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FACTORS THAT INFLUENCE THE CHOICE OF CLAWBACK COMPENSATION IN INDONESIAN BANKS

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Abstract

Indonesian Financial Service Authority regulates that banks should have implement their remuneration scheme no later than January 1, 2017. The regulation No. 45/2015 requires bank to choose clawback, holdback, or a combination of both clawback and holdback. A clawback provision permits bank to withdraw compensation paid to its employee should some risks related to the employee's decision brings the loss to the bank. A holdback provision, on the other hand, permits the bank to retain some portion of the variable compensation until a certain period passed. The regulation also permits bank to combine both the clawback and holdback systems. This study investigates factors that may have association with the choice of the remuration system. We divide factors into performance and corporate governance. The result shows that only the net interest margin and the ratio of operating expense to revenue that have statistically significant association with the likelihood to choose clawback system. While, all corporate governance variables do not show a relationship with the choice of remuneration system. We can not compare our results with any previous research because we may be the first to investigate the implementation of clawback or malus in Indonesia.

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Abstrak

Kebijakan kompensasi bank di Indonesia diatur menggunakan peraturan Otoritas Jasa Keuangan No. 45 tahun 2015. Di dalam aturan tersebut, bank diminta untuk menerapkan kebijakan penarikan kembali kompensasi variabel yang telah dibayar (clawback) atau penahanan dan pelepasan secara bertahap kompensasi variabel (holdback) yang diterima oleh karyawan bank yang dikategorikan sebagai pembuat keputusan risiko material. Selain memilih salah satu kebijakan kompensasi, bank juga diizinkan untuk menggabung kedua kebijaan tersebut. Penelitian ini menguji hubungan antara kinerja perusahaan dengan pilihan kebijakan kompensasi karyawan bank. Selain itu, penelitian ini juga hubungan tata kelola perusahaan dengan pilihan provisi kompensasi clawback. Hasil pengujian menunjukkan bahwa net interest margin dan rasio biaya operasional dengan pendapatan operasional memiliki hubungan dengan kecenderungan perusahaan untuk memilih metoda clawback. Hubungan negatif keduanya mengindikasi bahwa bank lebih cenderung memilih metoda selain clawback. Hasil pengujian hipotesis kedua tidak bisa menunjukkan variabel tata kelola yang memiliki hubungan dengan pilihan metoda kompensasi. Penelitian ini memiliki beberapa kelemahan yang harus diperhatikan untuk menginterpretasi hasilnya.

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INTRODUCTION

Indonesian Financial Services Authority introduced Regulation No. 45 in late 2015, addressing the management of remuneration for commercial banks. With the issuance of this regulation, banks must adjust their remuneration policy for employees, directors, and commissioners in accordance with the provisions and principles in FSAR No 45. Failure to comply with this provision will have an impact on the downgrading of the company's good corporate governance factor. This regulation was issued in connection with corrective actions to correct the unhealthy way of giving bonuses during the world economic crisis in 2007 (Financial Service Authority Regulation number 45/POJK.03/2015).

One of the main factors causing the world economic crisis in 2007 was the tendency of financial institutions to take excessive risks. The risk-taking aims to get good performance in the short term and sacrifice long-term performance. The impact of this excessive risk taking is seen in the financial statements that do not show the actual conditions in the company (Apanpa & Ananaba, 2016). Executives tend to take excessive risks to get the maximum bonus, because usually bonus is based on short-term performance. Because of this action, a conflict of interest between stakeholders and shareholders may arise. Because stakeholders are oriented to short-term performance and shareholders are oriented to long-term performance. From a behavioral perspective, executives take excessive risks because they have optimistic beliefs about economic conditions. Optimistic belief makes executives ignore extreme possibilities that will occur, such as an economic crisis (Akin et al., 2020).

Following the 2007 economic crisis, the significance of having an effective decision-making mechanism became evident. Executives as parties who play a role in making decisions must have a sense of responsibility for the decisions they have taken. Such as any risk taking will affect the salaries and bonuses that have been given to executives. In response to the 2007 econo mic crisis, several policies were made, such as the Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010 in the United States and The Corporate Governance Code of 2014 in United Kingdom. The Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010 provide a method for companies to recover compensation payments for executives who have made a mistake. For The Corporate Governance Code of 2014 in United Kingdom, requires companies to recover or withhold payments to executives. A policy that can make a company recover or withhold payment of bonuses or benefits is called a clawback policy (Apanpa & Ananaba, 2016).

