

THE REMUNERATION FACTOR OF SHARIA BANKING CORPORATE GOVERNANCE

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THE REMUNERATION FACTOR OF SHARIA BANKING CORPORATE GOVERNANCE

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ABSTRACT – The purpose of this study is to determine the factors that influence the level of corporate governance remuneration in Islamic banking, both internal and external. The research method used in this study is the explanation method, which is a study that aims to explain the position of the variables studied as well as the relationship between one variable with another variable. The data used in this study are secondary data, which are then processed using panel data regression analysis and hypothesis testing which consists of partial t test, simultaneous F test and coefficient of determinati. The results of this study indicate that the probability value of each variable is each have a significant effect on the Y variable, the F (Simultaneous) Test results also indicate that the F probability which means that simultaneously all variables X1 to X4 have a significant effect on the variable Y. In this study that the factors affecting corporate governance remuneration include the frequency of corporate governance meetings (Board of Commissioners, Board of Directors, Sharia Supervisory Board), company performance as measured by the soundness of the bank, then the level inflation, and exchange rates.

Keywords: Remuneration, meeting frequency, bank soundness, inflation, corporate governance.

INTRODUCTION

Indonesian sharia banking industry has the development which consists of 14 Sharia Commercial Banks (BUS), 21 Sharia Business Units (UUS), and 167 Sharia People Financing Banks (BPRS). The Global Islamic Finance Report in 2017 states that Indonesia is included in countries that have an important role in the global Islamic financial industry. The rapid growth of Islamic banking must be a particular concern for the Financial Services Authority (OJK) to regulate and oversee its development. Because the phenomenon of the financial crisis in 1998 and 2008 caused chaos in the global financial markets, including in the Indonesian banking industry.

To face the dynamics of the global economy, Islamic banking needs to increase resilience through improved governance in remuneration. The remuneration policy in Islamic banking has been regulated in OJK Regulation Number 45 / POJK.03 / 2015, where remuneration policy that is permanent must pay attention to business complexity, peer group, business scale, conditions, inflation rate, and financial capability, and not contrary to statutory regulations. Meanwhile, variable remuneration must encourage prudent risk taking. Variable remuneration in this research provided in the form of cash, shares, and stock-based instruments issued by banks. If remuneration is inadequate, it can reduce performance, motivation, and job satisfaction for employees, it can even be used as a consideration for leaving the job (www.ojk.go.id, 2019).

There are several studies linking company performance with remuneration including the research conducted by Erick, et al. (2014), Anggraini et al (2014), Bizjak et al (2014), Lam, et al. (2013), Vemala, et al. (2014), Mardiyati, et al. (2013), Banker, Liang, and Plehn-Dujowich (2013), Sun et al (2013), F. Sun, Wei, and Huang (2013), Yang et al. (2014), Rashid (2013), Lee (2014), Conyon and Darmadi (2011), He (2012) and the results of these studies reveal that company performance is positively related to remuneration levels. Unlike the case with the results of research by Rost and Osteroh (2009), Usman (2015) shows that company performance is negatively related to remuneration; and the results of research Suherman, et al. (2015) shows that company performance as measured by Tobin's Q has no significant effect on compensation received by executives. Meanwhile, according to Abdullah (2006), The measurement company performance variables uses ROA are not significant factor in remuneration's directors. In addition to company performance factors associated with remuneration, there are other factors such as company size. Based on the research by Jiang, et al. (2009), (Gabaix, et al. 2013), Liang, et al. (2015), Flemming and Schaupp (2012), has proven the influence of company size with remuneration contracts. According to (Gabaix,

et al. 2013¹ that company size affects the amount of compensation received by executives in a company. Based on the above background, the researcher wants to re-examine the factors that link the level of corporate governance remuneration in Islamic banking both internal and external factors. The internal factors consist of the Islamic Bank's Health Level, corporate governance activities, while the external factors consist of inflation and the exchange rate.

LITERATURE REVIEW

Utami's results (2017) shows that a performance as measured by accounting performance (earnings), has an effect on board of commissioners' compensation. The results of Hikmah Endraswati's research (2016) shows the size and level of the board of commissioners attendance at the meeting had significant effect on remuneration. Agung Nur Probodono, Dwi Perwitasari, and Rifky Pratama Putra (2016) also stated that distress status had a negative effect on the amount of directors' remuneration and this study proved that ROA had no effect on the directors' remuneration. Then, Ali Farhat's research (2014) shows between company performance and executive remuneration as measured by return on assets produced a positive relationship.

