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THE EFFECT OF GCG ON COMPANY PERFORMANCE WITH EXECUTIVE COMPENSATION AS A MODERATING VARIABLE

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Abstract This study aims to analyze the effect of GCG on companies with executive compensation as a moderating variable. This study uses quantitative methods and the object of research is manufacturing companies listed on the Indonesia Stock Exchange (IDX) for the 2014-2018 period. This research uses. The results of this study indicate that institutional ownership has no significant effect on company performance. Managerial Ownership has a positive effect on Company Performance. The Independent Board of Commissioners has a positive effect on Company Performance. The Audit Committee has a positive effect on Company Performance. So the fourth hypothesis in this study is accepted. KI.EC has no significant effect on company performance. KM.EC does not have a significant effect on Company Performance. DKI.EC has a positive effect on Company Performance. So the fourth hypothesis in this study is accepted. KA.EC has no significant effect on Company Performance. So the fourth hypothesis in this study is rejected.

***Keywords**: The Effect of GCG, Company Performance, Institutional Ownership, Managerial Ownership, Independent Commissioner Board of Commissioners, Audit Committee*

INTRODUCTION

The modern economy has an important role in all the industrial factors that exist here. Rapid market developments can be seen based on the capital in the economic capital. An alternative that becomes an instrument to improve a business is the capital market. This happens because the capital market becomes an income or fund for a developing agency. The sector that needs the capital market is banking. This is because the bank requires a large amount of funds to meet the needs for receivables that will be given to its customers.

Compensation is the salary given by the employer to the employee for the services rendered. It includes both fixed and variable payments that are associated with performance levels stated that compensation is an extrinsic financial and non-financial reward provided by the employer for the time, skills and effort provided by the employee in fulfilling job requirements aimed at achieving organizational goals. Employee compensation is one of the main functions of human resource management. Compensation is important for employers and employees to attract, retain and motivate employees.

Magil and Quinzi (2015) explain that a compensation system has an important purpose and a very important role. Large compensation can increase the basic salary received by employees. Shareholders argue that compensation is very important and can be aligned for shareholders. This can increase a goal to be achieved by the company. The conclusions generated in an agency have a significant influence on performance (Buachoom, 2017).

The size of the company can improve the performance and value of the company. This can be seen through research conducted by Raithatha and Komera (2016)concluded that there is a compensation system that has a better system. The size of the company can affect the increase in an asset. The larger the level of the company, the sales generated at the company will be even greater (Weston and Brigham, 2011).

Table 1. ***Research Gap***

Gap	Result	Author / Year
There is a difference in the effect of institutional ownership on company performance (ROA)	Institutional ownership has a positive effect on ROA	Ibn Trinugraha Aji (2016)
	Institutional ownership has a negative effect on ROA	Widi and Novia (2012)
There is a difference in the effect of managerial ownership on company performance (ROA)	Managerial ownership has a positive effect on ROA	Ibn Trinugraha Aji, (2016), Fuad (2015)
	Managerial ownership has a negative effect on ROA	Tamimi (2012)
There is a difference in the effect of the independence of the board of commissioners on company performance (ROA)	Independent commissioners have a positive effect on ROA	Brayen Prastika Dwi Putra, (2015), Fuad (2015)
	Independent commissioners have a negative effect on ROA	Valenti et al (2011)
There is a difference in the influence of the audit committee on company performance (ROA)	The audit committee has a positive effect on ROA	Putra (2015)
	The audit committee has a negative effect on ROA	Tamimi (2012)

In this study using Agency Theory or the theory of an annual report given to shareholders. There is an assumption of sufficient information on a condition in the company (Hidayat, 2017). In addition, it also uses stakeholder theory which can carry out an activity that is considered the main point in stakeholders. This stakeholder makes a theory that can have various kinds of information that is very important for activities that can assume that information can be played directly in organizational life (Yuniarti, 2012).Selection of manufacturing companies with the following criteria: representing the majority of companies listed on the IDX, because of the large capitalization value of the company and for the homogeneity of the data. So based on the research gap and about corporate governance on company performance (ROA) with executive compensation as a moderating variable.

Hypothesis

Effect of institutional ownership on firm performance (ROA)

Institutional shareholders are financial services in the form of banking, installments, or mutual funds. Investors who are shares with very large funds. The proportion of an ownership with a percentage made to institutional investors (Christiawan and Tarigan, 2017). In accordance with agency theory, the higher the institutional ownership, the better the implementation of GCG implementation, so that conflict agency decreases and will increase ROA.