After the 2007 economic crisis, clawback was introduced as a method to restore investor and public confidence. Usually, the company adds clawback in the employment contract. Clawback can be used as collateral for the company in the event of fraud, violations, or decreased profits. In addition, clawback can be used to prevent misuse of accounting information by company executives (Kenton, 2021). Adoption of clawback makes CFO whose compensation is based on firm performance will be more cautious in presenting financial statements. The CFO will avoid restatements of financial statements and overstated earnings. Since it will affect their integrity as a part of company's executives (Kroos et al., 2018). As Thompson & Shroff (2021) pointed out, in the case of a restatement in the financial report, clawback allows the board to clawed-back their executive compensate ion, because of the misreporting.

Executive remuneration has a significant relationship with firm performance in terms of ROA and ROE. The higher remuneration the directors received, the better the firms perform. Higher remuneration can maintain the quality of the directors and encourage them to work harder. Firm performance has a positive relationship with leverage. This means that an increase in debt for investment produces a maximum return to the company. Greater leverage can be leading a company to a serious problem, because the company is required to pay higher interest rates on loans. If the return on investment is not maximized, the higher the risk of a company failed to pay its debts. This happens if the return on investment is not maximized. It would be worse if this situation occurs when economic conditions are chaotic, such as the world crisis in 2007. Because of that managers need to focus on the executive remuneration, and leverage since these factors have an direct impact on the firm performance (Mohd Razali et al., 2018).

The primary goal of effective corporate governance is to create executive compensation mechanisms and contracts that represent the interest of management and shareholder. To reach the goal the management can create their executive compensation using clawback provision. Chen & Vann (2014) found that board independence, number of the board meeting and number of board member are positively associated with the adoption of clawback. It indicates that firm with strong board tend to adopt clawback. Generally, the indicators to measure the remuneration for executives are risks and performance of the bank, business unit, and executive of a company adjusted to scale and complexity of the bank's business activities. To have an effective remuneration system, the company needs to have good corporate governance related to the remuneration system. Most corporate governance indicators show a positive significant relationship with the remuneration system.

In Indonesia, governance in providing remuneration for commercial banks has been regulated in the Financial Services Authority Number 45 of 2015. Based on this rule in providing variable remuneration, banks can apply a malus or clawback policy. This policy allows banks to defer payment of variable remuneration to bank executives or to withdraw variable remuneration that has already been paid to the bank's executives as long as they meet the bank's criteria. Previous research on clawback has generally focused on the consequences of using clawback as a compensation system. There are only few studies focuses on factors that encourage banks to decide to adopt clawback as a remuneration policy. This study will discuss the variables that impact banks' decision to adopt clawback as a remuneration policy, since clawback is not used by all banks in Indonesia. Then this research would examine whether the firm performance and corporate governance affect the decision of banks to choose clawback as variable remuneration payment system.

Remuneration is a factor that can motivate and increase the performance of a manager that will affect the firm performance (Setyawati & Hudayati, 2019). The general indicator to measure the variable remuneration includes the performance of the bank, the executive, and the business unit of the bank. Isa (2014) studied the relationship between director's remuneration, performance and governance in the context of Malaysian banks. This study found that the executive remuneration was positively related to the bank's perfromance. Zandi et al. (2019) investigates the relationship between CEO compensation and firm performance in different business sectors in Malaysia. They found that ROA and ROE have a positive and statistically significant relationship with the CEO compensation. Their research confirmed Raithatha's (2016) conclusions. Previous studies by Nourayi & Mintz (2008) test the association between CEO tenure, compensation, and firm performance. They found that the compensation of CEO was affected by the firm size and tenure. This research has the same result as the research conduct by Berthelot et al., (2013).

Many studies have found the relationship between directors' remuneration with firm performance and corporate governance. However rarely of them discuss clawback and its relationship with firm performance and corporate governance. Clawback provision can be found, for example, in the Sarbanes-Oxley Act of 2002, but it relates with accounting misstatement and does not directly with banking industry. Therefore, the objective of this study is to provide empirical evidence of how firm performance and corporate governance would influence the bank to choose clawback as variable remuneration payment system in Indonesia.

