Determinant of Executive Compensation (Evidence from Indonesian Banking)

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ABSTRACT: The Covid-19 pandemic, in addition to having an impact on Indonesia's economic growth which is a minus, also has a negative impact on almost all industrial sectors in Indonesia. One of the industrial sectors under pressure is the banking sector. The decline in the performance of the banking company will affect the company's profitability. There are many things that will be done by the principal to make efficiencies related to all kinds of expenses, one of the components that can be reviewed is the amount of executive compensation. This study aims to analyze the effect of ROA, credit growth, growth of third-party funds, NPLs, and Covid-19 on the amount of executive compensation for banking companies listed on the Indonesia Stock Exchange in 2018 to 2021. This research is a quantitative study that uses the puposive sampling method. The results of the study found that ROA, credit growth, and company size were able to influence the amount of executive compensation for banking companies in Indonesia. Meanwhile, the growth of deposits, NPLs, and the Covid-19 pandemic did not affect the amount of executive compensation for banking companies in Indonesia.

KEYWORDS: ROA,credit growth, deposit growth, NPL, Covid-19, Executive compensation

I. INTRODUCTION

Since March 12, 2020, the WHO (*World Health Organization*) has declared the Covid-19 outbreak a pandemic. This has a serious impact on the health of the world's people and also greatly affects sectors of various economies. Based on data from September 2021, more than 219 million people were diagnosed with COVID-19. The Indonesian government adopted a policy that asked people to stay at home and prohibited public places from operating. In addition, many other countries have imposed import restrictions in preventing the transmission of the COVID-19 virus,.[1]. This has caused stagnant economic growth as well as weakening consumption and exports. In addition to having an impact on Indonesia's economic growth which is minus, the spread of the Covid-19 virus also has a negative impact on almost all industrial sectors in Indonesia. One of the industrial sectors under pressure is the banking sector. The banking sector is a service business sector that collects funds from the public to then distribute them back to the public in the form of loans or credit. However, due to the Covid-19 pandemic, the banking sector cannot freely channel its credit to any company. influenced by the higher risk of bad debts or defaults from debtors because most debtors, both individuals and companies, tend to experience a decrease in income during the Covid-19 virus pandemic. The OJK report on the Banking Industry Profile in the fourth quarter of 2020 showed an increase in credit risk and a decrease in profitability in line with economic activity that has not recovered due to the impact of the COVID-19 pandemic. Although *Non-Performing Loans* (NPLs) both *gross* and *net* were still maintained in the light range of 3.06% and 0.98%, respectively.

Based on the results of a survey by the Ministry of Manpower on its website, it is stated that there are around 88% of companies in Indonesia affected by the Covid-19 pandemic where for the last six months of 2020 they have lost money. In fact, it is also stated that 9 out of 10 companies in Indonesia have experienced the direct impact of the Covid-19 pandemic. On the Kominfo *website* on February 7, 2022, it was reported that the Central Statistics Agency (BPS) recorded that cumulatively the Indonesian economy throughout 2021 managed to grow positively to reach 3.69%, or better than 2020 which contracted by 2.07%.

The decline in the performance of the company will affect the company's profitability where the profits generated will have a negative effect and contribute to making shareholders very selective in terms of spending money both for investment and for the company's operating costs. There are many things that will be done by the principal to make efficiencies related to all kinds of expenses, one of the components that can be reviewed is the amount of executive compensation. Analysts point out that it is appropriate for incentive payment criteria to be changed in this extraordinary situation. But the board of directors must be able

to answer questions from shareholders who may disagree if executive salaries remain high at a time when the company is in crisis. Meanwhile, in Indonesia itself, there has not been much research found on executive compensation policies during this pandemic.

Several studies related to compensation include research finding that there is a positive and significant relationship between company performance and total executive compensation. Those results are reinforced by research, which found empirical evidence of a significant relationship between company performance and CEO compensation. Subsequent research by, which found that there was a positive influence between the performance of the proxied company and the ROA with the CEO's compensation. The findings of the study, show that the company's financial performance is an important determinant of the CEO's compensation. This is corroborated by research conducted by using different research objects, namely financial companies where they get results that the company's performance has a positive influence with executive compensation. Research from proves that significantly the company's performance has a positive effect on executive compensation. This indicates that when the company's performance improves, the compensation received by executives will also increase.[2][3][4], [5][6][7][8]