Previous research conducted by Mirawati (2013) aimed at how the measure of profitability with ROA has a positive relationship or is interconnected with one another. Literature study on the research method is the best method in this research. Data retrieval comes from a link owned by idx.com which can be accessed via the internet. The analysis used in this research is the classical assumption test.

H1: There is a positive influence of institutional ownership on company performance (ROA)

Effect of managerial ownership on company performance (ROA)

Managerial ownership is that shareholders are able to increase the value because the value of their wealth will automatically increase. If the owner acts as a manager, it can be assumed that the agency problem will disappear. Managerial ownership is measured as the percentage of shares owned by the company's directors and their immediate family at the end of the accounting year. This measure includes ownership of directors through company vehicles, for example, where directors are the majority shareholder in another company that has direct shareholding in the particular company under consideration. The definition of managerial ownership is consistent with Morck et al. (1988) which defines managerial ownership. In accordance with agency theory, the higher managerial ownership means that the implementation of GCG implementation is getting better so that agency conflict decreases and will increase ROA.

Previous research conducted by Mirawati (2013) aimed at how the measure of profitability with ROA has a positive relationship or is interconnected with one another. Literature study on the research method is the best method in this research. Data retrieval comes from a link owned by idx.com which can be accessed via the internet. The analysis used in this research is the classical assumption test.

H2: There is a positive influence of managerial ownership on company performance (ROA)

The effect of the independence of the board of commissioners on company performance (ROA)

The board of commissioners is the party appointed to represent the main internal mechanism in monitoring the behavior of exploiting opportunities or short-term and long-term benefits of management, which is an agency theory perspective. The existence of an independent board of commissioners is considered important in the role of corporate practice, because conflicting transactions are often found that ignore the interests of public shareholders, in this case minority shareholders and other stakeholders. In accordance with agency theory, if the independence of the board of commissioners is higher, it means that the implementation of GCG implementation is getting better so that conflict agency decreases and will increase ROA.

Research conducted by Rimardhani et al (2016) examined the Effect of Good Corporate Governance Mechanisms on Company Profitability (Study on State-Owned Companies Listed on the IDX in 2012-2014) with multiple regression analysis techniques, stating that the Audit Committee has no effect on Return On Assets.

H3: there is a positive influence of the independence of the board of commissioners on company performance (ROA)

Effect of audit committee on company performance (ROA)

The board of commissioners is the party appointed to represent the main internal mechanism in monitoring the behavior of exploiting opportunities or short-term and long-term benefits of management, which is an agency theory perspective. The existence of an independent board of commissioners is considered important in the role of corporate practice, because conflicting transactions are often found that ignore the interests of public shareholders, in this case minority shareholders and other stakeholders (KNKG, 2006). In accordance with agency theory, the higher the audit committee, the better the implementation of GCG implementation, so that agency conflicts decrease and will increase ROA.

Research conducted by Rimardhani et al. (2016) examined the Effect of Good Corporate Governance Mechanisms on Company Profitability (Study on BUMN Companies Listed on the IDX in 2012-2014) with multiple regression analysis techniques, stating that the Audit Committee has no effect on Return On Assets. . This agrees with the research conducted by Raja (2016) and Putra and Nuzulla (2017).

H4: there is a positive influence of the audit committee on company performance (ROA)

The effect of institutional ownership on company performance (ROA) with executive compensation as a moderating variable

The company's financial performance can be interpreted as a financial condition owned by the company that can be seen and analyzed based on the profit data available to the company. Financial performance can be seen by how the condition of incoming and outgoing money is owned by him (Munawir, 2010). In accordance with the stakeholder theory, the higher the institutional ownership, the better the implementation of GCG implementation, especially with adequate executive compensation, so that stakeholders will be more prosperous and will increase ROA.

Institutional ownership is the number of company shares owned by other institutions/companies for example insurance companies, investment management companies, private foundations, endorsements or other large entities that manage funds on behalf of other people. The existence of parties who see professionally the development of investment which results in a very high level of control over management actions so that fraud can be minimized.