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Jensen & Meckling (1976) clearly indicate that the company may take some actions to protect itself from the dysfunctional behaviors of its managers. The theory predicts that managers may find their way to protect their interest in the company. The problem with this behavior is that it may cost the company. Managers may choose risky project as long as it may benefit them but at the expense of the company. In the case of the banks, managers may approve loans to bank's customers without proper due diligence. The predatory lendings has brought bad crisis to the world in 2008-2009 (Coghlan et al., 2018). They posit that bankers were easily agree to finance anything to anyone as long as the decision profited them. The motive of self-interest has created a behavior of greed. In the USA, the Sarbanes-Oxley Act of 2002 tries to regulate the retention of remuneration to managers. The clawback provision to executive compensation is in line with the recommendation brought by the agency theory. This statute, however, only confines its regulation to misreporting of financial information. In fact, specific industry like banks are also vulnerable to dysfunctional behavior, not only one related to financial information.

Clawback is a contractual obligation that requires money previously allotted to an employee to be returned to the employer or sponsor, often with a penalty. Clawback are used in employee contracts to limit bonuses and other incentive-based rewards. They operate as a sort of insurance if the company needs to respond to misbehavior, poor performance, or a drop in revenue. Clawback is the important part of the strategy since they help to reestablish investor and public trust in a company (Smith, 2021). In Indonesia, the clawback compensation system was regulated in Financial Services Authority Regulations number 45 the year 2015. Based on Financial Services Authority no.45/POJK.03/2015 about remuneration for the commercial bank, clawback is an agreement between a bank with members of the board of directors, members of the board of commissioners or employees who are members of the board of directors, members of the board commissioner of employee agrees to return variable remuneration received as long as it meets certain criteria determined by the bank.

Variable remuneration is related to the results achieved by employees. Variable remuneration can improve the quality of life of employees, because variable remuneration can strengthen an employee's sense of belonging to the organization. In addition, variable remuneration can also increase employee motivation to further improve their performance. With the increasing performance of employees, business development will be better. In addition, variable remuneration can be used as a way to maintain strategic human resources (Nespoli, 2020). Based on the regulation of the Financial Services Authority no. 45/POJK.03/2015, variable remuneration is a reward given to directors, commissioners, and employees associated with performance and risks in the form of bonuses or other forms. The performance that must be considered in the provision of remuneration consists of the performance of the directors, board of commissioners, or employees. For a bank with the status of a public company, it is required to provide variable remuneration in the form of shares.

Banks may also not distribute or distribute variable remuneration in the small amounts if they suffer losses. The policy to suspend (malus) or withdraw (clawback) variable remuneration payments can be applied to parties who are included in the material risk taker (MRT) category. MRT is the party whose duties and responsibilities have a significant impact on the bank's risk profile. Banks can use clawback, malus or a combination of the two policies. Clawback or malus policy can be applied by banks to their MRT in the event of a loss, a risk that has a negative impact, fraud that harms the bank, or other conditions in accordance with the provisions of each bank. The mechanism for returning or deferring variable remuneration can be done by deducting the compensation to be received or returning the variable remuneration that has been paid by the bank.

Magnan & St-Onge (1997) found that the executive's level of managerial discretion impacts the strength of the link between executive remuneration and bank performance. Executive remuneration depends on company performance metrics such as stock market returns and returns on assets when they have a larger amount of management discretion. Chen & Vann (2014) found that the adoption of clawback have significant effect to the firm’s financial performance. Return on equity and return on asset are used to measure the effect of clawback on firm’s financial performance. These results indicate that after adopting clawback as executive compensation, the company's financial performance is getting better than before. Wibowo & Sukirno (2016) found that the clawback compensation scheme has a significant effect on company performance. This result is in line with the endowment effect theory. This theory explains the unwillingness to lose what is already owned. As a result, the respondent will retain the bonuses that have been received and improve performance to avoid losing their bonuses.

