

# Turnitin Special treatment to bank CEOs in indonesia

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## Special Treatment to Bank CEOs in Indonesia

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### Abstract

The bank still plays the main role as a funding source in Indonesia. Because of that, they are securing the bank's position and showing its best performance become very important. A Special treatment for bank CEOs is one way. This study wants to answer the question of whether that way is sufficient. The special treatment is the CEO compensation, in the form of CEO salary as the main variable and CEO tenure and insider holding as the control variables. Other control variables are financial ratios: debt-to-equity ratio, lesser prudence, and loan-to-deposit ratio. All variables are associated with bank performance consisting of four variables: net interest margin, return on assets, return on equity, and cash flow to assets. By operating the OLS (ordinary least square), this research shows that CEO compensation in the form of salary has a negative effect on banks' performance. However, another form of CEO compensation, the insider holding, positively influence on cash flow to assets. These results indicate that salary does not stimulate bank CEOs to do their best, whereas bank CEOs perform well when they also act as insider holders.

**Keywords:** bank, CEO, compensation, performance

### 1. Introduction

The Banking industry is important in Indonesia because financial deepening hasn't yet to massively happen in this country. The Capital market has existed but only traded basic investment instruments, such as stocks and bonds. Trading in derivative investment products are still very limited. Therefore, banking is the biggest fund supplier and dominates the financial business. This characteristic emerges vulnerability to this country's economy. The economy will collapse when a financial crisis happens in banking industry (Brunnermeier, 2009). Diamond & Rajan (2005) found that bank failure due to illiquidity and insolvability may ruin a country's banking system because banks have tight relation. Finally, a systemic bank crisis will result in an economic burst. This situation has occurred a couple of times in this country, where there was a systemic bank crisis; the government did a bailout and, in the end, made the economic growth fall down.

Therefore, it is very critical to keep the banking industry safe. That is why the banking industry has many tight regulations, either from inside or outside. Many factors influence banks' performance

(Dietrich & Gabrielle, 2014), but the most important is the role of management or CEO (chief executive officer). Then, from the inside, banks management initiates special treatments to their CEOs, such as giving them a high salary, long tenure, and share ownership. Even so, scandals in the banking industry still exist in Indonesia.

Under tight regulations and special treatment, banks management has become the primary strength of the banking business. The management should deliver their continuous effort to drive the organizations' decisions into action to accomplish their objectives. The management will guarantee that the bank organization operates by complying with the regulations and also reach its best performance in term of financial achievement.

In fact, however, many banks are still managed by moral hazards that may cause systemic crises in the banking industry. Why is this thing still happening? Does the special treatment given to the bank's CEO need to improve? This research will answer this question by observing whether CEO compensation impacts on banks performance. It is the main purpose of this research. The others follow one of three recommendations of similar research conducted by Barrios (2013), namely from the viewpoint of a different market participant: Indonesia. Second, reconfirm the different results of previous works in which management good compensation, tenure, and share ownership positively and negatively impact corporate performance. Third, using variables' measurement that is different from Barrios's work.

The rest of this article will present review of literature, research methodology, result and discussion, and conclusion.

## 2. Review of Literature

The first work to analyze the role of management in influencing the corporate performance was by Jensen & Meckling (1976), introducing the agency theory. The foundation of the theory was a conflict of interest between agent and principal. CEO compensation, for instance, could reduce managers' intention to consume in luxury style, exploit the stockholders' wealth, and involve in maximize the corporate value.

Furthermore, many study found the relationship between management and corporate value or performance including in the banking industry. Luo and Luo et al. (2012, 2013, 2014a, 2014b, 2015) were the record holders. They found mixed results in the relationship between CEO treatment and corporate performance in their research and among variables. In the relationship between CEO salary and bank performance, for instance, Luo (2015) got it insignificant when he used data from the China banking industry. However, Luo (2014a) found a positive evidence of the relationship between CEO compensation and corporate performance.

