

REMUNERATION, CORPORATE GOVERNANCE AND BANK
PERFORMANCE: A STUDY OF INDONESIA

INTAN OVIANTARI
Widyatama University
intan.oviantari@widyatama.ac.id

Abstract

The financial crisis in Asia in mid-1997 has an impact on the economic performance of the countries in Southeast Asia, including Indonesia. In general, almost all of the companies were affected by the crisis in the form of decline in net profit. World Bank data shows the following: (1) the average ratio of net profit on equity fell from 55% to 33% in the first quarter of 1998, (2) decrease the number of employees by 32% compared to before the crisis, (3) average the average debt equity ratio of the company increased in mid-1998 compared with the year 1997 (World Bank, 1999).

The banking sector is one industry that experienced the financial crisis in Asia. The weaknesses of corporate governance became one of the causes of the financial and economic crisis. (National Committee on Corporate Governance, 2004).

This study aims to review the remuneration of directors and commissioners, bank performance, as well as aspects of good corporate governance in the form of family ownership structure, foreign ownership structure and independence of the

board of commissioners who have a family relationship with shareholders and financial banking companies listed in Indonesia Stock Exchange during the period 2004-2009

Bank performance variables such as Return on Assets (ROA), Return on Equity (ROE), Net Interest Margin (NIM), Loan to Deposit Ratio (LDR), Non Performing Loan (NPL), Earning per Share (EPS) as well as the size of the Bank (assets). From the seven bank performance data used in this study, the average performance was in accordance with the standards required. Only the value of the average loan to deposit ratio (LDR) showed that overall only about 68% of bank credit was absorbed in the community. This shows that the overall average bank lending capabilities to third parties is still below standard. This conclusion suggests that the Bank Indonesia as the regulator of the banking industry in order to monitor the credit absorption into the higher society.

INTRODUCTION

The financial crisis in Asia in mid-1997 has an impact on the economic performance of the countries in Southeast Asia, including Indonesia. In general, almost all of the companies were affected by the crisis in the form of decline in net profit. World Bank data shows the following: (1) the average ratio of net profit on equity fell from 55% to 33% in the first quarter of 1998, (2) decrease the number of employees by 32% compared before the crisis, (3) the average debt equity ratio of the company increased in mid-1998 compared with the year 1997 (World Bank, 1999).

The banking sector is one industry that experienced the financial crisis in Asia. The weaknesses of corporate governance became one of the causes of the financial and economic crisis. (National Committee on Corporate Governance, 2004). This raises the overall improvement of the Indonesian government to re-examine the principles of corporate governance in the company and oversee its implementation. Banking as an intermediary institution in carrying out its business activities rely on public funds and trust from both within and outside the country,

an industry that get the strict rules from the government. The Indonesian government through the relevant authorities such as the Ministry of Finance, Capital Market Supervisory Agency and Financial Institution (Bapepam-LK), Indonesia Stock Exchange, Bank Indonesia (Central Bank of the Republic of Indonesia), oversee the implementation of corporate governance practices in the company.

The principles of corporate governance require disclosure of the remuneration of the directors and commissioners associated with the assessment of the performance of the company. These principles believe that the disclosure of remuneration to the directors and commissioners are important aspects for the effective implementation of corporate governance. This was confirmed in No.8/4/PBI/2006 Bank Indonesia Regulation on the Implementation of Good Corporate Governance for Banks and reveals the implementation of good corporate governance in accordance with the Annual Report of the Chairman of the Capital Market Supervisory Agency and Financial Institution No.Kep-134 / BL/2006 Obligations Submission of Annual Report for publicly listed companies.

The issue of remuneration of Directors and Commissioners are related to problems in the agency. Agency theory states that there is a conflict of interest between principal and agent. In the model of agency theory (Jensen & Meckling, 1976; Milgrom & Robert, 1992), shareholders act as the principal and manager acting as agent. As an agent, managers are morally responsible for optimizing the benefits of shareholders (principal) and have their own interest to maximize their personal welfare. To overcome the problem of the divergence of interests, the agency theory suggests that the interests of managers and shareholders will be in line when the compensation for managers associated with firm performance (Murphy, 1985). The relationship between compensation and company performance has been carried out in countries such as the United States and Britain since the year 1980. However, there are limited studies on the subject conducted outside these countries, as well as with countries in Asia, including Indonesia. Due to lack of data, there are limited researches of this nature in Asian countries (Unite et al., 2008). Examples of countries in Asia that studied the relationship of compensation to company performance are Japan (Abe et al., 2005; Basu et al.,

2006; Kato and Kubo, 2006), Korea (Kato et al., 2006), China (Kato and Long , 2005), Malaysia (Hassan et al., 2003; Abdullah, 2006) and the Philippines (Unite et al., 2008).

Bank performance is an accomplishment achieved by the company during the period which reflects the soundness of the bank by the Minister of Finance No.740/KMK.00/1989. Under these provisions, it is necessary to determine the achievements of the company to assess the company's performance in a specified period. Nasser (2003), Zahara and Siregar (2008) stated that the soundness of banks can be used as a measure of their performance. Bank soundness by Bank Indonesia Regulation No.6/10/PBI/2004 about bank rating system, evaluating several aspects that affect a bank's condition and progress, capital (Capital), productive assets (Assets), Management (Management) , earnings (Earning), and liquidity (Liquidity) called CAMEL.