Shim & Kim (2016) investigate the effect of executive compensation to the corporate performance using accounting-based performance measure or market-based performance. Accounting-based performance measure consists of return on assets (ROA) and return on equity (ROE). While market-based performance consists of book-to-market asset (BMA) and market-to-book ratio (MBE). The results showed that total executive compensation had a significant and positive relationship with ROA and MBE. Moreover, BMA has a negative relationship with total executive compensation. This study also shows that executive compensation has a strong relationship with accounting-based performance in the post-SOX period.

Harymawan et al., (2020) investigate the relationship between remuneration committees, Executive and board of director remuneration, and firm performance in Indonesia. This study observed 847 companies listed on the Indonesian Stock Exchange. They use ordinary least square (OLS) regressions with fixed year and industry effects to control for differences in economic conditions and industry characteristics. This research found that remuneration committees are favorably connected to executive remuneration and firm performance. Firms with remuneration committees had greater overall remuneration, higher CEO remuneration, and higher board of director remuneration, and they also have better performance. They assess the firm performance using ROA, ROE, and TOBIN’S Q.

Based on the discussion above, the existing literature does not provide a clear direction about the relationship between firm performance and the option of the company to choose clawback. So, the hypothesis is as follows:

H_1: There is a relationship between firm performances with option of company to its intention to choose clawback as remuneration policy.

Addy et al., (2014) found that companies adopting clawback provisions when the governance tenor shifts away from management entrenchment and toward a monitoring orientation. It also found that companies with compensation committee members who have interlocks with other companies adopting clawback are more likely to adopt clawback themselves. This study also finds clawback are not all the same. The most common clawback follow the SOX style, whereas the Dodd-Frank style is the least common. SOX-style clawback necessitate misbehavior in order to activate the clawback and target the full bonus. Clawback in the Dodd-Frank Act do not need wrongdoing and merely target the excess compensation.

Chen & Vann (2014) investigated the relationship between executive compensation clawback and corporate governance. The results show that the board independence, board meetings, and board size have a significant and positive effect on clawback adoption. These results indicate that companies with strong boards tend to adopt clawback and clawback adoption has negative associated with CEO tenure. For the CEO duality have insignificant negative relationship with adoption of clawback. It indicates that

CEO who has power in the company tends to have a longer tenure than the others. The powerful CEO has high degree of independence.

Another study related to corporate governance and executive remuneration is carried out by Rinaldi Zuhra (2020). This research explores the impact of corporate governance in the scope of board structure and firm risk-taking in the particular risk profile of banking companies on a company's tendency to choose malus as executive compensation policy in the banking sector companies listed on the Indonesia Stock Exchange. The results showed that corporate governance (board independence, board meetings, tenure, and pay slice) have a significant effect on the tendency to choose malus. Moreover, for firm risk variables (equity ratio, loans, and size) have a significant effect on the tendency to choose malus.

Rehman et al. (2021) investigate the influence of corporate governance (board size, board independence, CEO duality, ownership concentration) and business performance (return on equity) on executive compensation in the Chinese market. They found a positive significant relationship between return on equity and executive compensation. The ownership concentration has positive relationship to executive compensation. In accordance with managerial power and agency theory, CEO duality has a positive connection with executive compensation. Whereas board size and board independence have a positive relationship with executive compensation. Positive relationship of CEO duality, board size and board independence to the executive compensation show that the board is unsuccessful in preventing management entrenchment. Based on the argument before, the hypothesis is as follows:

H_2: There is a relationship between corporate governance with its inclination to choose clawback as remuneration policy.

RESEARCH METHOD

The objective of this study is to provide empirical evidence of how firm performance and corporate governance would influence the bank to choose clawback as variable remuneration payment system in Indonesia. To examine the relationship between clawback and firm performance, the financial measures such as operational cost on operational revenue (BOPO), net interest margin, capital adequacy ratio, and non-performing loans net are used. To investigate the relationship between clawback and corporate governance, the variables to be examined are total remuneration of the board of commissioner (RMC) and presence of female members on the board of commissioner (FMC). Indicator 1 if there is a female member of the board of commissioner, if there is no female member on the board of commissioner the indicator used is 0. The dependent variable in this study is the option to choose clawback. Indicator 1 if the bank discloses that they use clawback, if the bank does not disclose their compensation scheme, then the indicator used is 0.