Other findings by other researchers also showed mixed results. Balachandran & Mohanram (2010) found a positive sign or the relationship between CEO compensation and corporate performance, whereas Aduda (2011), who used Kenya banking data, got a negative impact when CEO compensation was related to bank performance. Barrios (2013) also proved there was negative relationship between CEO compensation and bank performance in the US banking industry. Gong (2011) demonstrated that CEO compensation had a sensitive impact on corporate performance. Banks that can provide good incentives (in this research, mean CEO high salary) will raise their CEO performance and in the end increase the banks' performance. Shortly, Gong found a positive relationship between CEO compensation and bank performance.

For another CEO treatment variable, insider holding, Gill & Obradovich (2012) found managerial share ownership positively impacted corporate financial performance, as shown by the increasing liquidity and profitability in the banks financial report. Leung & Horwitz (2010) also revealed in their study that the percentage of directors' share ownership positively impacted bank performance. Niu (2016) investigated the relationship between insider ownership and US bank performance. The result was that insider ownership was positively related to bank value, while insider power was negatively related to bank value. Using data from Lebanese banks, Chaarani (2014) proved

there was the positive impact of insider holding on banks' performance. The more shares held by insiders, the better the bank's performance.

Nguyen et al. (2015) encouraged large shareholders to participate as bank boards of directors. This suggestion was based on their finding that the proportion of private ownership positively impacted banks profitability in Vietnam. In Malaysia, however, Abdul Rahman & Reza (2015) found the opposite result. Insider holding had negative relationship with bank performance. It was different because the insider ownership was only a small portion. Probably 19 percent of insider ownership in Malaysian banks insufficient to induce insiders to align their interests to the interests of the banks' shareholders. This fact suited Gorton & Rosen (1995) that the higher the insider ownership, the more aligned the interest of an insider with the shareholders. While at a low level of ownership, he/she tends to behave risk-averse manner in order to protect his/her own benefits.

The tracking of special treatment impact through executive tenure on banking performance also had been done by many scholars, some of whom were Gong (2011) and Huang (2018). They experienced the same results. Gong, who intensively used ExecuCom Database to find the relation between executive tenure and corporate performance, showed that the longer the executive tenure, the higher the corporate performance. Huang figured out the relationship between executive tenure and corporate value, and the result demonstrated that they had a positive relationship. Berthelot et al. (2013) showed that the tenure of independent directors had no significant impact on corporate financial performance. Allgood & Farrell (2000) found that tenure had a negative impact on bank performance.

On the other hand, there was no indication that the relationship between CEO tenure and banks' performance was negative. Friedl & Resebo (2010), for instance, expressed their finding that director tenure had a negative impact on bank performance. They showed fact that the longer the bank directors were in an office the lower their bank performance was. One reason was that the directors needed to adapt to new corporate environments. This finding was supported by Al Matari et al. (2012) and Dikolli et al. (2011). Finally, Barrios (2013) found that insider holding, and the length of time CEOs were in charge in their office were negatively related to bank performance. It may be a consequence of an adverse effect of the agency problem.

The other control variables are the financial ratios, consisting of debt-to-equity ratio, lesser prudence, and loan-to deposit ratio. Many researchers have researched the relationship between financial ratios and company performance. Most results show a positive relationship between financial ratios and company performance, including bank performance.

Those who found a positive relationship between debt-to equity ratio and bank performance include Saeed et al. (2013), Nawaz et al. (2011), and Gill (2011), while those who showed a negative impact are Paolo (2011), Velnampy & Niresh (2012), and Toraman et al. (2013). While Corey et al. (2015) provided mixed results when they connected debt to equity ratio with corporate performance in three different industrial sectors in the US. Saeed et al. (2013) found positive relationship between the two factors between the loan-to-deposit and bank performance, while Abdullah & Jahan (2014) showed a significant relationship. Marozva (2015) became one of the researchers who found a negative sign. The variable of lesser prudence shows the level of the prudence of bank management. One of the researches that showed a positive relationship between lesser prudence and bank performance was Sood (2012), while Barrios (2013) showed a negative relation.

### **3. Research Methodology**

This research used data from 31 banks on the Indonesia Stock Exchange (IDX). The data was collected for ten years (2008-2018) from the banks' annual financial reports and the central bank of Indonesia. The financial reports' data represented bank performance variables: net interest margin, return on asset, return on equity, and cash flow to the asset. The others represented independent variables consisting of main variables and control variables. Main variables comprised salary, insider holding, and tenure. Control variables were debt-to-equity ratio and lesser prudence. The only data from the

Central Bank of Indonesia as a control variable was a loan-to-deposit ratio.