Another opinion from Haron and Akhtaruddin (2013) states that ROA has a significant positive effect on remuneration for directors with a sample of public companies in Malaysia. Usman (2015) shows that company performance is negatively related to remuneration, and the research by Suherman, et al. (2015) shows that company performance does not have a significant implication as measured by Tobin's Q on compensation received by the executive. Based on research conducted by Liang, et al. (2015), Gabaix, et al. (2013), Flemming and Schaupp (2012), Jiang, et al. (2009), it is proven that there is an influence between company size and remuneration contracts. According to (Gabaix, et al. 2013), company size affects the amount of compensation received by executives in a company.

Sharia Bank Corporate Governance Remuneration

In POJK No. 45 of 2015, it is written remuneration is a fixed and variable reward given to corporate structure members such as members of the Board of Commissioners, member of the Board of Directors, members of the DPS, and/or employees in cash or non-cash depend on their duties, authorities and responsibilities at corporation's activity. Fixed remuneration is remuneration that is not related to performance and risk, including basic salary, facilities, housing allowances, health benefits, education benefits, holiday allowances and pensions. Variable Remuneration is Remuneration related to performance and risk, including bonuses or other forms of the same nature.

A permanent Remuneration policy must pay attention to: a) business scale, financial conditions and capabilities, inflation rate, business complexity, peer group, and not in conflict with the provisions of the prevailing laws and regulations; and b) the gap (remuneration) between levels of position. Variable Remuneration Policies must pay attention to: a) business scale, business complexity, peer groups, inflation rates, financial conditions and capabilities, and in accordance with statutory provisions; and b) encourage prudent risk taking. Granting Variable Remuneration for Directors, Board of Commissioners, SSB, and / or Employees must consider: a. performance, namely: 1) the Directors performance, Commissioners Board, DPS, or Employees; 2) business unit performance; 3) Bank performance; and b. risk. Variable remuneration provided in the form of: a. cash; and / or b. shares or share-based instruments issued by the Bank. In implementing governance in granting Remuneration, Banks must pay attention to sharia principles.

Sharia Bank Corporate Governance Meeting

In carrying out the duties and responsibilities, commissioner; directors; audit committee; and the sharia supervisory board is required to hold regular meetings at least once a month. According to Financial Services Authority Regulation (POJK) Number 33 / POJK.04 / 2014 Meetings are one of the characteristics of board governance for monitoring. With meetings there will be interaction, communication, equality of perception, and coordination and likewise asymmetry between principals and agents can be minimized. The more frequent corporate governance structure meetings, the better the monitoring.

Sharia Bank Health Level

The method for evaluating bank health with a risk-based Bank Rating approach is based on the Financial Services Authority Circular Letter No. 10 / SEOJK.03 / 2014, is a method of evaluating bank soundness based on 4 (four) factors, namely: Income, and Capital, Risk Profile, and Good Corporate Governance.

Composite ranking according to the Financial Services Authority Regulation (OJK) No.8 / POJK.03 / 2014 is the final rating of the bank's health rating. This composite ranking is done by ranking each component based on calculations and analysis. The calculation is

considering supporting indicators and / or relevant benchmarks. Then, based on the results of the ranking of each of these factors, the composite rank that has been determined is as follows: 1). Composite Rating 1 (CR-1). Reflecting the condition of banks which are generally "very healthy" so that they are considered capable of facing significant negative influences from changes in business conditions and other external factors. 2). Composite Rating 2 (CR-2). Reflecting the condition of banks that are generally "healthy" so that they are considered capable of facing significant negative influences from changes in business conditions and other external factors. 3). Composite Rating 3 (CR-3). Reflecting the condition of banks which are generally "reasonably healthy" so that they are considered sufficient to be able to face significant negative impacts from changes in business conditions and other external factors. 4). Composite Rating 4 (CR-4). Reflecting the condition of banks which are generally "unhealthy" so that they are considered less able to face significant negative impacts from changes in business conditions and other external factors.