Research conducted by Ntim et al (2011) states that First, when the direct relationship between executive salary and performance is examined, we find PPS positive, but relatively

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small. Second, our results show that in the context of concentrated ownership and weak board structures; Second-level agency conflicts (director control powers and opportunism) are stronger than first-level agency problems (CEO power and self-interest). Third, additional analysis shows that CEO power and CG structure have a moderate effect on PPS. Specifically, we find that PPS is higher in firms with more reputable CEOs, founders and shareholders, higher ownership by directors and institutions, and independent nomination and remuneration committees, but lower in firms with larger boards. , a more powerful and long-term CEO.
H5: There is a positive influence of institutional ownership on company performance (ROA) with executive compensation as a moderating variable.

The effect of managerial ownership on company performance (ROA) with executive compensation as a moderating variable
ROA is a profitability ratio that shows the company's ability to generate profits efficiently from the total assets owned. The greater the average performance of the company's ROA, the better the company's profitability, because the rate of return is getting more profit versus relatively small assets. Return on assets is an internal factor that is used to measure the effectiveness of the company in generating profits by using its assets.

In accordance with stakeholder theory, that if managerial ownership is higher, it means that the implementation of GCG implementation is getting better, especially with adequate executive compensation, so that stakeholders are more prosperous and will increase ROA. Research conducted by Elloumi and Gueyi (2001) states that companies with high IOS pay higher levels of total compensation to their CEO. In addition, high IOS CEOs earn a greater proportion of their compensation from forms of performance contingent payments such as bonuses, stock option grants, and long-term incentive plans. However, CEOs with weak boards are compensated more than CEOs with strong boards. Contrary to our expectations, we find that in tall iOS companies with weak boards of directors, CEOs seek to have a higher proportion of contingent forms of payment in their compensation. The implication of these results is that the practice of contingent compensation can be a more valuable form of remuneration for CEOs.
H6: Executive compensation strengthens the effect of managerial ownership on firm performance (ROA).

The effect of the independence of the board of commissioners on the company's performance (ROA) with executive compensation as a moderating variable
The board of commissioners is the party appointed to represent the main internal mechanism in monitoring the behavior of exploiting opportunities or short-term and long-term benefits of management, which is an agency theory perspective. The existence of an independent board of commissioners is considered important in the role of corporate practice, because conflicting transactions are often found that ignore the interests of public shareholders, in this case minority shareholders and other stakeholders.

In accordance with stakeholder theory, that if the independence of the board of commissioners is higher, it means that the implementation of GCG implementation is getting better, especially with adequate executive compensation, so that stakeholders are more

prosperous and will increase ROA. UAE national banks' corporate governance (CG) practices and UAE national banks' perceptions of the effect of CG on financial performance and distress. A modified questionnaire has been developed, divided into two parts. The first section covers disclosure and transparency, executive compensation, shareholder relations, governance structure, policy and compliance, stakeholder relations, and the board of directors. The second part deals with performance and financial difficulties. The results show that UAE banks are aware of the importance of disclosure transparency, executive compensation, relationship with shareholders and stakeholders, and the role of the board of directors. The results also show that UAE banks are aware of the importance of disclosure transparency, executive compensation, relationship with shareholders and stakeholders, and the role of the board of directors. The results also show that the UAE's national bank corporate governance practices are acceptable. In addition, the results reveal that there is a significant positive relationship between the UAE national bank's CG practices and disclosure and transparency, shareholder interests, stakeholder interests, and the role of the board of directors. UAE national bank CG practice and performance level, and that there is a significant positive relationship between financial distress and UAE national bank CG practice. Finally, this study finds that there is no significant difference in the level of CG practices between the UAE's national conventional banks and their Islamic banks.
H7: Executive compensation strengthens the effect of managerial ownership on company performance (ROA)

The influence of the audit committee on company performance (ROA) with executive compensation as a moderating variable

The audit committee is an oversight that can process a report that can make an application of an oversight that can be processed as a whole that can calculate the whole that is in a company. The audit committee is tasked with providing input to the board of commissioners on reports or matters submitted by the board of directors to the board of commissioners, identifying matters that require the attention of the commissioners, and carrying out other tasks related to the duties of the board of commissioners. In accordance with stakeholder theory, the higher the audit committee, the better the implementation of GCG implementation, especially with adequate executive compensation, so that stakeholders are more prosperous and will increase ROA.