Net interest margin (NIM) is the standard measurement of a bank's efficiency that could be used as a bank performance yardstick. In this research, NIM was counted by total interest income minus total interest expense divided by total interest income (as a percentage). Return on asset (ROA) is defined as how a company is capable of reaping income based on its asset. This variable is measured as annual net income divided by a total asset (as a percentage). Return on equity (ROE) refers to how a company can collect its income based on its equity. Therefore, this variable is calculated by dividing net income by total equity (as a percentage). The difference between ROA and ROE may be that ROA is concerned with a company's interest, and ROE is related to shareholder interest. The last dependent variable, cash flow to the asset (CTA), reflects how capable a bank is of meeting its short-term liabilities. This variable is calculated by annual cash change as a percentage total assets.

The main variable was compensation, defined as how much a bank CEO received the annual salary (consisting of base salary and bonuses). This variable was measured by taking Ln of the salary value as done by Luo & Jackson (2013), the variable name was LnCEO. Tenure (TE) was viewed as the length of time a CEO was in charge in a bank office. Dummy variables were employed for measuring this variable; when CEO tenure was longer than average in the bank industry, then its value was one, and zero if otherwise. The next executive treatment was insider holding (IH), referring to how a bank CEO owned much stock. This variable was measured by the number of shares held by a bank CEO divided by total outstanding stock (in percentage terms).

The other control variable, less prudence (LP), referred to how high a bank faced the risk. The value could be see the indicator of the provision or allowance prepared by the bank to cover loan losses. The higher the provision or allowance value, the lower the bank's risk, known as lesser prudence. The indicator was used here as the percentage of the allowance value to net loans (Barrios, 2013). Debt to equity ratio (DE) indicates how much a bank uses a loan as its source of funds. The higher the debt, the lower the potential return went to shareholders. This situation might decrease CEOs' spirit to reach their best performance. Normally, deb-to-equity ratio is calculated by dividing total debt by equity (in percentage terms). Finally, the loan-to-deposit ratio (LD) was counted by net loans divided by total deposits. This variable indicated bank liquidity when a bank launched too many loans, whereas when it only got a small deposit, it indicated low liquidity.

Ordinary Least Square was employed to regress all models to determine the relationship between CEO treatment and bank performance. Four equations will be tested to prove all hypothesis:

$$\begin{aligned} \text{NIM}_{it} &= \alpha_{it} + \beta_1 \text{LnCO}_{it} + \beta_2 \text{TE}_{it} + \beta_3 \text{IH}_{it} + \beta_4 \text{LP}_{it} + \beta_5 \text{DE}_{it} + \beta_6 \text{LD}_{it} + \epsilon_{it} \dots\dots\dots 1 \\ \text{ROA}_{it} &= \alpha_{it} + \beta_1 \text{LnCO}_{it} + \beta_2 \text{TE}_{it} + \beta_3 \text{IH}_{it} + \beta_4 \text{LP}_{it} + \beta_5 \text{DE}_{it} + \beta_6 \text{LD}_{it} + \epsilon_{it} \dots\dots\dots 2 \\ \text{ROE}_{it} &= \alpha_{it} + \beta_1 \text{LnCO}_{it} + \beta_2 \text{TE}_{it} + \beta_3 \text{IH}_{it} + \beta_4 \text{LP}_{it} + \beta_5 \text{DE}_{it} + \beta_6 \text{LD}_{it} + \epsilon_{it} \dots\dots\dots 3 \\ \text{CTA}_{it} &= \alpha_{it} + \beta_1 \text{LnCO}_{it} + \beta_2 \text{TE}_{it} + \beta_3 \text{IH}_{it} + \beta_4 \text{LP}_{it} + \beta_5 \text{DE}_{it} + \beta_6 \text{LD}_{it} + \epsilon_{it} \dots\dots\dots 4 \end{aligned}$$

NIM<sub>it</sub> is net the interest margin for bank i in year t. Therefore, ROA<sub>it</sub>, ROE<sub>it</sub>, and CTA<sub>it</sub> are returns on assets, return on equity and cash flow to assets for bank i in year t. Based on the four equations, this research has four dependent variables. As the first independent variable, CO<sub>it</sub> is CEO compensation for bank i in year t. TE<sub>it</sub>, IH<sub>it</sub>, DE<sub>it</sub> and LD<sub>it</sub> are CEO tenure, CEO insider holder, less prudence, debt to equity ratio and loan to deposit ratio for bank i in year t.