Different results are presented by who in his research found that financial performance had no effect on executive compensation. Similarly, research conducted by, found a negative influence of executive gross salaries on stock market performance. The results of the study found that the projected performance of companies with ROA, and [9][10][11]*market risk* did not have a significant effect on executive compensation. The findings suggest that profitability has a negative effect on executive compensation. These findings shed light on research on agency theory that compensation for performance does not apply in Indonesia.[12]

The discrepancy in the results of various studies on executive compensation above has led to the need for retesting with different data settings and conditions. This study aims to add evidence about the effect of company performance, credit quality, and Covid-19 on the amount of executive compensation in banking companies in Indonesia. The update of this study is to present new variables, namely credit growth and growth of third-party funds in testing factors that affect the amount of executive compensation, as well as testing whether Covid-19 influences executive compensation.

II. LITERATURE REVIEW
A. Agency Theory
[13] explains in agency theory that there are two important types of compensation contracts that have implications for financial accounting theory, the first is employee contracts between companies and top management and loan contracts between management and creditors. Conflicts will arise when management takes on several projects that have a greater risk than expected by creditors. Another conflict will arise when the company increases the amount of debt to a higher level than the creditor estimates.

According to [14] agency theory is based on three assumptions, namely: (1) Assumptions about human nature that emphasize humans as having selfishness, having rational limitations, and not liking risk; (2) Assumptions about the organization of conflicts between members of the organization, efficiency as a criterion for productivity and the presence of asymmetric information between principals and agents; and (3) assumptions about information being viewed as commodity goods that can be traded.

B. Return on Asset (ROA)
Company performance can usually be measured by knowing how a company's ability to make a profit. One of the indicators that can measure the ability of a company's performance to produce is to use profitability analysis. One of the ratios that will be discussed in the earnings aspect is the ROA ratio which measures management's success in making a profit. The smaller this ratio indicates a lack of bank management ability in terms of managing assets to increase revenue and or reduce costs.

ROA analysis is a commonly used analytical technique to measure the level of overall operational effectiveness of a company. This analysis has a very important meaning as a comprehensive method. The study noted that the projected profitability variable with ROA positively affects executive compensation, [6], [15], [16]*Return on Assets* is usually used to measure the ability of bank management to obtain profit before tax generated from the average total assets of the bank concerned. The greater the ROA obtained, the greater the level of profit achieved by the bank. Large companies have a large scale, the higher the ROA, the higher the company's profit, and the better the companies.

C. Credit Growth
Credit is the ability to extend the purchase period with the promise that payment will be made within the agreed period, [17], One of the activities that can improve the national economy is by disbursing credit. To meet the needs of the community, the bank provides working capital support through loans. When lending, banks earn income from the difference between interest on funds and interest on loans, [18]. Lending is one of the main sources of income for banks which is expected to have a positive impact on bank performance.

[19] concluded in their research that credit is a microeconomic factor that has a significant influence on profitability.

D. Non-Performing Loan

High risks will be avoided by the executive because the failure rate will be high. Compensation is given as a reward for the performance of executives taking risks and producing good work. The risk used in this study is credit risk. Credit risk is based on the relationship between the banking industry that runs services and the turnover of customer money, especially on credit. Credit risk is proxied with Non-Performing Loans (NPLs). NPLs that have a high value mean that bank credit quality is getting worse, [20]. High risk results in poor performance. [21] concluded that projected credit risk with NPLs has a negative impact on profitability. Compensation is based on profitability or resulting performance. The higher the performance the greater the compensation provided. The higher the risk will be negatively related to compensation.

E. Covid-19

In his research found that the Covid-19 outbreak reduced the financial performance of China-listed companies proxied by revenue growth rates, ROA, ROE, and asset turnover. The impact of the coronavirus or Covid-19 outbreak in Indonesia is felt by various groups, not only entrepreneurs in different industries, but all social classes. As an effort by the government to predict the spread of the coronavirus, these communities are gradually losing income due to social distancing and the concept of working from home. MSMEs began to lose their market and almost closed. This decline in the incomes of workers and economic actors can affect their financial situation and expose them to the risk of default if they borrow or withhold installments or loans before the outbreak. In response to this, President Joko Widodo provided various conveniences to those affected by the coronavirus pandemic through a press release dated March 24, 2020. [22]

F. Executive Compensation

The definition of compensation from [23] means a broader concept, namely where compensation is all forms of financial, or non-financial change or returns obtained as a result of staffing correlation. Another purpose of the compensation package is to motivate employees to maximize their potential to make greater profits. According to [13], an executive compensation plan is an agency contract between a company and its managers that tries to align the interests of owners and managers by basing manager compensation on one or more measures of manager's performance in operating the company. The amount of executive compensation can be used as a tool to minimize misalignment of goals between agents and principals and reduce agency problems.

