	0.41**	-0.29***	1.00											
PUBOWN (7)	0.07	0.08	0.27***	0.42**	-0.31***	0.03	1.00										
BODPAY (8)	-0.21**	0.56***	-0.19***	0.43**	0.27***	0.19***	0.29***	1.00									
AVEBODPAY (9)	-0.21**	0.54***	-0.19***	0.48**	0.26***	0.21***	0.31***	0.97***	1.00								

MVBODOWN (10)	0.02	0.16***	-0.14**	0.37**	0.03	0.06	0.38***	0.66***	0.66***	1.00						
CAR (11)	0.02	-0.17***	-0.07	-0.18**	-0.04	-0.13**	0.07	-0.15***	-0.17***	-0.03	1.00					
NPL (12)	0.11*	-0.20***	0.23***	-0.06	-0.20***	0.08	-0.15***	-0.26***	-0.27***	-0.21***	-0.24***	1.00				
NOP (13)	-0.05	-0.03	-0.04	-0.01	-0.07	0.25***	-0.09	-0.07	-0.08	-0.08	-0.09	0.22***	1.00			
NIM (14)	-0.09	0.20***	-0.15***	0.07	-0.05	0.01	0.15***	0.22***	0.21***	0.23***	-0.00	-0.03	-0.15***	1.00		
LDR (15)	-0.17***	0.27***	-0.23***	-0.07	0.18***	0.05	-0.16***	0.11*	0.14**	-0.15***	-0.18***	0.03	-0.04	0.28***	1.00	
ZSCORE (16)	-0.05	0.16***	-0.14**	-0.04	0.20***	-0.31***	0.18***	0.27***	0.25***	0.26***	0.46***	-0.48***	-0.45***	0.37***	0.10	1.00
TOBINS (17)	-0.09	0.09	-0.18***	0.06	0.19***	-0.06	0.09	0.29***	0.29***	0.42***	0.23***	-0.12*	-0.03	0.25***	0.02	0.47***

Notes: *Significant at ρ < 0.1 (t value > 1.66); **Significant at ρ < 0.05 (t value > 1.96); ***Significant at ρ < 0. 01 (t value > 2.36)

Table 2.b: The constructs correlation matrix

Constructs	**1**	**2**	**3**	**4**	**5**	**6**	**7**	**8**	**9**	**10**
Role of BoC (1)	1.00									

Ownership Structures (2)	0.58***	1.00								
Executive Compensation (3)	0.62***	0.56***	1.0							
Capital (4)	0.21***	-0.04	-0.13**	1.00						
Asset (5)	0.19***	-0.25***	0.27***	-0.24***	1.00					
Management (6)	-0.02	-0.00	-0.08	-0.09	0.23***	1.00				
Earning (7)	0.19***	-0.09	0.24***	-0.00	-0.03	-0.15***	1.00			
Liquidity (8)	0.17***	0.04	0.05	-0.18***	0.03	0.04	0.28***	1.00		
Z Score (9)	0.09	0.16***	0.28***	0.48***	-0.48**	-0.45***	0.37***	0.10	1.00	
Tobin's Q (10)	0.12*	0.20***	0.36***	0.23***	-0.12*	-0.03	0.25***	0.02	0.47***	1.00

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 > 2.36)

Table 3: Result of the outer model

	Loadings or Weights	Observed t-value	CR	AVE	Signi.-level 1-tail
Role of BoC (Formative)					
PICOB	0.06	1.26			0.21
BOC SIZE	0.63	6.04			0.00
BOCOWN	-0.18	4.15			0.00
BOCMeet	0.62	5.96			0.00
Ownership Structures (Formative)					
FOROWN	+	0.80	10.64		0.00
GOVOWN	+	0.52	9.77		0.00
PUBOWN	+	0.85	11.96		0.00
Executive Compensation (Reflective)			0.94	0.85	
BoDPAY	0.97	262.90			0.00
AVEBoDPAY	0.97	220.11			0.00
MVBODOWN	0.82	16.99			0.00
Capital: **CAR**	1.00		1.00	1.00	0.00
Asset: **NOP**	1.00		1.00	1.00	0.00
Management: **NPL**	1.00		1.00	1.00	0.00
Earning: **NIM**	1.00		1.00	1.00	0.00
Liquidity: **LDR**	1.00		1.00	1.00	0.00
Company Financial Health: **Altman Z Score**	1.00		1.00	1.00	0.00
Company Market Value: **Tobin's Q**	1.00		1.00	1.00	0.00

6.3. The structural (inner) model assessment

This study examines five hypotheses based on Figure 1 from the Throughput Model. The PLS path coefficient for our Models 1 and 2 are shown in Table 4. Overall, Table 4 shows that nine out of seventeen of the initial set of paths were revealed as significant at the 0.01 level, four of seventeen were significant at the 0.05, one was significant at the 0.1 and the remaining three were not significant. However, for simplicity, the inter-correlations between perception ("P"), which consisted of the constructs of the role of BoC, ownership structure, and executive compensation and all five constructs of the bank's information ("I") are provided in the Table 2.b instead of in Figure 3 and Figure 4.