#### 4. Results and Discussion

To explore the result of this study, let us see table 1, which demonstrates descriptive statistics. The table shows the highest variation in CEO compensation (LnCO), shown by the value of a standard deviation of 17.40. The highest CEO standard deviation explains the inequality in Banks CEO's compensation in Indonesia. It is interesting to discuss further because the main focus of this research is the CEO's treatment in the bank industry. On the other hand, the variation of the main control variable, insider holding (IH), which includes the CEO, notes the lowest value with a standard

deviation of 0.18. The companies' management held around a minimum of 10% to a maximum of 33.50%.

The other small variation in the control variable is the loan-to-deposit ratio (LD) as a financial control variable, with a standard deviation of 0.85. The loan deposit ratio variation starts from a minimum of 0.14 to a maximum of 1.29, with a mean of 0.88. This loan-to-deposit ratio standard deviation is small, because the central bank of Indonesia very straight regulates this ratio. Other financial control variables are a debt-to-equity ratio (DE) and lesser prudence (LP). DE has a high standard deviation, even when its value places the third highest, 11.97. This value shows banks have varied amount of debts, from less than the amount of their equity to more than their equity. The range of banks' equity is between 0.45% and 6.15%. However, on average, the banks' debt is higher than their equity. It can be seen from the mean value of 1.74%.

Return on asset (ROA) among dependent variables has the highest variation. Its standard deviation value is the second biggest, 14.12. The variation starts from a minimum of -0.06% to a maximum of 2.12%. The value show that in this study, banks experienced profit and loss for ten years, but on average, they had a profit. It is proven by its positive mean value of 0.11%, though its profit is still below their assets. Net interest margin (NIM) also has high variation. Its standard deviation value is 10.04; among dependent, variables the value places second highest, and among all variables, it is in forth rank. The NIM ratio moves from a minimum of 14.09% to a maximum of 71.50%. Finally, return on equity (ROE) grabs a record as the lowest variation, with a standard deviation value of only 0.51. As in ROA, ROE also varies from a negative value (-3.10) to a positive value (20.08), as described in minimum and maximum value in descriptive statistics. That data informs that, the bank suffered loss and satisfied profit in ten years. On average, banks had profit, as proven by the mean value of 1.26%. Meanwhile, cash flow to the asset (CTA) has relatively low variation. Its standard deviation value is 1.42, with a mean value of 0.03.

**Table 1:** Descriptive Statistics

Variable	Mean	Standard Deviation	Minimum	Maximum
NIM	40.06	10.04	14.09	71.50
ROA	0.11	14.12	-0.06	2.12
ROE	1.26	0.51	-3.10	20.08
CTA	0.03	1.42	-2.61	5.94
LnCO	7.44	17.40	3.02	21.23
IH	9.07	0.18	0.23	33.45
LP	12.23	5.77	0.01	88.36
DE	1.74	11.97	0.45	6.15
LD	0.88	0.85	0.14	1.29

Notes: Net Interest Margin (NIM), ROA, ROE, and CTA are regressed by using the main independent variable, CEO compensation, and controlled by two CEO control variables, insider holding (IH) and tenure (TE) and three financial control variables, lesser prudence (LP), debt-to-equity ratio (DE) and loan-to-deposit ratio (LD)

It was expected that special treatment for a bank CEO would have a positive impact on a bank performance. Table 2 will be used to prove that hypothesis. In general, as it happened to many previous studies, the relationship between management compensation to a company performance was still mixed. Some had a positive sign, and others had a negative one. In the Indonesian banking industry, as shown in table 2, the main CEO special treatment variable, CEO compensation has a negative relationship with three bank performances: NIM, ROA, and CTA. The relationship between CEO compensation and ROE was the only one with a positive sign. Unfortunately it was not significant. Among the bank performance variables, the biggest coefficient value of CEO compensation relates to ROE (0.09). The most significant relationship between CEO compensation

and bank performance is related to net interest margin, with significance at a 1% level and its coefficient value is -0.01. The other significant relationship between CEO compensation and bank performance is when it is related to cash flow to asset; its coefficient value is -0.20 and significant at 0.1. By the coefficient value of -0.20, the relationship between CEO compensation and cash flow to assets becomes the weakest among the relationship of CEO compensation to bank performance.