Research conducted by Valenti et al (2011) aims to investigate the effects of previous firm performance on board composition and governance structure. The design/methodology used is 90 companies registered with the National Association of Securities Dealers Automated Quotations used for this research. The hypotheses were tested using generalized linear regression and logit regression analysis. The results show that prior negative changes in firm performance are significantly associated with a decrease in the number of overall directors and a decrease in the number of outside directors.
H8: Executive compensation strengthens the influence of the audit committee on company performance (ROA)

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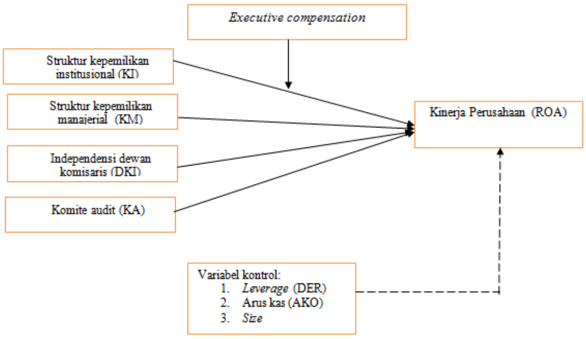
Research Framework

Figure 1. Research Framework



Corporate governance on company performance with executive compensation as a moderating variable. The company's performance in this study consists of ROA, the GCG variable consists of institutional ownership, managerial ownership, independent board of commissioners, and audit committee. The control variables in this study are leverage, cash flow, and size. This is due to increase the value of the coefficient of determination.

RESEARCH METHODS

Population and Research Sample

Companies listed on the Indonesia Stock Exchange (IDX) during 2014-2018 are the population of this study. This study uses a purposive sampling method with the following conditions:

1. Companies listed on the IDX from 2014-2018.
2. Financial reports can be accessed from data sources
3. Complete research data components during the observation period for executive compensation, company performance (ROA), institutional ownership, managerial ownership, independent board of commissioners, audit committee, leverage, cash flow and size).

Sources and Types of Research Data

The data used are IDX Statistics PIPM Semarang and the IDX website (www.idx.co.id). This data is included in the secondary data category because it is data from a second party.

Results of Analysis and Discussion

Descriptive statistics

Descriptive statistics provide a description or descriptive of a data seen from the maximum, minimum, average (mean) and standard deviation values. In this section, descriptive statistics will be discussed in this study. From the initial data totaling 542 observations, it turned out that there were 230 abnormal data so that the normal data amounted to 312 observations.

Table2. Descriptive statistics

	N	Minimum	Maximum	Mean	Std. Deviation
ROA	312	-0,06316	0,16283	0,0522373	0,04165227
KI	312	0,00	100,00	39,1276	32,56379

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KM	312	0,00	89,44	8,2155	17,95124
DKI	312	0,10000	0,75000	0,3979020	0,09473681
KA	312	2,00	5,00	3,1122	0,44315
EC	312	-1585,53605	5554,41391	64,3992018	410,52922105
KI.EC	312	-28809,19	231490,24	2697,3335	16787,97636
KM.EC	312	-3079,54	31658,71	376,2976	2236,42308
DKI.EC	312	-65,32655	480,41991	15,0547738	37,50639472
KA.EC	312	-691,06945	1505,50314	82,5336454	167,55917545
DER	312	-2,21451	5,86859	0,9851320	0,92802296
AKO	312	-0,31098	0,27172	0,0563737	0,07322195
SIZE	312	24,41701	33,32018	28,3771448	1,68236476
Valid N (listwise)	312				

Source: Processed Secondary Data (2021)

Hypothesis testing
After all assumptions are met, the next step is to test the hypothesis to determine the effect of the independent variable on the dependent variable. The test is carried out using the t test with the following results:

Table 4.10.t test results

Coefficients[a]

Model	Unstandardized Coefficients		Standardized Coefficients	t	Sig.
	B	Std. Error	Beta		
(Constant)	-0,163	0,027		-6,025	0,000
KI	0,00007719	0,000	0,060	1,741	0,083
KM	0,000	0,000	0,211	5,781	0,000
DKI	0,039	0,015	0,088	2,642	0,009
KA	0,007	0,003	0,078	2,220	0,027
KI.EC	0,000001068	0,000	0,043	1,231	0,219
KM.EC	0,000000004725	0,000	0,000	0,007	0,994
DKI.EC	0,000	0,000	-0,115	-2,935	0,004
KA.EC	-0,00001575	0,000	-0,063	-1,601	0,111
DER	-0,014	0,002	-0,304	-9,036	0,000
AKO	0,323	0,020	0,567	16,431	0,000
SIZE	0,006	0,001	0,240	6,221	0,000

a. Dependent Variable: ROA
Source: Processed Secondary Data (2021)

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Discussion

Effect of institutional ownership on firm performance (ROA)

Hypothesis H1 states that there is a relationship between institutional ownership variables and Company Performance (ROA) is rejected. The average value of the institutional ownership variable is 39.127563 with the t test results showing that the significance value is 0.083 > 0.05. Based on these results, the hypothesis H1 is rejected, so it can be concluded that there is no positive effect of institutional ownership on company performance (ROA).