Linking executive compensation to company performance (pay-performance relation) is an interesting debate. The important question of compensation is whether it is granted to management in accordance with the company's performance. Many expressed that compensation is not reasonable when compared to company performance. There is possibility of compensation in the form of performance bonuses from the prior year as the result of moral hazard management activities (Milgrom & Robert, 1992). In the banking industry, there is a possibility that the agency conflict where management together with the owner acts as an agent to act as a moral hazard to the depositor's principal (Rossieta, 2003).

Ownership structure is important in the agency conflict. Agency conflicts arise from the separation of ownership to the management of funds. Unlike many companies in the United States and Britain which are more dispersed in ownership structure, many companies in Asia are owned by families or groups. Claessen et al (1999) found that more than 50% of companies in Indonesia are controlled by the family. In addition, corporate ownerships by foreign institutions in many developing countries are found. Khana and Palepu (1999) examine the corporate governance practices of companies in India and found foreign ownership proved to be monitored better. While Kim (2006) stated that many foreign ownership in Indonesia are still owned by the existing shareholders where a company is actually

owned by foreigners yet still represents family ownership. Research in Indonesia conducted by Ulupui (2009) found that there are other factors that drive executive compensation to be more optimal, i.e., governance practices, Board of Commissioners relationship with shareholders and ownership structure (family ownership structure and the structure of foreign ownership).

Remuneration of directors and commissioners in corporate banking Indonesia during the 2008 show:

- Infobank magazine September 2008 issue stated that the bankers salary trend was higher than the salary of directors of other financial institutions such as the insurance industry, multi, and securities companies. One factor is the lack of experienced bankers and banking vigorous expansion.
 - In the banking industry, the total remuneration of commissioners and directors of Bank Central Asia is the highest, while the lowest remuneration is Capital Bank Indonesia (Infobank, 2008).
 - But in early 2009, the public was shocked by the incident and the management of Bank Century owners known collectively take action adverse moral hazard customer. And just in Infobank september 2008 issue, the magazine set Hermanus HM, managing director of Century Bank as a banker with a big salary (Infobank, 2008)
 - Introduction of Bank Indonesia Regulation. 8/4/PBI/2006 dated January 30, 2006 on the Implementation of Good Corporate Governance for Banks, which requires banking companies to disclose the amount of remuneration of directors and commissioners.
 - Of the Annual Report for 2006-2008 is known that since the enactment of these regulations there are only 17 banks out of 30 banks listed on the Indonesia Stock Exchange that remuneration of directors and commissioners expressed separately, the rest still disclose the total remuneration of the directors and commissioners.

Referring to the description above, this study was conducted to get an overview of the company's performance, ownership structure and the relationship

between the board of directors and the board of commissioners with shareholders and their remuneration.

LITERATURE REVIEW

Remuneration and Agency Theory

The basis of agency theory is the separation between the management and funding. Agency theory states that there is a conflict of interest between principal and agent. As an agent, the manager is morally responsible for optimizing the benefits of shareholders (principal) and at the same time has an interest to maximize their personal welfare. If the agency action that seeks to maximize its interests was not observed by the principal, it can lead to agency conflicts (Jensen and Meckling, 1976).

Scott (2003:306-315) divides the agency relationship into some type of relationship (principal agent relations): (1) employment contract between firm owner and manager where shareholders are the principal and manager as agent; (2) manager bondholders lending contract where bondholders act as principal while manager act as the agent; (3) head of the interim position as principal agent of division to run a decentralized division.

Core et al. (1999) stated that shareholders need to conduct surveillance and binding on management to maintain alignment between the manager and the agent as principal shareholder. Control can be done either by an external or internal party company like external monitoring by lenders on a loan facility to the company's debtors. In addition to monitoring is also required terhadap manajemen binding agents such as dividend policy and compensation policies.

Agency theory suggests to link between executive compensation and company performance so as to reduce the agency problem by aligning the interests of executives with the interests of owners (Jensen and Meckling, 1976; Murphy, 1985).

Ulupui (2009) used the approach of agency theory, the theory of corporate governance as the cornerstone of the theory of the mechanism of binding (bonding) for the provision of compensation for agents. Compensation earned agent is a great way to improve company performance (pay-performance) which in turn is expected to increase shareholder wealth.

Agency Conflict in Indonesia

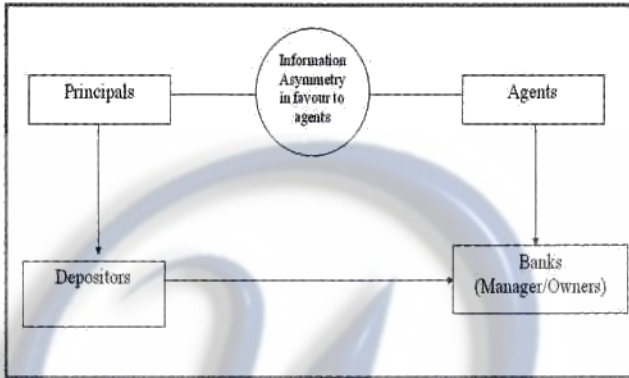
In general, research in East Asia states that the agency conflict that occurred in the company is among the majority shareholders (controlling shareholders) who expropriate the wealth of the minority shareholders (Claessens et al., 2002; Lemmon and Lins, 2003).