CEO tenure is the first control variable still part of CEO treatment. The relationship between tenure and bank performance is negative and not significant. The only significant relationship is between tenure and net interest margin, with a coefficient value of -0.02 and a significance level of 0.01. Then the only positive sign is when tenure is related to cash flow to assets with a coefficient value of 0.01, but it is not significant. The weakest is when tenure is related to return on assets and return on equity with the same coefficient value of -0.07.

CEO insider holding is also a control variable but is still part of CEO treatment. This variable has one relationship that suits the hypothesis: it has a positive sign and is significant. The positive sign is experienced when insider holding is related to cash flow to assets. Its coefficient value is 0.03, and its significance is at 0.5 level. The other significant relationship is when insider holding is related to return on assets, and its significance is 0.01 level with a coefficient value of -0.45. The relationship between insider holding and net interest margin is negative and not significant, with coefficient value of -0.16. Its relationship to return on equity has a positive sign but is insignificant with a coefficient value of 0.03.

The other three control variables come from financial aspects: lesser prudence, debt-to-equity ratio, and loan-to-deposit ratio. As CEO treatment, the financial variables are also expected to have a positive relationship and significance with bank performance. Four relationships suit this hypothesis. First is the relationship between lesser prudence and net interest margin, with a coefficient value of 0.39 and significance of 0.01 level. Second is the relationship between the debt-equity ratio and return on equity, with a coefficient value of 0.25 and significance of 0.01. Third and fourth are the relationship between loan-to-deposit ratio and return on equity. Their coefficient value and significance level are 0.15 at 0.01 and 0.26 at 0.05. Therefore, among the bank performance variables, return on equity has the most significant relationship with financial aspects, debt-to-equity ratio and loan-to-deposit ratio.

Among the relationship between lesser prudence and bank performance variables, each of them has positive and negative coefficient values. The two variables which have positive value are the relationship of lesser prudence with net interest margin and its relationship with return on equity. The other have negative signs are their relationship with return on assets and cash flow to assets. Their coefficient value is -0.09 for the relationship of lesser prudence with return on assets and -0.36 for the relationship of lesser prudence with cash flow to assets, and both of them are not significant.

The debt-to-equity ratio has three positive and one negative sign when they relate to bank performance. The three positive signs relating to net interest margin, return on equity, and cash flow to assets. Their coefficient values, respectively, are 0.18, 0.25, and 0.38, and only the relationship of debt-to-equity ratio with return on equity, its significance, is at 0.01 level. The negative relationship between the debt-to-equity ratio and bank performance only happens in the debt-to-equity ratio with return on assets, with a coefficient value of -0.14 which is insignificant.

Loan to deposit ratio is the only financial control variable that has a positive sign when it relates to all bank performance variables, as had been shown by the hypothesis, and there are also the most significant. Two significant relationships exist between loan-to-deposit ratio and bank performance variables. First, it happened to the relationship of loan-to-deposit ratio with return on asset, and second in the relationship of loan to deposit ratio with return on equity, as has been reviewed above. The other two positive relationships between loan-to-deposit ratio and bank performance are the relationship of loan-to-deposit ratio with net interest margin and with cash flow to assets. The coefficient values of the two relationships are 0.19 and 0.75, which are insignificant.