The population of this research is commercial banks in Indonesia. The sampling technique was carried out using the method purposive sampling. The sample used in this study is the financial statements of the banking sub-sector listed on the Indonesian Stock Exchange for the period 2017 to 2019. The 2017 was the latest year for Indonesian bank to implement the remuneration regulation. We do not include the year 2020 due to the crisis triggered by COVID-19 may interfered with our data. The criteria used for sample selection are as follows:

a. Commercial banks listed on the Indonesian stock exchange from 2017 to 2019. This list was compiled based on financial data available on the website of the Financial Services Authority.
b. Commercial banks that publish annual reports for the period 2017 to 2019.

The logistic regression model in this study is as follows:

$$CL_{i,t} = a + b_1 BOPO_{i,t} + b_2 NIM_{i,t} + b_3 CAR_{i,t} + b_4 NPLN_{i,t} + b_5 RMC_{i,t} + b_6 FMC_{i,t} + e \quad (1)$$

Whereas:
CL = Clawback of bank i in year t
BOPO = Operational cost on operational revenue bank i in year t
NIM = Net interest margin bank i in year t
CAR = Capital adequacy ratio bank i in year t
NPLN= Nonperforming loan-net bank i in year t
RMC = Remuneration of commissioner bank i in year t
FMC = Female as commissioner bank i in year t

RESULT AND DISCUSSION

The purpose of this study is to investigate the impact of firm performance and corporate governance on the likelihood of a company adopting clawback as a variable remuneration payment system. The samples of this study are the commercial banks listed on the Indonesian Stock Exchange from 2017 to 2019. The number of samples obtained from this technique is 35 commercial banks. The criteria and number of commercial banks that meet these criteria are as follows:

Table 1.
Sample selection process

Criteria	Total
Commercial banks that are listed on IDX in 2017 to 2019	37
Commercial banks that do not provide amount of total remuneration for the board	(2)
Total	35

Source: Data processed by researchers, 2024

Table 2 shows the sample of 35 commercial banks and Table 3 for Descriptive Statistics. The variables are divided into two groups: those that measure firm performance and those that measure corporate governance. The variables that measure firm performance are taken from Bank Indonesia Circular No. 6 of 2004, i.e. net interest margin (NIM), the ratio between operational cost to operational revenue (BOPO), non-performing loan net (NPL), and capital adequacy ratio (CAR). The last two variables, NPLN and CAR are based on the Regulation of Financial Services Authority No.15/POJK.03/2017 and the Regulation of Financial Service Authority no.11/POJK.03/2016, respectively. Two other variables measure the corporate governance, i.e. the remuneration received by the board of commissioner and the number of female members on the board of commissioner. The definition of each variables are as follows, as well as the formulation to calculate them.
Net interest margin (NIM).

Table 2.
Research samples

No	Stock Code	Banks Name
1	AGRO	Bank Rakyat Indonesia Agroniaga Tbk
2	AGRS	Bank IBK Indonesia Tbk
3	ARTO	Bank Artos Indonesia Tbk
4	BABP	Bank MNC Internasional Tbk
5	BBCA	Bank Central Asia Tbk
6	BBHI	Bank Harda Internasional Tbk
7	BBMD	Bank Mestika Dharma Tbk
8	BBNI	Bank Negara Indonesia (Persero) Tbk
9	BBRI	Bank Rakyat Indonesia (Persero) Tbk
10	BBTN	Bank Tabungan Negara (Persero) Tbk
11	BBYB	Bank Bank Yudha Bakti Tbk
12	BCIC	Bank Jtrust Indonesia Tbk
13	BDMN	Bank Danamon Indonesia Tbk
14	BGTG	Bank Ganesha Tbk
15	BINA	Bank Ina Perdana Tbk
16	BKSW	Bank QNB Indonesia Tbk
17	BMAS	Bank Maspion Indonesia Tbk
18	BMRI	Bank Mandiri (Persero) Tbk
19	BNBA	Bank Bumi Arta Tbk
20	BNGA	Bank Cimb Niaga Tbk
21	BNII	Bank Maybank Indonesia Tbk
22	BNLI	Bank Permata Tbk
23	BSIM	Bank Sinar Mas Tbk
24	BSWD	Bank of India Indonesia Tbk
25	BTPN	Bank BTPN Tbk
26	BVIC	Bank Victoria Internasional Tbk
27	DNAR	Bank Oke Indonesia Tbk
28	INPC	Bank Artha Graha Internasional Tbk
29	MAYA	Bank Mayapada Internasional Tbk
30	MCOR	Bank China Construction Bank Indonesia Tbk
31	MEGA	Bank Mega Tbk
32	NISP	Bank OCBC NISP Tbk
33	NOBU	Bank Nationalnobu Tbk
34	PNBN	Bank Pan Indonesia Tbk
35	SDRA	Bank Woori Saudara Indonesia Tbk