Ulupui (2009) conducted a study using a sample of publicly listed companies in Indonesia Stock Exchange that included data on compensation of Directors and Commissioners together in its financial statements during the period 2004-2006. In his research, Ulupui summarized previous research (Claessens et al, 1999; Husnan, 2001; Tabalujan, 2002; Mahadwartha, 2004; Lukviarman, 2004; Kim, 2006; Rokhim, 2006) and concluded that the agency conflict for large firms , especially in developing countries such as Indonesia was no longer a shareholder agency conflict between majority and minority shareholders, but the agency between shareholders together with the management of minority shareholders.

Agency Relationship in Banking Industry

Rosssieta (2003) stated that unlike any other business in which the agency relationship managers/owners and shareholders exists, the banking agency conflict is more complicated. In addition, there is also the issue of the company's problems of information asymmetry and moral hazard. Likewise in the banking group allows the agency conflict is derived from information asymmetry and moral hazard.

Figure 2.1. Agency Relationship in Banking



Source: Rossieta, 2003

Relationship banking agency conflict (Figure 2.1) shows depositors as principal and the bank (managers and owners) as an agent that will deliver returns to clients. Depositors are customers who deposit funds in a bank, investing in bank optimistic. However, when the bank experienced financial problems (financial distress) in the form of liquidity and solvency problems, it is not only the shareholders but also depositors are at risk. It is based on the fact that almost all bank assets funded from cash customers. Besides the development of the banking business is now turning to non-traditional activities such as derivatives which includes swaps and fund management that are speculative and do not require customer approval. The condition of information asymmetry encourages managers selected by the owner to make any speculative activity and excessive risk without the customer's knowledge

The relevance of this study is that there is a presumption that the banking agency conflict in Indonesia is among depositors as principal and the management together with the owner as the agent. Furthermore, the owner allegedly gave excessive remuneration to management in order to promote the interests of the owners for managing excessive risk-taking for the benefit of the owners. When banks are having financial problems, owners do not have a huge risk because the

minimum capital adequacy required by the government of Indonesia is only 8%. Those that will bear the direct risk for the risk taken by the management are depositors.

The Disclosure of Board of Directors and Board of Commissioners

Remuneration. The system of corporate governance is triggered by the emergence of agency conflicts in the company. The failure of international companies like financial scandals and economic crises in many countries gives credence to the importance of good corporate governance. These issues also occur in other countries in Asia specially in the Asian financial crisis in mid-1997, including Indonesia. Hassan et al. (2003) stated that weak corporate governance at the company pointed out as the main cause of the global financial and economic crisis.

One of the basic mechanisms of good corporate governance is the Board of Directors. Sutojo and Aldrige (2005) stated that there are two systems namely the preparation of Board of Directors Continental System and System Anglo Saxon:

Continental System was among others implemented in Indonesia, the Netherlands, Belgium, Luxemburg. In the Continental System: Board of Directors are separated into two layers (two tiers) consisting of the supervisory board or the Board of Trustees and the management board or management. In Indonesia, the supervisory board called the Board of Commissioners, while the management board called the Board of Directors.

In the Anglo Saxon system, the Board of Directors consists of one layer (one-tier). The Board consists of the Chairman, Non-Executive Directors and Executive Directors where the Chairman heads the Board. This systems is applied by Anglo-Saxon countries such as USA, UK, Australia, China, Korea and the Philippines.

The Board of Directors is a corporate governance mechanism that functions as internal control (Jensen, 1993). This is in accordance with the statement that

good corporate governance can be implemented if the Board of Directors carries the primary responsibility for monitoring the implementation of a long-term strategy, does the selection, performance evaluation and determination of management compensation company effectively. Both Board of Directors system is a one tier or two tiers (OECD, 2004; Sutojo and Aldrige, 2005).

Guidelines for Good Corporate Governance. In line with the reform of corporate governance in many countries in East Asia, the Indonesian government has begun to transform itself by developing guidelines for good corporate governance for banks. A bank is an intermediary institutions in carrying out its business activities that rely on public funds and trust both from within and from abroad. The development of the banking industry is generally accompanied by very rapidly increasing complexity of banking operations which resulted in an increased risk. In order to improve the performance of the bank, to protect the interests of stakeholders and enhance regulatory compliance and ethical values that apply in general to the banking industry, the bank must carry out its business activities based on the principles of Good Corporate Governance.

The implementation of good corporate governance is necessary to build trust with the international community as an essential condition for the banking sector to develop well and become healthy. The National Committee on Corporate Governance published a Code of Good Corporate Governance Bank Indonesia (2004). In it are listed the rights and obligations of the board of directors and board of commissioners to create the implementation of good corporate governance.