G. Hypothesis Development

- **Effect of Return on Asset (ROA) on executive compensation**

The company's performance is the company's ability to make a profit from sales, assets, and capital. Research was also conducted by finding that company performance has a positive effect on executive compensation. The achievement or business results of a company can be seen from the performance size of a company. [24][25] ROA analysis in financial analysis has a very important meaning as a comprehensive method. ROA analysis is a commonly used analytical technique to measure the overall operational efficiency of a company. According to [26] *Return on Assets (ROA)* is a measure of the rate of return (*earnings*) on all assets used by a company. In addition, ROA provides a measure of management efficiency in managing investments. This ratio is used to measure how much net profit can be obtained from each rupiah of funds embedded in total assets. The higher the ROA, the higher the company's profits and the easier it is for the company to take advantage of the assets it has. It is expected that with the improvement of the performance of the company, the package of compensation will increase also as a reward for the achievements of the principals to the agents. Based on the above statement, the first hypothesis in this study can be drawn, namely:

H_1: **ROA positively affects executive compensation**

- **Effect of Credit Growth on executive compensation**

Studies on the impact of credit growth on profitability conducted by found that credit growth has a great positive impact on profitability. The study, supported by, also found that credit growth had a significant positive effect on profitability. The company's profitability is one of the considerations by stakeholders when making policies or decisions related to investing in banks. Profitability is a tool for evaluating the effectiveness of management in making a profit (profit). When customer demand for credit increases and bad debts do not occur, the bank's profits will increase because it earns interest on its loans. [19][27]

The higher the credit growth, the better the quality and quantity of credit, the greater the chances of banks returning the funds to the public and borrowers, and the greater the chances they have of making a profit, . With the increase in profitability of the company (bank), the amount of executive compensation is expected to increase also as a form of appreciation for the

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achievements that have been achieved by the agent. Based on the above statements, this study draws the second hypothesis, namely:[17]

H₂. Credit growth positively affects executive compensation

- **Effect of 3rd Party Fund Growth on executive compensation**

According to research conducted by states that the growth of third-party funds has a significant positive effect on profitability. Which means that with the increasing number of third-party funds, the available funds that will be used for giving/distributing credit to customers will also increase so that it is also expected to increase the company's revenue. This is also expected to have an impact on the increase in profitability of the bank, assuming that there are no bad loans for the distribution of these deposit funds. Previous research on the growth of third-party funds on profitability conducted by stated that the growth of third-party funds has a significant positive effect on profitability,[28][29]

With the increase in profitability of the company (bank) it is expected that the amount of compensation as a reward for the achievements of executives will increase. Based on the above statements, this study draws the third hypothesis, namely:

H₃. The Growth of Third-Party Funds Positively Affects Executive Compensation

- **The effect of NPLs on executive compensation**

Credit quality can be measured by the NPL (*Non-Performing Loan*) ratio. The smaller the NPL value, the greater the credit that can be billed for each bank. The greater the risk

The credit received by the bank, then of course, the collectability of the bank will have a negative impact on its profitability. The nature of a *self-interest* agent will try to avoid risks to be safe in his position in the company. while the principal wants high risk because according to the principal when the risk taken is high, the company's growth is fast and the profit that can be achieved by the principal is high. The principal will incur costs in the form of compensation to decision makers as a reward for wanting to make decisions at the risk they take. study the study of CEO risk and compensation, which is the degree of influence of decision-making to avoid risk by executives. The results of the research conducted by proved that there is a significant negative impact of the CEO's gross salary on the company's risk level.[30][10]

Banking is engaged in services where credit turnover is the highest transaction in banking services. Credit risk was used in this study. If the credit risk is high, it means that the bank's credit is getting worse. So, it is hoped that executives can make bad credit better in the company by making some policies or decisions made by professional experts. Poor credit quality will result in decreased profitability so that the company's performance will also decrease. The owner of the company will provide high compensation as a guarantee to be able to improve the company's poor credit quality. Based on the following thinking, the fourth hypothesis is:

H₄: NPL negatively affects executive compensation

- **The effect of the Covid-19 Pandemic on executive compensation.**

[22] stated that the COVID-19 pandemic caused the company to close and/or limit its operations for the sake of public health insurance. The business world is experiencing problems running its business wheels with physical distancing, decreased production, people's purchasing power decreases so that the business sector that has loans at banks experiences problems in making installments. /Pay it. This will have an

impact on the banking sector with an increasing number of bad debts (NPLs). According to, the Covid-19 pandemic is detrimental to the company's financial and non-financial performance while arguing that the pandemic has resulted in a collapse in demand, disruption of supply chains, declining employee welfare, and increased uncertainty. [31][32].

Research conducted by found that First, COVID-19 affects almost all types of companies. Second, in aggregate, COVID 19 simultaneously increased enterprise-level uncertainty and worsened the business prospects of most companies' companies. The Covid-19 pandemic has made the economy uncertain, and this makes investors think harder in making investments and in terms of making decisions related to financing, including in this case about compensation for executives. "Investors want the board and in particular the compensation committee to be prudent about compensation and incentive payments," said Glenn Davis, deputy director of the Council of Institutional Investors. Based on the foregoing, the fifth hypothesis can be taken, namely.:[32]

H5: Covid-19 pandemic negatively affects executive compensation.

Variabel	Proxy	Measurement
Executive Compensation	Total Income of the Board of Directors	Ln (salary$_t$ + Allowances$_t$ + bonus$_{(t-1)}$)
Company Performance	ROA	ROA = $\underline{\text{profit before tax}}$ x 100% Total Asset

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	Credit Growth	LGR = $\dfrac{\text{Total Loans}_t - \text{Total loans}_{t-1}}{\text{Total loans}_{t-1}}$ x 100%
	Growth of Third-Party Funds	Deposit Growth = $\dfrac{\text{Third Party Funds}_t - \text{Third Party Funds}_{t-1}}{\text{Third Party Funds}_{t-1}}$ x 100%
Credit Quality	NPL	NPL = $\dfrac{\text{Non-Performing Loans}}{\text{Total Credits}}$ x 100%
Covid-19	Dummy Variabel	Period before covid = 0 Period when covid = 1
Company Size	Total Credit	Ln (Total Credit$_t$)

III. RESEARCH METHODS

This study used all banking companies listed on the Indonesia Stock Exchange (IDX) from 2018 – 2021 as a population. From the data released by the IDX in 2021, there are 39 Indonesian banking companies on the IDX that will be sampled. The sampling method in this study was taken by purposive sampling. In this study, researchers used secondary data as a data source. The secondary data used consists of literature studies derived from previous research related to the research theme raised and researched by the researcher. The literature studies used are books, international journals, national journals, and legislation related to variables, namely the independent variables are company performance, credit quality, and the Covid-19 Pandemic. The bound variable of this study is executive compensation.

IV. RESULTS AND DISCUSSION

This study examines the effect of company performance, credit quality, and the Covid-19 pandemic on the amount of executive compensation for banking companies in Indonesia. The sample of this study consisted of 39 banks in Indonesia listed on the Indonesia Stock Exchange with an observation period of 2018-2021, so that in this study 39 annual reports of banks in Indonesia were used with a total of 156 observations.

A. Descriptive Statistical Analysis

The research sample is a bank in Indonesia listed on the Indonesia Stock Exchange. Data taken from the annual financial statements for the period 2018-2021.

Tabel 2.

Descriptive Statistics

	EC	ROA	LGR	DPK	NPL	SIZE
Mean	10.32207	0.642518	14.25412	14.79485	3.757364	16.98211
Median	10.00499	0.577691	6.297041	6.148538	3.005000	16.58418
Maximum	13.25441	11.42065	491.3231	571.6869	22.27000	20.24626
Minimum	7.933080	-12.28423	-73.47478	-53.75849	0.000000	12.55952
Std. Dev.	1.301543	2.859766	55.67678	52.17394	2.916220	1.746072
Observations	156	156	156	156	156	156