Inflation

Inflation is an event that illustrates the situation and conditions where the price of goods has increased and the value of the currency has weakened, and if this happens continuously it will result in a worsening of overall economic conditions, which can shake the political stability of a country (Fahmi, 2013) There are several factors that cause inflation, among others, is the company's policy to increase the price of merchandise because of the implications of rising internal costs such as rising labor costs, interest rates or also because of expecting high profits (Cost Push Inflation). In addition, i.e. inflation arising from being driven by costs

Currency Exchange Rates

Vinna Sri Yuniarti (2016), stated that: "Currency exchange rates represent exchange rates from one currency to another and are used in various transactions, including international trade transactions, tourism, international investment or short-term cash flows between countries that cross geographical or legal boundaries."

Foreign exchange rates can experience changes. An increase in the value of a domestic currency is called an appreciation of foreign currencies. The decline in the exchange rate of money in a country is called depreciation of foreign currencies. The devaluation is the government's policy to reduce the exchange rate of the rupiah against foreign currencies, while revaluation is the government's policy to increase the exchange rate of the rupiah against foreign currencies (Vinna Sri Yuniarti, 2016).

The research method used in this study is the explanation method, which is a study that aims to explain the position of the variables studied and the relationship between one variable with another variable (Sugiyono, 2014). Where the independent variables in this study are the Sharia Bank Health Level measured by the Risk-based Bank Rating method (risk profile, GCG implementation, profitability, capital), corporate governance activities (frequency of board of commissioners meetings, frequency of board meetings, board meetings sharia supervisors), inflation and exchange rates while the dependent variable in this study is corporate governance remuneration (Board of Commissioners, Board of Directors, Sharia Supervisory board). The population in this study is a Sharia Commercial Bank registered with Bank Indonesia or the Financial Services Authority for the period 2010-2019. While the sampling technique used was purposive sampling, namely the technique of determining samples in accordance with the criteria. Data collection methods used in this study are secondary data where secondary data is obtained from Bank Indonesia's report and the Financial Services Authority report in the form of all Sharia Banks, inflation and exchange rates. Data processing and analysis techniques used are panel data regression statistical analysis, hypothesis testing, analysis of the coefficient of determination.

METHODOLOGY

The research method used in this research is the explanatory method, which is research that aims to explain the position of the variables studied and the relationship between one variable and another (Sugiyono, 2014). Where the independent variable (independent variable) in this study is the soundness level of Islamic commercial banks measured by the Risk-based Bank Rating method (risk profile, GCG implementation, profitability, capital), corporate governance activities (frequency of board of commissioners meetings, frequency of board meetings, the frequency of sharia supervisory board meetings), inflation and exchange rates while the dependent variable (dependent variable) in this study is corporate governance remuneration (Board of Commissioners, Board of Directors, Sharia Supervisory Board). The data collection method used in this research is secondary data

where secondary data is obtained from reports from Bank Indonesia and the Financial Services Authority in the form of financial reports of all Islamic Commercial Banks, inflation and exchange rates.

Population and Sample

The population in this study are Islamic Commercial Banks registered with Bank Indonesia or the Financial Services Authority for the period 2011-2018. While the sampling technique was carried out by purposive sampling, namely the technique of determining the sample according to the criteria. The criteria for the sample to be taken for this study are Islamic banking which has been in the form of a Sharia Commercial Bank (BUS) in the 2011-2018 period and the availability of financial reports and BUS Good Corporate Governance (GCG) reports that have been audited by an independent auditor in the report. annual.

Data Analysis Technique

This study uses the panel data regression method. In selecting the panel data regression model estimation, 3 (three) model estimation tests were carried out to determine the most appropriate regression model, namely, the Chow Test, the Hausman test and the LM Test. After testing the model estimation, one of three panel data regression model approaches will be obtained, namely, the Common Effect Model (CEM) or Pooled Least Square (PLS), Fixed Effect Model (FEM) and Random Effect Model (REM) (Ekananda, 2016). After the regression analysis is carried out, the hypothesis testing will be carried out including the t test and f test.