In line with the Indonesian Banking Architecture and implementation in order to improve the implementation of good corporate governance and to strengthen the national banking industry, Bank Indonesia issued PBI. 8/4/PBI/2006 dated January 30, 2006 on the Implementation of Good Corporate Governance for Banks and PBI No.8/14/PBI/2006 concerning Amendment to Bank Indonesia Regulation No.8/4/PBI, dated October 5, 2006 on the Implementation of Good Corporate Governance for Banks through the following aspects:

Governance Structure

Strengthen the role and responsibilities of the Board, Bank Ownership Structure and clarify to increase the effectiveness and functions of the Director of Compliance.

Governance Process

Bank Indonesia continues to encourage and evaluate the process of setting bank internal better as the strengthening of the implementation of the Risk Management and Internal Audit.

Governance Outcome

This includes improving the quality of transparency of the financial condition of the Bank, profiling and remuneration of the Board of Commissioners and Board of Directors as well as court cases involving bank (legal processing) and the implementation of good corporate governance in banks.

Bank Indonesia regulations No.8/4/PBI/2006 or the Implementation of Good Corporate Governance for Banks states that Directors are fully responsible for the implementation of the management of the bank. In other words, the board shall implement the principles of Good Corporate Governance. While the commissioner supervises the actions and strategies of directors in achieving corporate goals. In addition to the remuneration disclosures as described previously, Implementation of Good Corporate Governance for banks in detail in chapter 17, articles 22 to 24 describe the aspects of the board of directors and the board of directors as follows:

Member of Board of Commissioners (BOC) must disclose its shareholding in both banks concerned and on the banks and other companies, located inside and outside the country.

Member of Board of Commissioners (BOC) must disclose financial relationships and family relationships with other BOC's members, members of the Board of Directors and / or shareholders of the Bank.

Members of the Board of Directors (BOD) either individually or jointly are prohibited from owning more than 25% (twenty five percent) of the paid up capital of the Bank and / or another company.

The majority of member of the Board of Directors (BOD) are prohibited from having family ties to the second degree with a fellow member of the Board of Directors and / or the Board of Commissioners.

Structure of Ownership. Sutojo and Aldrige (2005) described one of the internal factors that affect pinsip implementation of good corporate governance is the structure of ownership. Unlike the structure of ownership in America, diffuse ownership structure in Asia is dominated by a family or group. The result of a survey commissioned by the Asian Development Bank in 1999 shows that countries like Indonesia, South Korea, Malaysia, Philippines and Thailand are have special features of corporate ownership concentration on family or group.

Large private firms in Japan are controlled by a group/family known as keiretsu. Many Korean companies owned by the group/family called chaebol. Concentration of ownership in China is owned by the government (state ownership), while the concentration of ownership in the Philippines is the family ownership (Saldana, 2001).

Ownership structure in Indonesia is dominated by my family ownership as Kim (2006) stated the structure of foreign ownership in Indonesia is actually the family ownership structure.

Firm Performance. Nasser (2003) in his study stated that the performance of the banking company can be measured by using a measure of bank soundness by CAMEL ratios as required by Bank Indonesia. Nasser (2003) compared performances of the Government and Private Bank using CAMEL ratio and its

effect on stock price. Subsequent research in Indonesia, Zahara and Siregar (2008) also used CAMEL ratio as a measure of banking performance. In that study Zahara and Siregar (2008) examined the effect of the ratio of Camel on earnings management practices in Islamic Banking.

Bank Indonesia Regulation No.6/10/PBI/2004 is about system "health assessment which means the disclosure of commercial banks in the form of bank performance CAMEL ratios which include factors like capital, asset quality, management, earnings, liquidity and sensitivity to market risk.

Remuneration. Standard operating procedure in the Ministry of State-Owned Enterprises defines remuneration as:

"Remuneration is intended to record revenue, benefits, insurance, benefits and variable performance of prospective directors and prospective directors of the tax as a condition of doing proper test fit."

The scope of this procedure includes:

Salary - the basic salary of the prospective directors

Benefits - the main points to the benefits that prospective directors

Benefit - data entry form and insurance prospective board members

Variable Work - data entry job candidate bonus and incentives of directors.

Remuneration is all forms of salaries, allowances and bonuses received by employees. The following are acceptable forms of compensation management (Murphy, 1986):

Salary (Salary): Compensation received by fixed and adjustable with old work, performance, cost of living, and other considerations.

Bonus: Compensation received on the policy board of the company and adapted to the performance of the company.

Stock Options (Stock Option): compensation where the CEO can buy shares over a period of time.

(Restricted) Stock Award: company stock given or sold at a discount to the CEO. Often the ability of the CEO to sell the stock is limited, at least samapai certain conditions (eg reaching a certain growth targets or targets to CEO retirement or profit). The number of shares awarded depending on performance performance plans.

Phantom Stock Plans: As common stock but does not have ownership claims. CEO remains entitled to share price appreciation and dividends as well as the actual stock.

Stock Appreciation Rights: The right to collect a number of shares at a certain price at a certain time.