Source: Data processed using Eviews 10. 2023

From the results of the descriptive statistical test using Eviews 10 above, there were 156 samples tested. The average natural Logarithm of the Executive Compensation (EC) value of a Bank in Indonesia is Rp. 74,177,000,000.00 with a maximum executive compensation value of Rp.570,581,000,000. Logarithm Natural the minimum executive compensation value owned by Bank Amar in 2018 was 7.93 or worth Rp. 2,788,000,000.00 which means that the bank that compensated executives the least was Bank Amar in 2018. The average ROA of Bank in Indonesia is 0.642518% with a maximum ROA value of 11.42065% owned by PT. Bank CIMB Niaga Tbk in 2019. Meanwhile, the minimum ROA value is found at Bank Jago, which is -12.28% in 2018. The average loan growth (LGR) of the Bank in Indonesia is 14.25412% with a maximum LGR value of 491.32%. The average growth of Bank third party funds (DPK) in Indonesia is 14.79485% with a maximum deposit growth value of 571,686% owned by PT. Bank Jago Tbk in 2021, Meanwhile, the minimum value of DPK is found in PT. Banten Tbk Regional Development Bank amounted to -53.75849% in 2020. The average *Non-performing Loan* (NPL) ratio of Bank in Indonesia is 3.757364% with a maximum NPL ratio of 22.27% owned by PT. Banten Regional Development Bank Tbk in 2021. Meanwhile, the minimum NPL value is found in Bank Capital Indonesia Tbk in 2020 and 2021, and PT Bank

Jago Tbk in 2020, where each NPL ratio is 0.000%. The average natural logarithm of total Bank loans (SIZE) in owned by PT. Bank Central Asia Tbk in 2021, means that Bank in PT. Bank Jago Tbk amounted to Rp. 284,795,000,000,000.00 in 2019. This shows that in 2019 PT. Bank Jago Tbk has the lowest ability in lending.

B. Panel Data Model Definition

In the data panel method, there are three methods used, namely the command effect model, fixed effect model and random effect model. The first test uses a chow test to find out which model is best between CEM, and FEM. Chow test results indicates that the prob value in Cross-section F is 0.0000 < 0.05 so, it can be concluded that among the 2 models the FEM is the best model. After that, it was continued by conducting the second test, namely the Hausman test, which is to find out the best model between FEM and REM. The Hausman test was carried out by following the statistical distribution of chi-square (X2) with a degree of freedom of k, where k is the number of free variables. If the Hausman value is greater than its critical value, then the exact model is FEM and vice versa if the Hausman statistical value is smaller than its critical value then the exact model is REM. The test results using Hausman Test showed that in Cross-section random prob values of 1.0000 > 0.05 so, the best method among the 2 models was REM. After that, it was continued by conducting the third test, namely the Lagrange Multiplier Test (LM Test), which is to find out the best model between R EM and CEM. The test results using LM Test showed that the Breusch-Pagan prob value (BP) was 0.0000 < 0.05 so, the best method chosen in this study was REM. After three tests, the REM model is the best modern that will be used in this study.

C. Test Classical Assumptions

- **Normality Test**

The normality test aims to test whether regression models, disruptive or residual variables have a normal distribution. A good regression model is to have a normal or close to normal distribution [33]. Based on the output of the graph, it is known that the probability value of Jarque-Berra is 0.086271 greater than the significance level (α) of 5% or 0.05, then Ho is accepted. The decision is that the residual data on the regression model is normally distributed, so this data is worth passing on in the study.

- **Multicolonearity Test**

The multicollinearity test aims to test whether in the regression model there is a correlation between independent variables (Ghozali, 2016). If there is no correlation between independent variables, the regression model can be categorized as a good model. To find out the presence or absence of multicollinearity can be known from the Multicollinearity Test using the Paired Correlation Method. By the test output obtained results in the form of a correlation value of each free variable < 0.85 then Ho accepted, the decision was that there was no multicollinearity between free variables in the regression model.

- **Heteroskedasticity Test**

The heteroskedasticity test aims to test whether in the regression model there is a variance inequality from the residual of one observation to another [33]. Based on the output of the test results in table 4.10, the probability value of each variable ROA, LGR and SIZE was smaller than the significance level (α) of 0.05, so Ho was rejected. Meanwhile, in the DPK, NPL, and COV variables, the probability value of each is greater than the significance level (α) of 0.05. Then Ho was accepted. The existence of this discrepancy is not considered a problem. This is because the data used is the *Random Effect Model* (REM) where this model already uses the GLS approach useful for curing symptoms of heteroskedasticity. So, the REM model is assumed to be free from the symptoms of heteroskedasticity.