RESULT AND DISCUSSION

In analyzing the panel data regression, a regression estimation model with panel data must be determined first. In this case, the method of estimating the regression model using panel data can be done through three approaches, including the Fixed Effect Model (FEM), Random Effect Model (REM), Common Effect Model (CEM) (Ekananda, 2016). In this study the authors determine the regression estimation model by conducting a Chow Test. Here are the test results:

Table 1. Chow Test

Redundant Fixed Effects Tests
Pool: PROPOSAL2
Test cross-section fixed effects

Effects Test	Statistic	d.f.	Prob.
Cross-section F	0.000000	(10,73)	1.0000
Cross-section Chi-square	0.000000	10	1.0000

Source: *Output E-Views 10*, 2020

The Chow Test results show the Chi-square probability of 1,0000 then reject H1 which means the model chosen for panel data regression is Common Effect Model (CEM). When the selected model is the Common Effect Model (CEM), it is not necessary to test the specification of the next model. Here is the Common Effect model of panel data regression in this study which can then be analyzed by testing the hypothesis:

Table 2. Common Effect Model

Dependent Variable: RCG

Method: Pooled Least Squares

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Sample: 2011 2018

Included observations: 8

Cross-sections included: 11

Total pool (balanced) observations: 88

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	85.69465	1.902223	45.04974	0.0000
FRCG	-0.973962	0.068459	-14.22694	0.0000
TKBANK	0.010631	0.001674	6.352330	0.0000
INFLATION	-0.136242	0.011071	-12.30669	0.0000
KURS	0.000460	1.69E-05	27.18535	0.0000
R-squared	0.934993	Mean dependent var		62.75000
Adjusted R-squared	0.931860	S.D. dependent var		0.665228
S.E. of regression	0.173649	Akaike info criterion		-0.608426
Sum squared resid	2.502768	Schwarz criterion		-0.467668
Log likelihood	31.77075	Hannan-Quinn criter.		-0.551718
F-statistic	298.4466	Durbin-Watson stat		2.410007
Prob(F-statistic)	0.000000			

Source: *Output E-Views* 10, 2020

Meanwhile, the t test results (partial) show that all variables X1 to X4 each have a significant effect on the Y variable. F Test results (Simultaneous) also show that simultaneously all variables X1 to X4 have a significant effect on the Y variable, then with the R2 value above, shows that all variables X1 to X4 can explain Y variable by 93.1% while the rest (100% - 93.1% = 6.9%) are explained by other variables.

Based on the Hypothesis Test, the results of this study are in line with previous studies namely, the research of Utami (2017), Hikmah Endraswati (2016) which shows that the size and level of attendance of the board of commissioners at a meeting has an effect on remuneration. Then the research Yang, et al. (2014), Lee (2014), Erick, et al. (2014), Vemala, et al. (2014), Anggraini et al (2014), Bizjak et al (2014), Lam, et al. (2013), Mardiyati, et al. (2013), Banker, Huang, and Plehn-Dujowich (2013), F. Sun, Wei, and Huang (2013), Rashid (2013), Conyon and He (2012), Darmadi (2011) Sun et al (2013), which revealed that the company's performance was positively related to the level of remuneration. So it can be concluded in this study that factors affecting the remuneration of corporate governance include the frequency of corporate governance meetings (Board of Commissioners, Board of Directors, Sharia Supervisory Board), company performance as measured by bank soundness then inflation rate, and exchange rate.

CONCLUSIONS

Remuneration is a fixed and variable reward given to members of the Board of Directors, members of the Board of Commissioners, members of the DPS, and / or employees in cash or non-cash in accordance with their duties, authorities and responsibilities. Providing appropriate remuneration can motivate and improve employee performance so as to improve company performance. The purpose of this study is to find out what are the factors that influence the level of corporate governance remuneration in Islamic banking both internal and external factors. The results of this study prove that all variables X1 to X4 each have a significant effect on the Y variable, the results of the F Test (Simultaneous) also show that simultaneously all variables X1 to X4 have a significant effect on the Y variable, then the R2 value indicates all variables X1 to X4 can explain Y variable of 93.1% while the rest (100% - 93.1% = 6.9%) is explained by other variables. So it can be concluded in this study that the factors affecting corporate governance remuneration include the frequency of corporate governance meetings (Board of Commissioners, Board of Directors, Sharia Supervisory Board), company performance as measured by bank soundness then inflation rate, and exchange rate. This research is expected to have meaningful implications for all parties, firstly, it can provide an expansion literature related to corporate governance remuneration, secondly, the findings from the results of this study are expected to be additional information in considering the determination of granting corporate governance remuneration for Indonesian Islamic Banking. Future studies are expected to expand the research sample so that the results obtained can be better. Further research can use other independent variables, both external and internal so that it can be found several other factors that affect corporate

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