Robert N Anthony (1998) suggested that the manager's compensation package consists of three components:

Salary

Benefits (pension and health benefits and other benefits),

Incentive compensation consists of:

Short-term incentives: based on short-term performance, usually in the form of cash.

b. Long-term incentives: based on long-term performance as well as the form of options to purchase shares at a certain price range.

Remuneration consists of cash and share based remuneration linked to short-term performance and long-term (Milgrom and Robert, 1992). But not many companies in Indonesia that provides stock compensation associated with the performance of directors and commissioners. Compensation and remuneration terms mean the same.

RESEARCH METHODOLOGY

The study used a descriptive method. The data used were in the form of primary and secondary data. Primary data were in the form of literature that is required in the preparation of materials research and theoretical framework for the discussion and analysis of results. Secondary data were in the form of financial statements and corporate governance criteria:

- (i) Listed as a public company on the Indonesian Stock Exchange (BEI) from 2003 to 2009. Companies engaged in the banking industry in Indonesia Stock Exchange during the period 2003-2009.
- (ii) The company's annual report is available in 2004-2009. The annual report includes audited Financial Statements and Report of Good Corporate Governance.
- (iii) The completeness of the data required is in a row from 2003 to 2009.

Data

Remuneration of Directors and Commissioners. Total remuneration of directors and commissioners (DKREM) used in this study is the total remuneration of banking companies in Indonesia Stock Exchange (IDX) between the years 2004-2009 were included in the financial statements audited by an independent auditor.

Bank Performance. This study used the bank's performance in the previous period. Bank performance was obtained from the Annual Report of each bank in the Financial Highlights. This study used seven bank performance ratios are: Return on Assets, Return on Equity, Net Interest Margin, Loan to Deposit Ratio of Non-Performing Loans, Capital Adequacy Ratio and Earnings Per Share.

In table 3.1. The following is a method of calculating the ratio of bank performance used greeting this study:

Ratio	Formula
<i>Return On Asset (ROA)</i>	Profit after tax/Average total assets
<i>Return On Equity (ROE)</i>	Profit after tax/Average capital
<i>Net Interest Margin (NIM)</i>	Net interest income/Average earning assets
<i>Loan to Deposit Ratio (LDR)</i>	Credit / third party funds
<i>Non Performing Loan (NPL)</i>	Σ (Credit in quality Substandard, Doubtful Loan Loss / Total loans)
<i>Capital Adequacy Ratio (CAR)</i>	capital / risk-weighted assets
<i>Earning per Share (EPS)</i>	Profit after tax/Number of shares

Source: Central Bank of Indonesia\

Descriptive Statistic Analysis

Table 4.2 describes the variable remuneration of the board of directors and board of commissioners, bank performance (ROA, ROE, NIM, LDR, NPL, CAR, EPS), family ownership structure, foreign ownership structure and the linkages between directors and commissioners with shareholders. Assets are the controlling variables used in this study.

Remuneration DKREM. In this study, remuneration of directors and commissioners refers to the average value of remuneration divided by the number of members of the remuneration of directors and commissioners. The minimum value of the remuneration of directors and commissioners are Rp 0.17 billion and a maximum value of Rp 9.10 billion shows that the variation between the highest with the lowest remuneration in the banking industry is quite wide. Average

remuneration banks listed on the Indonesia Stock Exchange amounted to Rp 1.86 billion.

Tabel 4.2.
Descriptive Statistic N=133

		Min	Max	Mean	Std. Deviation
DKREM (Billion Rupiah)		.17	9.10	1.8599	1.69
ROA		-2.00	6.14	1.82	1.34
ROE		-37.85	66.10	15.41	13.32
NIM		1.67	13.84	5.77	2.24
LDR		24.60	103.88	68.22	17.09
NPL		.00	25.20	4.22	3.65
CAR		9.34	50.37	18.49	7.49
EPS		-38.55	496.99	94.93	119.94
SKEL		.00	98.07	32.17	34.49
SA		.00	98.96	27.15	34.88
DK		00	50	0.10	0.12
Asset (Billion Rupiah)		828.73	394,616.60	59,755.93	86,070.57

Source: SPSS 13

Return On Asset. The greater the Return on Assets (ROA) of a company means better performance of the company. Under the terms of Bank Indonesia, the standard of good ROA is about 1.5 percent (BI Circular Letter No.. 6/23/DPNP May 31, 2004). The minimum value of Return on Assets (ROA) for the banking industry of -2, showed values are below the standard of 1.5% which means that the banks are still performing below standard. However, with a mean of 1.82 and a standard deviation of 1.33, results show that the overall average value of bank ROA was 1.5% and above the standard.

Return On Equity. Return on Equity (ROE) is the ratio of net income to the bank's own capital. ROE is an important indicator for shareholders to determine the ability of banks to earn net income related to the dividend. The greater the ROE, the greater the level of profit achieved by the bank so that the possibility of the bank is less for troubled conditions. Profit after tax is net income from operations after taxes while the average total equity is the average core capital owned bank's core capital calculation is based on the provisions of the applicable minimum capital obligations. In accordance with the provisions of BI (Bank Indonesia Circular Letter appendix No. 6/23/DPNP May 31, 2004) ROE minimum standards ranging from 5% to 12.5%.