- **Autocorrelation Test**

The autocorrelation test aims to test whether in linear regression models there is a correlation between the disruptor error in the t period and the disruptor error in the t-1 (previous) period. If a correlation occurs, then there is an autocorrelation problem. Autocorrelation arises because sequential observations over time relate to each other. This problem arises because the residual (disruptor error) is not free from one observation to another [33]. The autocorrelation test was performed using the Durbin Watson test. The output of the test results in table 4.11 shows that the Durbin-Watson value is 1.66 where -2 < 1.66 < +2 so it can be concluded that in this model there are no symptoms of autocorrelation

D. Hypothesis Test

Before further testing, the sample has passed classical assumption testing consisting of normality test, multicollinearity test, heteroskedasticity test, and autocorrelation test.

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- **Coefficient of Determination Test**

From the results of the coefficient of determination test, the value of R Square is 0.658426 or 65.84%, which means that the executive compensation variable can be explained jointly by the variables ROA, LGR, DPK, NPL, Covid and SIZE of 65.84% while 34.16% of the dependent variables are influenced by external factors or other variables that are not studied in this research model.

- **Simultaneous Significance Test (F Test)**

Based on the regression output of the Random Effect Model in the Prob (F-Statistic) column, it is known that the probability value of the regression model is 0.0000 while the estimated error rate of the study (α) is set at 0.05. The results of the comparison are known to be the probability value of F-Stat (0.0000) < α (0.05) so that based on the decision criteria it can be concluded that ROA, LGR, DPK, NPL, Covid, and Size together have a significant effect on the amount of executive compensation. Thus, it can be concluded that the multiple linear regression model in this study is fit so it is feasible to do a later stage of testing.

- **Test Individual Significance (T-Test)**

Table.3. Individual Significance (T-Test) Result

Variable	Expectations of Signs	Coefficient	Significance
ROA	+	0,050	**0,0040
LGR	+	- 0,001	*0,0955
DPK	+	0,000	0,4476
NPL	-	- 0,007	0,5362
COV	-	0,019	0,6928
SIZE	+	0,598	**0,0000
R-square	0.658426		
Prob (F-stat)	0.000000		
Durbin-Watson stat	1,663054		
N	39		
ficant at the level of 5%			
cant at the level of 10%			

Source: Data processed using Eviews 10. 2023

In table 3, it is known that the value of the ROA variable coefficient is 0.05 and the significance value is 0.004 < 0.05 so it can be concluded that the ROA variable in this study has a significant effect and has a positive direction towards the executive compensation variable and these results support the first hypothesis (H_1) in this study. Based on table 3 of the LGR variable, it is known that the significance value is 0.0955 < 0.10 so, it can be concluded that the LGR variable in this study has a significant effect in the negative direction. So, the second hypothesis (H2) in this study is not supported. In table 3 the DPK variable, it is known that the coefficient value is 0.000 and the significance value is 0.4476 > 0.05 so it can be concluded that the DPK variable in this study has no significant effect and has a positive direction towards the executive compensation variable. So that in this study the third hypothesis (H_3) is not supported

In the NPL variable in table 3, it is known that the coefficient value is -0.007 and the significance value is 0.5362 > 0.05 so it can be concluded that the NPL variable in this study has no significant effect and has a negative direction towards the executive compensation variable in this study and these results do not support the fourth hypothesis (H_4).

In table 3 of the COVID-19 variable, it is known that the coefficient is 0.019 and the significance value is 0.6928 > 0.05 so it can be concluded that the COVID-19 variable in this study has no significant effect and has a positive direction towards the executive compensation variable in this study and these results do not support the fifth hypothesis (H_5) in this study.

In table 3 of the SIZE variable, it is known that the coefficient value is 0.598 and the significance value is 0.0000 < 0.05 so it can be concluded that the SIZE variable in this study has a significant effect and has a positive direction towards executive compensation variables.

Based on the REM results in the appendix to table 3, the following regression model was obtained:

EC = 0,163 + 0,050ROA - 0,001LGR + 0,00DPK - 0,007NPL + 0,019COV + 0,598SIZE.