Source: Data processed by researchers, 2024

Table 3.
Descriptive statistics (N = 105)

Panel A

Variable	Minimum	Maximum	Mean	Std. Deviation
NIM	0.004	0.116	0.048	0.018
BOPO	0.582	2.581	0.922	0.252
NPLN	0.001	0.099	0.020	0.015
CAR	0.126	1.468	0.241	0.147
RMC	19.13	25.90	22.773	1.406

Panel B
Female Commissioner

Female status	Frequency	Percentage
No female member	46	43.8
Female members present	59	56.2
Total	105	100.0

Source: Data processed by researchers, 2024

The net interest margin ratio is used to assess a bank's management's ability to manage productive assets in order to produce net interest income. The net interest margin can be calculated by dividing net interest income by average productive assets (Bank Indonesia Circular No. 6 of 2004)

$$NIM = \frac{Net\ interest\ income}{Average\ total\ productive\ assets}$$

Operational cost on operational revenue (BOPO)

BOPO is a ratio that can be used to measure a bank's efficiency in controlling its operational costs.

$$BOPO = \frac{Total\ operational\ expense}{Total\ operational\ revenue}$$

Non-performing loan net (NPLN)

Non-performing loan net show a credit or funding that is substandard, doubtful, or obstructed, as defined by legislative condition (Regulation of Financial Services Authority No.15/POJK.03/2017).

$$NPLN = \frac{Nonperforming\ loan - CKPN}{Total\ credit}$$

The capital adequacy ratio (CAR)

Capital adequacy ratio shows the minimum capital value that must be owned by a bank in accordance with the risk profile of the bank (Regulation of Financial Service Authority no.11/POJK.03/2016).

$$CAR = \frac{Capital}{Risk\ weighted\ assets}$$

Remuneration of the board of commissioner (RMC)

This indicates the total amount of remuneration earned by the board of directors in a given year.

$$RMC = Ln\ total\ remuneration\ of\ the\ board\ of\ commissioners$$

Female members on the board of commissioner (FMC)

FMC shows the presence of the female member in the commissioner. Indicator 1 if there is a female member of the board of commissioner, if there is no female member on the board of commissioner the indicator used is 0.

$$FMC = Presence\ of\ female\ member\ on\ the\ BOC.$$

Table 3 showed that the the lowest value of net interest margin in the 2017-2019 period was .0039. The bank that received this score was Bank Jtrust in 2019. The highest score of .1160 was achieved by Bank BTPN 2017. The average value of the Bank's NIM for the 2017-2019 period was .048487. The lowest value of ratio of operating expense to revenue in the 2017-2019 period was .5820. The bank that received this score was Bank Central Asia in 2018. The highest score of 2.5809 was achieved by Bank Artos in 2019. The average value of the bank's ratio of operating expense to revenue for the 2017-2019 period was .921628. The lowest value of net non-performing loan in the 2017-2019 period is .0005. The bank that received this score was Bank Nationalnobu in 2017. The highest score of .0992 was achieved by Bank Neo Commerce 2018. The average value of the Bank's net non-performing loan for the 2017-2019 period was .019697. The lowest value of capital adequacy ratio in the 2017-2019 period was .1258. The bank that received this score was Bank MNC Internasional in 2017. The highest score of 1.4684 was achieved by Bank Jago 2019. The average value of the bank's capital adequacy ratio for the 2017-2019 period was .241486.