The average value of Return On Equity (ROE) of 15.43 that shows the performance of banking profitability is in conformity with the standards. There is a considerable difference between the acquisition value is much minimum negative ROE highs. ROE of -37.85 min value indicates there is still a bank that has a very low value compared to the standard ROE.

Net Interest Margin. NIM (Net Interest Margin) was used to measure the ability of bank management in managing its productive assets to generate net interest income. NIM ratios were derived from the ratio of net interest income compared to average earning assets. Net interest income was derived from interest income minus interest expense.

The greater this ratio the increase in interest income on earning assets managed by the bank so that the possibility of a bank for troubled conditions is less. In accordance with the provisions of BI (Bank Indonesia Circular Letter appendix No.. 6/23/DPNP May 31, 2004) NIM minimum standards ranged from 1.5% to 2%. The average value of Net Interest Margin (NIM) is 5.8 which show that the overall performance of the bank is on the requisite standard.

Loan to Deposit Ratio. LDR (Loan to Deposit Ratio) is used to assess a bank's liquidity by dividing the number of loans granted by the bank to deposit. This ratio is to determine the ability of the bank to repay its liabilities to its customers who invested funds and loans given to the debtors. The higher ratio indicates low

liquidity of the bank. LDR was / 3 composite rating ranged from 85% to 100% in accordance with BI (Bank Indonesia Circular Letter appendix No.. 6/23/DPNP May 31, 2004).

The results obtained on the Loan to Deposit Ratio (LDR) demonstrated the ability of bank loans against deposits. An average value of 68% indicates that on the average only about 68% of bank credit is absorbed in the community. This shows that the overall average bank lending capabilities to third parties still below standard.

Non Performing Loan. NPL (Non Performing Loan) is a ratio that shows the ability of bank management in managing problem loans granted by the bank. NPL is calculated based on the ratio between the number of troubled loans relative to total loans. Bank Indonesia set their NPL value from 5% to 8%. This is according to Bank Indonesia regulations contained in annex Bank Indonesia Circular Letter. 6/23/DPNP May 31, 2004. The higher the bank's NPL ratio is considered less good at managing loans.

Focus is on the value of non-performing loans (NPL) because the average value of NPL was at 4.2 which show the quality of banking assets is in accordance with the requirements of Bank Indonesia amounting to 5% - 8%. However maximum value of 25% shows that still, there are banks that have not been able to manage problematic loans.

Capital Adequacy Ratio. Capital Adequacy Ratio (CAR) is a ratio that shows how much all bank assets that contain risks (credit, equity, precious fibers, charge other banks) took equity financed bank in addition to obtaining funds from outside sources banks, such as public funding, debt (debt), and others. In other words, capital adequacy ratio is the ratio of performance to measure the capital adequacy of bank owned banks to support the assets that contain or produce a risk, such as loans.

CAR is an indicator of the ability of the bank to cover the decline in assets as a result of bank losses due to risky assets (Dendawijaya, 2009). Under the terms of the Bank Indonesia Circular Letter of Bank Indonesia attachments

No.6/23/DPNP / dated May 31, 2004, the bank must either have a CAR of at least 8%. This means that if the ratio of CAR is below 8%, the bank is still inadequate. The average value of Capital Adequacy Ratio (CAR) of 18.5 indicates that the average ability of banks minimum capital exceeds the required minimum of 8%.

Earning Per Share. Variation in the value Earning per Share (EPS) which amounted to 119 shows the performance of banks in the capital market. The variation indicate there are differences in the value of EPS sizable banks listed on the Indonesia Stock Exchange.

Structure of Family Ownership. Family ownership structure (SKEL) in Indonesian banks shows the average value of 32%. This indicates that the family ownership in Indonesia is quite high.

Structure of Foreign. Likewise, the average value of foreign ownership (SA) is 27% which indicates that 27% of Indonesian banks are foreign owned.

BOD and BOC Family Relation with Shareholdres. The Board of Directors and Board of Commissioners family relations with shareholders in Indonesia (DK) were described with the average value of 10% meaning as much as 10% of shareholders are involved in the management of the company.

CONCLUSION

This study aims to review the remuneration of directors and commissioners, bank performance, as well as aspects of good corporate governance in the form of family ownership structure, foreign ownership structure and independence of the board of commissioners who have a family relationship with shareholders and financial banking companies listed in Indonesia Stock Exchange during the period 2004-2009.

Bank performance variables such as Return on Assets (ROA), Return on Equity (ROE), Net Interest Margin (NIM), Loan to Deposit Ratio (LDR), Non Performing Loan (NPL), Earning per Share (EPS) as well as the size of the Bank (assets) were used on the study. From 7 bank performance used in this study, the average performance is in accordance with the standards required. Only the value of the average loan to deposit ratio (LDR) who showed that overall only about 68% of bank credit absorbed in the community. This shows that the overall average bank lending capabilities to third parties is still below standard. This conclusion suggests that Bank Indonesia serves as the regulator of the banking industry in order to monitor the credit absorption into the higher society.