Based on the equation above, the constant value is 0.163 which means that if the free variable is fixed, then the value of the executive compensation variable is 0.163 or Rp. 1,177,037.00 and it can be concluded that if the ROA increases by 1 unit, then the executive compensation will increase by Rp. 1,051,271.00. If credit growth (LGR) increases by 1-unit, executive compensation will decrease by Rp. 1,001,001.00. If deposit growth increases by 1 unit, the executive compensation will remain at Rp.1,000,000.00.

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If the NPL increases by 1 unit, the executive compensation will decrease by Rp. 1,007,025.00. It is suspected that during the Covid-19 period the compensation increased by Rp. 1,019,182.00 and if the total credit (Size) increased by 1 unit, the executive compensation would increase by Rp. 1,818,478.00 assuming cateris paribus.

E. Discussion

- **Effect of Return on Asset (ROA) on executive compensation**

One of the company's performance indicators can be seen from the Return on Asset ratio, where according to Cashmere (2014: 201), Return on Asset is part of the probability ratio analysis. The ratio between net profit versus overall assets to make a profit. Which shows the result on the amount of assets used in the company. In other words, Return on Asset (ROA) can be defined as a ratio that shows how much profit can be obtained from the entire wealth that the company has. This study uses ROA as a proxy for company performance.
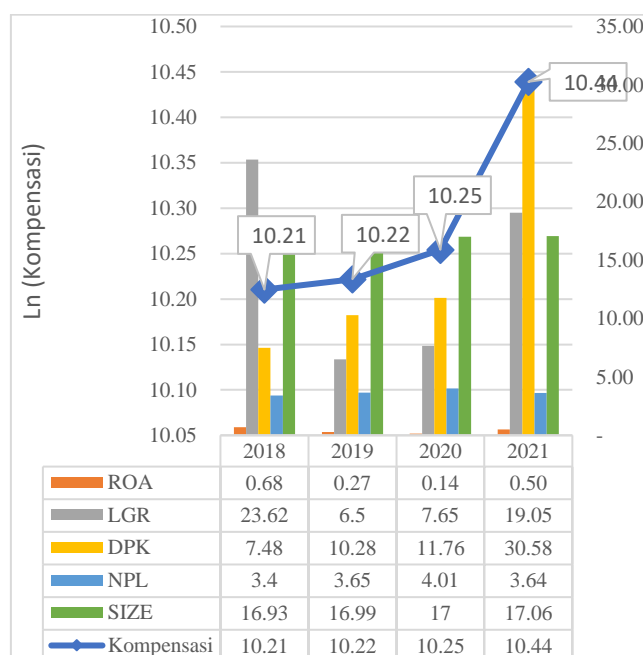

	2018	2019	2020	2021
ROA	0.68	0.27	0.14	0.50
LGR	23.62	6.5	7.65	19.05
DPK	7.48	10.28	11.76	30.58
NPL	3.4	3.65	4.01	3.64
SIZE	16.93	16.99	17	17.06
Kompensasi	10.21	10.22	10.25	10.44

Figure 4. Trend ROA, LGR, DPK, NPL, SIZE vs Compensation
Source: Data processed 2023

In figure 4, there was a significant decrease in average ROA from 2018 of 0.68% down to 0.27% in 2019 or a decrease of 0.41%. Then exacerbated again in 2020 the average ROA further fell to 0.14%. The ROA ratio decreased due to a decrease in interest income on bank loans, which is the core source of income from banks, which resulted in a decrease in the bank's net interest margin. The decline in interest income from 2018 to 2020 fell by 0.54% also triggered by the Covid-19 pandemic which caused many economic activities to falter.

- **Effect of Credit Growth on executive compensation**

Hasibuan, (2011)stated that lending is all types of loans that must be repaid along with interest by the borrower in accordance with the agreed agreement. Meanwhile, according to the Banking Law number 10 of 1998, a credit given by a bank can be defined as the provision of money or bills that can be equated with it, based on an agreement or loan agreement between the bank and another party that requires the borrowing party to pay off its debt after a certain period with the provision of interest. In this study, it can be seen in figure 4 overall from 2018-2021 that the average growth of bank LGR is at 14.25%. In 2018 LGR still showed a good value of 23.62%, a drastic decline began to occur in 2019 where LGR corrected minus 17.2% to 6.5%, especially occurred in BUKU 4 banks where the average LGR growth fell to -1.51%, this happened because due to economic conditions that were not fully conducive, and the implementation of general elections made business actors postpone business expansion. The banking industry emphasizes lending to customers with a good track record and maintains credit diversification to mitigate concentration risks.