This study is in line with research conducted by Rifqi (2013) examining the effect of ownership structure and good corporate governance on financial performance that can be linked to ROA in banking institutions. This suggests that there is a negative relationship between institutional ownership and profits, but there is no relationship between the benefits of an agency.

This indicates that the low strength of institutional ownership will have an impact on the weakening of external control over the company. The existence of institutional ownership can help improve more optimal supervision of the company's performance in achieving the company's goal of obtaining maximum profit. A high level of institutional ownership will lead to greater supervisory efforts by institutional investors so that it can hinder the opportunistic behavior of managers.

Effect of managerial ownership on company performance (ROA)

Hypothesis H2 states that there is a relationship between the Ownership Management variable and the Company's Performance (ROA) is accepted. The average value of the Management Ownership variable is 8.215520 with the t test results showing that the significance value is 0.000 <0.05. Based on these results, hypothesis H2 is accepted, so it can be concluded that there is a positive influence of managerial ownership on company performance (ROA).

This research is in line with previous research conducted by Mirawati (2013) which aims to determine how the measure of profitability with ROA has a positive relationship or is interconnected with one another. Literature study on the research method is the best method in this research. Data retrieval comes from a link owned by idx.com which can be accessed via the internet. The analysis used in this research is the classical assumption test.

The effect of the independence of the board of commissioners on company performance (ROA)

Hypothesis H3 states that there is a relationship between the Independent Board of Commissioners variable and the Company's Performance (ROA) is accepted. The average value of the Management Ownership variable is 0.397902 with the F test results showing that the significance value is 0.000 <0.05. Based on these results, the hypothesis H3 is accepted, so it can be concluded that there is a positive effect of the independence of the board of commissioners on the company's performance (ROA).

This study is not in line with research conducted by Rimardhani et al. (2016) examining the Effect of Good Corporate Governance Mechanisms on Company Profitability (Study on State-Owned Companies Listed on the IDX in 2012-2014) with multiple regression analysis techniques, stating that the Audit Committee has no effect to Return On Assets.

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Effect of audit committee on company performance (ROA)

Hypothesis H4 states that there is a relationship between the variables of the Audit Committee and the Company's Performance (ROA) is accepted. The average value of the Audit Committee variable is 3.112179 with the t test results showing that the significance value is 0.027 <0.05. Based on these results, hypothesis H4 is accepted, so it can be concluded that there is a positive effect of the audit committee on company performance (ROA).

This study does not support the research conducted by Rimardhani et al (2016) examining the Effect of Good Corporate Governance Mechanisms on Company Profitability (Study on BUMN Companies Listed on the IDX in 2012-2014) with multiple regression analysis techniques, stating that the Audit Committee has no effect on Return On Assets. This agrees with research conducted by Raja (2016) and Putra and Nuzulla (2017).

The effect of institutional ownership on company performance (ROA) with executive compensation as a moderating variable

Hypothesis H5 states that there is a relationship between the variable KI.EC and Company Performance (ROA) is rejected. The average value of the KI.EC variable is 2697.333464 with the t test results showing that the significance value is > 0.05. Based on these results, the hypothesis H5 is rejected, so it is concluded that there is no positive influence of institutional ownership on company performance (ROA) with executive compensation as a moderating variable.

This study is in line with research conducted by Ntim et al (2011) stating that First, when the direct relationship between executive salary and performance is examined, we find PPS positive, but relatively small. Second, our results show that in the context of concentrated ownership and weak board structures, second-level agency conflict (director oversight power and opportunism) is stronger than first-level agency problems (CEO power and self-interest). Third, additional analysis shows that CEO power and CG structure have a moderate effect on PPS. Specifically, we find that PPS is higher in firms with more reputable CEOs, founders and shareholders, higher ownership by directors and institutions, and independent nomination and remuneration committees, but lower in firms with larger boards. , a more powerful and long-term CEO. Taken together, our evidence provides important new theoretical and empirical insights in explaining PPS with a particular focus on optimal contract prediction and managerial power hypotheses. These findings are generally robust across econometric models controlling for different types of endogeneity, pay, and performance proxies.