In Model 1 (see Table 4), the results support our hypothesis 4 that executive compensation has significantly positive effect on the company's financial health ($\beta_3 = 0.17$, $\rho < 0.01$; $R^2 = 0.60$) and company's market value ($\beta_2 = 0.27$, $\rho < 0.01$; $R^2 = 0.28$). This study also notice that the construct of financial health has a significantly positive effect on the market value of companies ($\beta_9 = 0.39$, $\rho < 0.01$). Further, the results also confirm hypothesis 5 and reveal that higher quality of capital, profitability, and liquidity information ($\beta_4 = 0.41$, $\beta_7 = 0.25$; $\rho < 0.01$ and $\beta_8 = 0.10$ $\rho < 0.05$); and lower quality of asset and management information ($\beta 5 = -0.29$ and $\beta_6 = -0.26$; $\rho < 0.01$) will lead to banks' better financial health.

In Model 2 (see Table 4; Fig.3), this study incorporates both the role of BoCs and executive compensation as the investors' perception ("P") with extended impact on the bank's performance in terms of financial health

("J") and market value ("D"). This study found that the construct of the role of BoCs had a significant positive influence on executive compensation ($\beta_1 = 0.62$, $\rho < 0.01$; $R^2 = 0.38$), which supports Hypotheses 1. Further, the extended impact of executive compensation showed a significant positive influence on both of the banks' financial health ($\beta_3 = 0.18$, $\rho < 0.01$; $R^2 = 0.60$) and market value performance ($\beta = 0.24$, $\rho < 0.01$; $R^2 = 0.27$). Moreover, consistent with prior research, the judgment of banks' financial health shows a significant positive effect on the decision on banks' market value ($\beta_4 = 0.40$, $\rho < 0.01$).

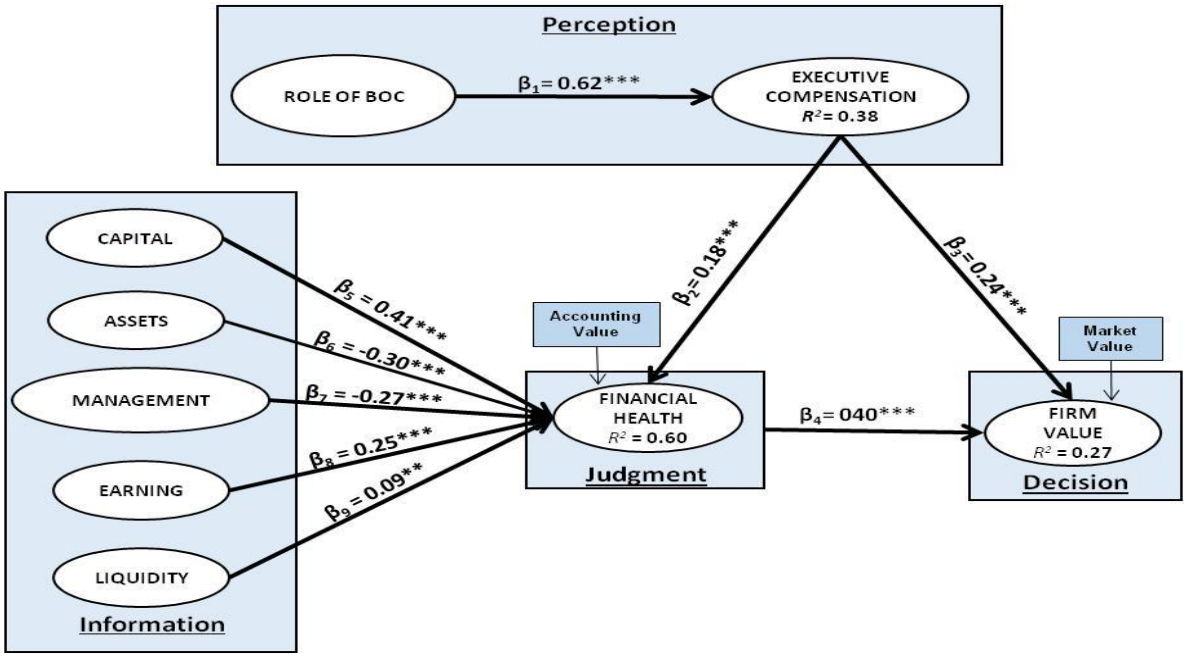

Figure 3: Research Model 2

Table 4: The Stakeholders' Concerns of the BoCs Role leads to Higher Executive Compensation and Company Financial Performance