The lowest value of logarithm of remuneration paid to commissioner in the 2017-2019 period is 19.13. The bank that received this score was Bank Rakyat Indonesia Agroniaga in 2017. The highest score of 25.90 was achieved by Bank Negara Indonesia 2017. The average value of the logarithm of remuneration paid to commissioner for the 2017-2019 period was 22.7729. There 59 samples that have female in the board commissioner. This value constitutues 56% of our sample-year. Table 4 shows the test results of effect of independent variables on the option to choose clawback using logistic regression model.

Table 4.
Hypothesis Test Results

Variable	B	Sig.	Exp (B)
Constant	-3.527	.471	.029
NIM	-41.062	.021	.000
BOPO	-3.579	.048	.028
NPLN	20.592	.292	876,661,826.415
CAR	3.271	.161	26.346
RMC	.302	.112	1.353
FMC	-.073	.869	,929
Model Chi-square		.069	
Nagelkerke R-square		.146	

Source: Data processed by researchers, 2024

The significance value of the model (model Chi-square) is .069, which is higher than .05. It can be concluded the model is fit so that we can test the relationship of each independent variables with the likelihood of remuneration system chosen. The statistically significant value found for the net interest margin (NIM). The significance value on the NIM is less than the significance level .05. This result indicates that NIM has a substantial influence on the option to choose clawback. NIM with a negative indicates that an increase in the ability of bank management to manage their productive assets to generate net interest income results in banks having a tendency not to use clawback as a variable remuneration payment system.

The statistically significant value of operational cost on operational revenue is .048. The significant value is lower than the significance level of .05. This demonstrates that the usage of clawback in commercial banks affected by the BOPO included in the bank. BOPO has a negative relationship with the adoption of clawback. The increasing ability of banks to manage their operational expenses has resulted in banks having a tendency not to use clawback as a variable remuneration payment system. The significance level of net non-performing loan (NPLN), capital adequacy ratio (CAR), remuneration of board of commmissioners (RMC), and female members on the board of commissioner (FMC) are greater than 0.05. Therefore, these variables have no impact on the likelihood of a company adopting clawback.

CONCLUSION AND SUGGESTION

The purpose of this research was to examine whether firm performance and corporate governance influence a company's option to choose clawback. There are six indicators in firm performance and corporate governance. Those variables are net interest margin, operating cost on operating revenue, net nonperforming loan, capital adequacy ratio, remuneration of the board of commissioners, and female member on board of commissioners. Among these indicators, only net interest margin and operational cost on operational revenue have a negative significant effect to the option of banks to choose clawback. Meanwhile, the other factors do not have a significant effect on the option of banks to choose clawback. We cannot compare our results with any previous because we may be the first to investigate the implementation of clawback/malus in Indonesia.

This study brings some implications to current literature and practice related to banking and corporate governance. First, the extant literatures believe that compensating managers directly as they reach performance target relate to employee satisfaction. However, our study shows that higher profitability relates to a more careful action from the banks. Banks do not choose to pay all remuneration to their managers as they reach the individual target, but rather retain some portion of the remuneration until later years. Second, even though the comissioners' remunerations may relate to bank's performance, they do not influence the decision of bank to choose either remuneration provisions. It indicates that the board of commissioner functions well, according to its supervisory duty. Third, this finding confirms the prediction of agency theory that banks try to protect itself from the dysfunctional behavior of its managers by holding back remuneration until the associated risk lowers.

In practice, the results of this study can be used as one of the considerations for banks in setting their remuneration policies. This finding can contribute to the literature related to the compensation scheme by researching the factors that influence the adoption of clawback as a variable compensation payment system for commercial banks in Indonesia. The findings are the banks with lower net interest margin (NIM) value tend to use clawback as variable remuneration payment system and banks with higher value of operational cost on operational revenue (BOPO) tend to not use clawback as variable remuneration payment system. However, this study suffers from some limitations. First, we only have a small number of samples since the regulation was just mandated in 2016 to 2017. Second, the quality of the disclosure of remuneration paid to material risk takers, at least to top executives and commissioners, is low. If the banks reports both cash and non-cash compensation and fixed and variable compensations, we will have more understanding on the managers' compensation relationship with other variable. Therefore, interested researcher may investigate the relationship within a longer period. Moreover, researcher may investigate this issue using other non-public private banks and local government-owned banks data.

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