**Table 2:** The Relationship Between CEO Special Treatment and Bank Performance

Variables	NIM	ROA	ROE	CTA
CO	-0.01*** -2.34	-0.04 -3.28	0.09 1.23	-0.20* -4.32
TE	-0.02*** -3.96	-0.07 -0.82	-0.07 -0.09	0.91 2.36
IH	-0.16 -1.23	-0.45*** -0.96	0.03 0.59	0.03** 0.62
LP	0.39*** 5.88	-0.09 0.95	0.18 0.16	-0.36 3.25
DE	0.18 0.70	-0.14 0.60	0.25*** 3.18	0.38 2.21
LD	0.19 0.69	0.15*** 1.92	0.26* 0.15	0.75 1.03
F <sub>Statistic</sub>	10.29*** 1.28	2.90*** 1.07	2.46** 1.46	1.85* 1.72

R Square value: 0.17 (for NIM); 0.75 (for ROA); 0.07 (for ROE); 0.03 (for CTA)

Notes: The model parameters were obtained from the OLS (ordinary least square) regression method with data consisting of time series and cross-sections.

Banking still holds a dominant position as a fund supplier for most corporations in Indonesia. Therefore, bank management must be specially treated to ensure that they can make the bank perform maximally. Hence, to impact bank performance positively. Agency theory also hypothesizes positive relationship between the agent and the principal. This hypothesis is based on logical thinking that if two parties are in face-to-face position, the possibility of fighting each other can be reduced by rewarding them. This research hypothesizes that the relationship between CEO compensation and bank performance will be positive. The reason is that when a CEO—in terms of agency theory as principal—gets more compensation, they will deliver the bank to its best performance.

CEO compensation has a significantly negative coefficient value for the main variable related to net interest margin and cash flow to assets. Therefore, the special treatment by giving high salary to bank CEOs do not make them perform well. Otherwise, even perform worst. Can it be salary is only one of the important factors to bank CEOs? Maybe. This variable, however, has the highest standard deviation. This information shows that the bank CEOs' salary is wide, and most get relatively low salaries. Hence, their salary does not make them perform well.

That evidence, however, is not surprising. It conforms to one of this research motives, to find new proof using the Indonesian data about the relationship between CEO compensation and corporate performance, especially in the banking industry, which results still vary among previous research. Aduda (2011) and Barrios (2013), for instance, found a negative relationship between CEO compensation and bank performance in Kenya and the United States. Even Luo (2015) found it insignificant when he tested using the China banking data. Indeed, there were positive findings about the relationship between CEO compensation and corporate performance, as Balachandran & Mohanram (2010) and Luo (2014a) did.

The positive relationship between CEO compensation and bank performance only occurs when this variable is regressed with return on equity. This result is quite tempting to say that good compensation to the CEO can increase return on equity because of the possibility that the CEO is also a shareholder. So there is an interest in increasing corporate income to get back income from dividend distribution. Unfortunately, the positive relationship is insignificant.

However, the focus must be devoted to the controversy between CEO compensation and bank CEO performance. This finding guides this research to the results that the hypothesis that there is a positive relationship between CEO compensation and banking performance cannot be proven. It is



disappointing for the hypothesis established by the agency theory, which hopes that the agency problem is reduced, and adequate compensation is needed for the principals, in this case, the CEOs. Of course, this is interesting for further studies.

The controversy over agency theory is still ongoing because most of the results of the CEO compensation relationship using other factors (tenure and insider holding) with banking performance are also negative. Of the four dependent variables, only cash flow to assets results in a positive sign associated with insider holding. These results, although minorities, can provide clues that CEOs who are also shareholders are very interested in the availability of cash.

The availability of cash may be related to dividends. As discussed earlier a positive but insignificant relationship between CEO compensation and return on equity is a CEO's interest as a share holder. Now, the possibility is greater with the evidence of a positive relationship between insider holding and cash flow to assets. When a CEO becomes a shareholder, it is achievable to increase cash flow. What kind of interest may a CEO have in generating cash when he/she is a shareholder? The most likely answer is they interest in getting cash dividends.

The negative relationship between CEO compensation and bank performance proves it. However, when the CEO acts as a shareholder, it can positively and significantly improve the bank's performance. Thus, it can be assumed that there is a tricky phenomenon among bank CEOs in Indonesia. They are not motivated to achieve their best performance when they act as professionals (principals). This possibility is because even though they are given a high salary, it is seen as a substantial income and does not require any struggle. Then, they are motivated to achieve when acting as shareholders (agents). Because their income that comes from being shareholders (derived from dividends) is seen as other income, and to get this income requires a struggle.