Pathways	Model 1: Executive Compensation Only	Model 2: The BoC Role to Executive Compensation
Role BoC → Executive Compensation (β_1)	-	0.62***
(P→D) Executive Compensation → Firm's Market Value (β_2)	0.27***	0.24***
(P→J) Executive Compensation → Financial Health (β_3)	0.17***	0.18***
(I→J) Capital → Financial Health (β_4)	0.41***	0.41***
(I→J) Asset → Financial Health (β_5)	-0.29***	-0.30***
(I→J) Management → Financial Health (β_6)	-0.27***	-0.27***
(I→J) Earning → Financial Health (β_7)	0.25***	0.25***
(I→J) Liquidity → Financial Health (β_8)	0.10**	0.09**
(J→D) Financial Health → Firm's Market Value (β_9)	0.39**	0.40***
Multiple R^2 (explained variance): Executive Compensation	-	0.38
Financial Health	0.60	0.60

Firm's Market Value	0.28	0.27

Note: **Significant at ρ < 0.05 (t value > 1.96), ***Significant at ρ < 0.01 (t value > 2.36)

7. Discussion

This study expects that monitoring of the stakeholders' concern of the role of BoCs as a supervisory board in a predominantly concentrated ownership context can promote higher executive compensation and better company financial performance in Indonesian commercial banking companies. Most of the hypotheses in this study are supported by our results.

Based upon the study's results depicted in Table 4, the agency theoretic pathway position (P→D) is supported as displayed by the relationship between executive compensation influences on firms' market value. Nonetheless, based on our modelling perspective using the Throughput Model, the agency theoretic pathway is balanced by the stakeholders' perspective pathway. Utilizing both Tables 2.b and 4 we can suggest that significant influences exist along the stakeholders' perspective pathway of "I→P→J→D." First, Table 2.b implies a statistically significant relationship of information sources ("I") on capital, assets, earnings and liquidity to executive compensation ("P"); implying "I→P." Second, Table 4 supports the relationship of "P→J" (i.e., executive compensation→financial health); whereas the significant relationship of "J→D" is viewed as financial health's impact on firm's market value. The "I→P→J→D" pathway suggests that CG mechanisms reflecting the stakeholders' position pathway exist and are effective, which counter-balances the agent theoretic pathway ("P→D").

This study reveals that the stakeholders' concern of the role of BoCs has significant positive influence on executive compensation. These results confirm hypothesis 1 and are consistent with prior studies from Chinese (Ding, Wu, Li, & Jia, 2010), European and UK banking industries (Ayadi & Boujèlbène, 2013; Ozkan, 2007) and recently the US context (van Essen et al., 2015). It is indicated that the stakeholders' concern in the role of BoCs in Indonesia banking could not restrain high payment of executive compensation. The role of the BoC in a concentrated ownership structure context could not provide effective protection of shareholders (large ownership) and other stakeholders (minority ownership) from the expropriation behaviour of managers through excessive of their compensation. Then, the BoC roles may fail as a good internal control tool, leading to inefficiencies in controlling the extent of executive compensation (Mehran et al., 2011). In the situation in which the board monitoring is inefficient, the management tends to have potential substantial power to fulfill their own benefit at the expense of shareholders' wealth via strategic options that affect organizational outcomes without the board realizing (Bebchuk & Fried, 2003; Bebchuk et al., 2002; Gedajlovic & Shapiro, 1998; Hambrick & Finkelstein, 1987).

Moreover, this study also found that a concentrated ownership structure strengthens the positive relationship between the BoC's role and executive compensation. These findings are inconsistent with prior studies that claim concentration of large ownership could mitigate managers' opportunistic behaviour by avoiding payment of excessive on executive compensation (Cornett et al., 2008; Hartzell & Starks, 2003; Su, Li, & Li, 2010). This study documented a significant positive influence executive compensation on both banks' financial health and market value performance. Using the Throughput Model provides a decision process on executive compensation affecting both corporate financial performance as an intermediate outcome (as a judgment in financial health) and the final stage (as investors' decisions based on market value). These findings were consistent with agency theory and supported prior studies in the Philippines, Chinese, Korean and UK (Conyon, 1997; Conyon & He, 2011; Firth et al., 2006; 2007; Kato et al., 2007; Kato & Long, 2006; Unite et al., 2008). Executive compensation has been used as an incentive and motivation mechanism to align the interests of stakeholders and shareholders. It is reflected on increase company financial

performance. The study suggests that a high level of executive compensation is effective as an incentive motivation system to boost both company financial health and market value performance.