- **Effect of Third-Party Fund Growth on executive compensation**

Funds - funds raised from the public (Third Party Funds) are the largest source of funds most relied on by banks[35]. Banks place these funds in the form of productive assets such as credit. Based on figure 4 above, the growth of third-party funds has increased continuously in 2019, increasing by 2.8% from 7.48% in 2018 to 10.28% in 2019. Then it rose to 11.7% in 2020, further growing to

30.58% in 2021. The increase in the growth of third-party funds from year to year is a form of public trust in banks to store their funds which can then be withdrawn at maturity in exchange for interest income and capital gains from the bank. Funds sourced from public funds or third-party funds (DPK) are the main source of funding for a bank's operations and a measure of a bank's success if it can fund its operations from these sources[36] The greater the third-party funds raised are expected to increase the amount of credit that will be channeled to debtors, so it is expected to increase the company's profitability. The increase in third-party funds is expected to improve the company's performance which is one of the benchmarks for the success rate of a company.

- **The effect of NPLs on executive compensation**

Non-Performing Loan (NPL) is the ability of bank management to manage non-performing loans provided by banks, meaning that the higher the NPL, the worse the bank's credit quality which causes the number of non-performing loans to be greater and banks in non-performing conditions to be greater due to the rate of return on bad loans. [35] Based on the figure of 4.25 NPL trends increased from 2018-2020, in 2018 the NPL ratio was 3.4% then increased in 2019 to 3.65% and continued to rise in 2020 to 4.01%. It wasn't until 2021 that it started to fall to 3.64%.

- **The effect of the Covid-19 Pandemic on executive compensation**

The Covid-19 pandemic has caused economies around the world to experience a slump, almost all business sectors have experienced a slump. To deal with COVID-19 cases and mitigate the widespread transmission of new variants, various countries are intensifying their vaccination programs along with re-tightening mobility. One of the sectors affected by the Covid-19 pandemic is banking. The decline in business activities made it difficult for banks to disburse their credit because many entrepreneurs closed their businesses or delayed expansion. Coupled with the high risk of uncollectible credit because of the debtor's inability to fulfill its obligations. This makes the profit generated by a bank decrease so that the performance of the bank itself becomes unsatisfactory.

V. CONCLUSION

This study aims to analyze the effect of ROA, credit growth, growth of third-party funds, NPLs, and Covid-19 on the amount of executive compensation for banking companies listed on the Indonesia Stock Exchange in 2018-2021. This research differs from previous studies by adding variables of credit growth, growth of third-party funds, and Covid-19 in independent variables as contributions and updates in this study. Research with a sample of Indonesian banking companies listed on the Indonesia Stock Exchange shows that ROA has a positive and significant effect on the amount of executive compensation, while the credit growth variable shows a negative and significant influence on the amount of executive compensation.

The results of testing the growth variables of Third-Party Funds prove that deposit growth has no effect on executive compensation. Similarly, the results of the NPL variable research test proved to have no effect on the amount of executive compensation. The results of the Covid-19 variable dummy test prove that covid-19 has no effect on executive compensation. The Covid-19 pandemic has not decreased the amount of executive compensation. The control variable of the size of the projected company with total credit proved to have a positive and significant effect on executive compensation. From the explanation above, it can be concluded that only ROA, credit growth, and company size are able to influence the amount of executive compensation for banking companies in Indonesia. Meanwhile, the growth of deposits, NPLs, and the Covid-19 pandemic did not affect the amount of executive compensation for banking companies in Indonesia.

This study implies that projected profitability with ROA and credit growth are important factors in measuring management performance which has implications for compensation received by management, these 2 variables can be included in performance contracts which are determinants of the amount of executive compensation.

The limitation of this study is that it has not captured the influence of variables that are likely to affect the amount of executive compensation that can influence shareholder decisions in determining the executive compensation component of the bank. In this study, the compensation component did not separate the fixed compensation and compensation variables so that the results of the study were still a combination of fixed compensation and compensation variables that were not fixed. Further research is expected to use other variables that can affect executive compensation such as total capital, bank health level, and others. Further research should examine the compensation variable (bonus) as a dependent variable and if you want to use the total salary compensation plus the bonus, you can use the bonus on performance in the same year as the fixed income for the current year. Finally, subsequent research can consider other sector companies as well as other countries as objects of observation, especially developing countries in Asia.

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