The effect of managerial ownership on company performance (ROA) with executive compensation as a moderating variable

Hypothesis H6 states that there is a relationship between the variable KM.EC and Company Performance (ROA) is rejected. The average value of the KM.EC variable is 376.297638 with the t test results showing that the significance value is > 0.05. Based on these results, hypothesis H6 is rejected, so it can be concluded that executive compensation strengthens the effect of managerial ownership on company performance (ROA).

This study is not in line with research conducted by Elloumi and Gueyi (2001) which states that companies with high iOS pay higher levels of total compensation to their CEOs.

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Additionally, high iOS CEOs earn a greater proportion of their compensation from forms of performance contingent payments such as bonuses, stock option grants, and long-term incentive plans. However, CEOs with weak boards are compensated more than CEOs with strong boards. Contrary to our expectations, we find that in tall iOS companies with weak boards of directors, CEOs seek to have a higher proportion of contingent forms of payment in their compensation. The implication of these results is that the practice of contingent compensation can be a more valuable form of remuneration for CEOs.

The effect of the independence of the board of commissioners on the company's performance (ROA) with executive compensation as a moderating variable

Hypothesis H7 states that there is a relationship between the DKI.EC variable and Company Performance (ROA) is rejected. The average value of the DKI.EC variable is 15.054774 with the t test results showing that the significance value is > 0.05. Based on these results, hypothesis H7 is rejected, so it is concluded that executive compensation strengthens the influence of managerial ownership on company performance (ROA).

This study is not in line with research conducted by Tamimi (2012). This study found that there was no significant difference in the level of CG practice between the UAE's national conventional banks and their Islamic banks. In accordance with stakeholder theory, if the independence of the board of commissioners is higher, it means that the implementation of GCG implementation is getting better, especially with adequate executive compensation, so that stakeholders will be more prosperous and will increase ROA.

The influence of the audit committee on company performance (ROA) with executive compensation as a moderating variable

Hypothesis H8 states that there is a relationship between the variable KA.EC and Company Performance (ROA) is accepted. The average value of the KA.EC variable is 82.533645 with the F test results showing that the significance value is <0.05. Based on these results, the hypothesis H8 is rejected, so it is concluded that executive compensation strengthens the influence of the audit committee on company performance (ROA).

This study is in line with research conducted by Valenti et al (2011). The results show that prior negative changes in company performance are significantly associated with a decrease in the number of directors overall and a decrease in the number of outside directors.

Conclusions and suggestions

Based on the results of the analysis in the previous section, conclusions can be drawn:

1. Institutional Ownership has no significant effect on Company Performance. So the first hypothesis in this study was rejected. This means the higher and lower institutional ownership will not affecting company performance.
2. Managerial Ownership has a positive effect on Company Performance. So the second hypothesis in this study is accepted. It means the higher managerial ownership will affecting the higher company performance.
3. The Independent Board of Commissioners has a positive effect on the Company's Performance. So the third hypothesis in this study is accepted. It means the higher independent board of commissioners will affecting the higher company performance.

4. The Audit Committee has a positive effect on the Company's Performance. So the fourth hypothesis in this study is accepted. It means the higher audit committee will affect the higher company performance.
5. KI.EC has no significant effect on Company Performance. So the fourth hypothesis in this study was rejected. This means the higher or lower interaction between KI and EC will not affecting company performance.
6. KM.EC has no significant effect on the Company's Performance. So the fourth hypothesis in this study was rejected. This means the higher or lower interaction between KM and EC will not affecting company performance.
7. DKI.EC has a positive effect on Company Performance. So the fourth hypothesis in this study is accepted. It means the higher interaction DKI and EC will affecting the higher company performance.
8. KA.EC has no significant effect on the Company's Performance. So the fourth hypothesis in this study was rejected. This means the higher or lower interaction between KA and EC will not affecting company performance.

While the suggestions put forward in this study include the following:

1. Issuers and investors should pay attention to corporate governance such as Managerial Ownership, Independent Board of Commissioners, Audit Committee because the results of this study are empirically proven to have an effect on company performance.
2. In future research with a similar topic, other variables that affect company performance can be added, such as the key management compensation ratio or expanding the sample and extending the research period.

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