In the Indonesian context, the findings confirm that increased board monitoring by following stakeholders' concern in of the role of BoCs leads to higher executive compensation as compensative for increased management responsibility to pay attention to other stakeholders' wealth in management operations. In other words, higher payment in executive compensation is a trade-off and motivation mechanism to align the stakeholders' and managers' interests.

Further, this study in Indonesian commercial banking reveals substitution and complementary effects among the constructs of the CG mechanisms. This study found a significant negative association in CG mechanisms among the role of BoCs indicators between the proportion of independent commissioners and board of commissioners' ownership with their size. This indicates that role of the BoCs in monitoring managers' behaviour concerning the number of commissioners can be substituted by the presence of independent commissioners and commissioner shareholders. It implies that companies with a high proportion of independent commissioners and board of commissioners' ownership tend to become less dependent on the size of BoCs. Moreover, this study also noted a significant positive association between the size and number of BoCs' meetings. This implies that among the role of BoCs role and the size of BoCs will complement the number of BoCs' meetings.

In ownership structure, there is a substitution effect of monitoring by foreign investors, government investors and public ownership. These results support previous findings of Azim (2012), Ward et al. (2009) and Coles et al. (2001), which conclude that any independent monitoring mechanism can be complemented and or substituted by another alternative monitoring mechanism. Nonetheless, this study failed to find a substitution effect between BoCs monitoring and ownership structure as suggested by Desender et al. (2013). This study found that in the two-tiered CG context with concentrated ownership predominant, the substitution effect across the role of BoCs and the ownership structure could not be generalized in the same way as in one-tiered CG systems. In fact, this study implies that the constructs of CG mechanisms and executive compensation are set up to operate jointly and complementarily in order to mitigate the agency problem with respect to increases company financial health and market value performance. These findings were inconsistent with those of Dicks (2012) who suggests CG and incentive payment are substitutes for each other to solve agency problems, and that companies pay lower executive compensation as companies' response to improve CG through closely monitoring their management.

8. Conclusion

This study examines the main influence of the CG-pay-performance relationship in Indonesian commercial banking companies by implementing a stakeholders' concern in the BoC role that follows the requirements of the new CG regulation with ownership structure to determine the executive compensation to improve company financial performance. This study modelled discussion of CG provides a richer context when we include two different decision pathways from the Throughput Model (i.e. agency theoretic and stakeholders' positions). This type of analysis suggests future avenues of study when modelling important theories (i.e., agency and stakeholders' theories) with different types of business and CG mechanisms.

The results from these studies provide some insight into the relationship of CG-pay-performance in Indonesian banking companies' practice after following the new regulation of mandatory implementation of CG aspects of the BoCs requirements. The BoC task in designing optimal compensation for rewarding executives (CEOs and top management) is not easy but nevertheless is an important task. This study indicates that the BoCs serves as a vehicle for multiple stakeholders' interests that is able to define the

company's purposes and determine the company's responsibility for the stakeholders.

This study finds a significant positive relationship between the role of BoCs on executive compensation with the extended positive impact on both company financial health and market value performance. Moreover, this study also finds that Indonesia's concentrated ownership context has strengthened the positive relationship between the stakeholders' concern of the BoCs role and executive compensation on company financial performance. The results confirmed hypotheses and were consistent with prior studies from China (Ding et al., 2010), European and UK banking industries (Ayadi & Boujèlbène, 2013; Ozkan, 2007) and the US (van Essen et al., 2015).

This means, the stakeholders' concern of the role of BoCs in a concentrated ownership dominant context could not restrain excessive executive compensation in Indonesian commercial banking companies. Furthermore, the results documented that higher levels of executive compensation could lead to better improvement in financial health as accounting-based performance and an increase in market value performance. This study reveals that those mechanisms are important mechanisms in making a company's decision not only to align shareholders' interests (according to the agency theoretic pathway) but also for broader stakeholders' interests (according to stakeholders' pathway) to increase both companies financial health and market value performance. The increase of scrutiny of internal control mechanisms according to the BI regulation can lead to higher payment of executive compensation; however, it improves company financial performance.

This study has some limitations. First, our study limited the observation to only one specific industry, in the commercial banking, which did not control for industry differentiation. Second, this study collected data on executive compensation for the whole team, since individual executive compensation in the banking sector is not available disclosed to the public and no names are mentioned. It is therefore impossible to attribute specific compensation to specific people or specific job roles. Moreover, details of how compensation is set and details of pay and bonus formulae are not disclosed. Third, the sample comprised 39 banking companies listed on the Indonesian Stock Exchange, which significantly limited the observed variation in CG and executive compensation measures. However, despite the limitation of samples, this study successfully observed a significant impact of CG on executive compensation with firm's financial health and market value performance.

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