While doing this study, the authors found that there is a fundamental difference in the remuneration report at the bank's Annual Report. In the observation period 2004 - 2006, prior to the issuance of Bank Indonesia regulations No.8/4/PBI/2006 on Implementation of Good Corporate Governance for Banks and reveal the implementation of good corporate governance in accordance with the Annual Report of the Chairman of the Capital Market Supervisory Agency and Financial Institution No.KEP-134/BL/2006 and Obligations Submission of Annual Report for publicly listed companies. In the period before the regulation was issued, many banks only include remuneration of directors and commissioners only in the Financial Statements are audited by the independent auditor. After the regulation was issued in 2006, there are 17 banks that consistently reported remuneration in the Corporate Governance Report. Upon closer examination, many of the data remuneration contained in the Financial Statements is different from

that contained in the Corporate Governance Report. The difference occurs because the composition of the remuneration of the Corporate Governance report includes:

Remuneration in the form of salaries, bonuses, benefits routine, and other facilities in the form of non-kind in addition to in-kind such as housing, transportation, health, and so on.

The remuneration set out in the Financial Statements was in the form of salaries and benefits alone. This study used only the remuneration of directors and commissioners listed in the Financial Statements contained in the Independent Auditor's Report which shows that no cash remuneration, bonuses, allowances, bonuses, and other perks received by the board of commissioners.

Implications

This study describes the disclosure of the remuneration of directors and commissioners in the period 2004-2009 that may provide benefits to the disclosure of the remuneration of directors and commissioners in the future. Disclosure in detail of relationship of directors to shareholders other than the commissioner of family and financial ties is required to demonstrate the independence of directors in managing the banking commissioner.

This study also contributes to students with demonstrated performance of the banking industry, foreign and family ownership structure, directors and commissioners remuneration. More implications for the academics is the result of this study showing the number of registered banks, merger / acquisition and delisting of the Indonesia Stock Exchange in 2004-2009 that revealed the remuneration of directors and commissioners, bank performance conditions, as well as the implementation of good corporate governance disclosure in the form of ownership structure, and the relationship board of commissioners.

References:

- Abdullah, S.N. (2006). Directors' Remuneration, Firm's Performance and Corporate Governance in Malaysia among Distress Companies. *Corporate Governance*, Vol.6 No.2, pp.162-174.
- Abe, N., Gaston, N., Kubo, K. (2005). Executive pay in Japan: the role of bank appointed monitors and the Main Bank relationship. *Japan and The World Economy* 17, 371- 394.
- Anthony, R., Govindarajan, V. (1998), *Management Control System*, 9th edition; McGraw-Hill.
- Basu, Hwang, Mitsudome, Weintrop, 2006. Corporate Governance, Top Executive Compensation and Firm Performance in Japan. *Pacific - Basin Finance Journal* 15, 56-79.
- Bebchuck, A.L., Jesse M. Fried dan David I. Walker. (2002). Managerial Power and Rent Extraction in The Design of Executive Compensation. *The University of Chicago Law Review*, Vol. 69, 751-846.
- Bebchuck dan Jesse M. Fried. (2003). Executive Compensation as an Agency problem. *The Journal of Economic Perspective*, Vol. 17, No.3. (summer), 71-92.
- Bursa Efek Indonesia. <http://www.idx.co.id>.
- Chalmers, K., Ping-Sheng Koh dan Geof Stapledon.(2006). The Determinant of CEO Compensation: Rent Extraction or Labour Demand. *The British Accounting Review*, 1-17.
- Conyon, M.J (1997). Corporate Governance and Executive Compensation. *International Journal of Industrial Organization*, Vol. 15, pp. 493-509.
- Conyon, M.J and Gregg, P. (1994). Pay at The Top : A Study of The Sensitivity of Top Director Remuneration to Company Specific Shocks. *National Institute Economic Review*, Vol.149, August, pp. 83-92.

- Conyon, M.J and Leech, D. (1994). Top Pay, Company Performance and Corporate Governance. *Oxford Bulletin of Economics and Statistics*, Vol.56 No.3, pp. 229-47
- Conyon, M.J., and Peck, S.I. (1998). Board Control, Remuneration Committee. and Top Management Compensation. *Academy of Management Journal*, Vol. 41 No. 2, pp. 146-57.
- Cooper, D.R. and P.S. Schindler. (2006). *Business Research Methods*, 9th edition, Boston; McGrawhill.
- Core, John E., Holthausen, Robert W., Larcker, David F. (1999). Corporate Governance, Chief Executive Officer Compensation, and Firm Performance. *Journal of Financial Economics* 51, 371-406.
- Claessens, S.,Stjin, Simeon Djankov, Lang, Larry H.P. (1999). Who Controls East Asian Corporations. *Working Paper*, Washington D.C: World Bank.
- Cleassens, Stjin, Djankov , Simeon, Fan, Joseph P.H., Lang, Larry H.P. (2002). Disentangling The Incentive and Entrenchment Effects of Large Shareholdings. *Journal of Finance* 57, 2741.
- Doucouliaagos , H., Haman, J., and Askary, S.(2007). Director's Remuneration and Performance in Australian Banking. *Blackwell Publishing, Oxford*. Vol. 15 No. 6.
- Firth, M., Tam, M. and Tang, M. (1999). The Determinants of Top Management Pay. *Omega*, Vol. 27 No. 6, pp.617-35
- Gaji Bankir Indonesia. (2008, September). *Infobank*.
- Gregg, P., Machi,S. And Szymnski, S (1993). The Disappearing Relationship Between Directors' Pay and Corporate Performance. *British Journal of Industrial Relations*, Vol.31, pp.1-10.