The big question is, why does it happen? Most of the CEOs of banks in Indonesia are also shareholders. It is not strange because most banks depart from the family business even though they have gone public. Even if it is not a family company, most of the shares are still dominated by shareholders who are also CEOs. It will cause corporate governance problems, which can be an object for further research.

For financial ratio control variables, most of them produce positive relationships with banking performance, as hypothesized. Unfortunately, most are insignificant. Results like this increasingly confirm previous findings, which indicate a positive relationship between financial ratios and corporation performance. Moreover, research like this has been done too much before, so the regression results conducted in this study are quite strong as a control variable to ensure the relevance of CEO compensation's relationship to banks' performance.

If the relationship between CEO treatment, especially CEO compensation, and banks' performance is positive and significant, then the relationship between financial ratios and banks' performance is mostly insignificant, CEO compensation is a strong variable that influences banking performance. Conversely, if the financial ratio variable gives many significant results about banks' performance, and the relationship between CEO compensation and banks' performance is few significant, this shows that financial ratios largely determine banking performance.

The control variables' work shows more findings of a significant relationship with banking performance than the relationship between CEO compensation and bank performance. Even though not all the relationships between financial ratios and banks' performance are significant, some hypotheses can be proven about the positive relationship between financial ratios and banks' performance. Then, it is also possible to say that the performance of banks in Indonesia is still largely determined by financial performance rather than treatment for the CEO. However, it needs to be realized that the achievement of financial ratios is also largely determined by the rules and role of the CEO. For the loan deposit ratio (in Indonesia called loan to fund ratio/ LFR), for example, according to Bank Indonesia regulation No. 17/11 / PBI / 2015, the upper level of LFR is 92%, and the lower level is 78%. With such regulations, CEOs have little power to determine financial ratios. For example, the CEO can only determine the ratio between 78% -92% in the loan-to-deposit ratio.

When there are no rules the CEO has to refer to, the CEO can set financial ratios as desired. For

the debt-to-equity ratio, for example, no authority in Indonesia sets up the indicator. Professional CEOs, prefer to use debts rather than equity to fund bank investments so that it will increase the amount of debt or increase the debt-to-equity ratio. Because in doing so, if the company makes a profit, the CEO can take the policy to allocate the profit for bonuses for management. It is certainly not desired by CEOs who are also shareholders because it will reduce income from dividends or decrease shareholder incentives (Paolo, 2011). In the end, this policy will become an issue of governance and morals that is interesting for further research. Professional CEOs with good morals will certainly not use all company profits for bonuses to management.

## 5. Conclusions

The problem that this research wants to answer is whether giving special treatment to bank CEOs will make banks have good performance or not. Using treatment in the form of salary does not make the bank CEO able to make the bank they lead perform well. This conclusion is taken from the fact that the CEO compensation hypothesis has no positive effect on bank performance. The regression results have shown negative sign concerning the relationship between CEO compensation and bank performance.

Interestingly, when the treatment was in the form of insider holding, the bank CEOs were excited and able to make the bank perform well. It can be seen from the proof of the hypothesis of a positive relationship between CEO insider holders and cash flow to assets. This result can lead to a conjecture that the CEO of the bank will perform well, which is to make the bank perform well if he/she also serves as a shareholder.

Another conclusion, in general, giving special treatment to the bank CEO in Indonesia does not make the bank have good performance; it can even worsen. Furthermore, financial ratios as control variables play an important role in determining the performance of banks in Indonesia. Because, from the performance of good financial ratio, the bank's performance can be good. Of the four dependent variables, all represented a positive and significant relationship with financial ratio factors.

However, we must also be aware that the positive results of the relationship between financial ratios and bank performance cannot be separated from the roles and authority possessed by bank CEOs. Insofar as there are no restrictive regulations, this financial ratio can be controlled by bank CEOs. Here it can bring up issues about governance and morals that are quite interesting for further research. In addition, several ideas for further research have been alluded to in the previous section, such as the tendency of CEOs of banks in Indonesia to be tricky by being able to perform well when the CEO also becomes a shareholder.

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