- Hassan, S., Christopher, T. and Evans, R. (2003). Directors' Remuneration and Firm's Performance: Malaysian Evidence. *Malaysian Accounting Review*, Vol. 2 No.1, pp.57-67.
- Ikatan Akuntan Indonesia. (2007). *Pedoman Standar Akuntansi Keuangan*. Jakarta; Penerbit Salemba Empat.
- Jensen, M. and Meckling, W. (1976). Theory of The Firm: Managerial Behaviour, Agency Costs, and Capital structure. *Journal of Political Economics*, Vol. 3 No.4, pp. 305-360.
- Kato, Takao dan Cheryl Long. (2005). Executive Compensation, Firm Performance, and State Ownership in China: Evidence from new panel data. *The William Davidson Institute Working Paper Number 690*.
- Kato, Takao, dan Katsuyuki Kubo. (2006). CEO Compensation and firm performance in Japan: Evidence from new panel data on individual CEO pay. *Journal Japanese Int. Economies*. 1-19.
- Kato, Takao, Woonchan Kim, dan Ju Ho Lee. (2006). Executive Compensation, firm performance, and Chaebols in Korea: Evidence from new panel data. *Pacific - Basin Finance Journal*.
- Khana, Tarun dan Khrisna Palepu. (1999). Emerging Market Business Groups, Foreign Investors, and Corporate Governance. *National Bureau of Economics Research Working Paper*, <http://www.nber.org/papers/w6955>.
- Kim, Sung Suk. (2006). *Hubungan simultan antara struktur kepemilikan, corporate governance, dan nilai perusahaan dari perusahaan di Bursa Efek Jakarta*. Disertasi tidak dipublikasikan. Universitas Indonesia, Fakultas Ekonomi, Pascasarjana Ilmu Manajemen.
- Lemmon, M., Lins, K. (2003). Ownership Structure, Corporate Governance, and Firm Value: Evidence from The East Asian Financial Crisis. *Journal of Finance* 58, 1445- 1468.

- Main, B.G.M., Bruce, A. dan Buck, T. (1996). Total Board Remuneration and Company Performance. *The Royal Economic Society*, Vol.106,No.439. pp. 1627-1644.
- Meriewaty dan Setyani. (2005). Analisis Rasio Keuangan Terhadap Perubahan Kinerja pada Perusahaan di Industri Food and Beverages yang Terdaftar di BEJ. *Dipresentasikan pada Simposium Nasional Akuntansi VIII* di Solo.
- Murphy, K.J. (1985). Corporate Performance and Managerial Remuneration: An Empirical Analysis. *Journal of Accounting and Economics* 7, 11-42.
- Milgrom, Paul dan Roberts, John. (1992). *Economics, Organization & Management*. Prentice Hall.
- Nasser, Etty M. (2003). Perbandingan Kinerja Bank Pemerintah dan Bank Swasta dengan Rasio CAMEL serta Pengaruhnya terhadap Harga Saham, *Media Riset Akuntansi, Auditing dan Informasi*, Vol 3 No 3 Desember 2003 : 217-136.
- Rossieta, Hilda. (2003). Agency Relationship and Monitoring Systems in Commercial Banks. *Usahawan*. No. 02 Th. XXXII Februari 2003.
- Ulupui, I.G.K. (2009). *Pengaruh Struktur Kepemilikan, Praktik Governance terhadap Kompensasi Direksi Komisaris dan Dampak Ekses Kompensasi terhadap Kinerja Perusahaan*. Disertasi tidak dipublikasikan. Universitas Indonesia, Fakultas Ekonomi, Pascasarjana Ilmu Manajemen.
- Unite, A., Sullivan, M., Brookman, J., Majadilas, M., Taningco, A. (2008). Executive Pay and Firm's performance in the Philippines. *Pasific- Basin Finance Journal*, No. 16, pp. 606-623.
- Saldana, C. (2001) The Philippines. In: Zuang, J., Edwards, D., Capulong, M.V. (Eds), *Corporate Governance and Finance in East Asia: A Study of Indonesia, Republic of Korea, Malaysia, Philippines, and Thailand*, vol Two. Asian Development Bank.

- Scott, William R. 2003. *Financial Accounting Theory*. Third Edition. Canada Prentice Hall.
- Sutojo, Siswanto., Aldridge, E John. (2005). *Good Corporate Governance*. Jakarta: Damar Mulia Pustaka.
- Yeh, Yin-Hua, Tsun-Siou Lee dan Tracie Woidtke. (2001). Family Control and Corporate Governance: Evidence from Taiwan. *International Review of Finance*, 2, 21-48.
- Zahara dan Siregar (2008). Pengaruh Rasio Camel terhadap Praktik Manajemen Laba di Bank Syariah. Simposium Nasional Akuntansi tahun 2008.