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THE EXISTENCE OF INDEPENDENT COMMISSIONERS AND BOARD REMUNERATIONS IN ACHIEVING FIRM VALUE

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Abstract. This study aims to examine the effect of governance mechanisms, especially the existence of independent commissioners and board remuneration, on firm value. Using a sample of companies from various industries listed on the Indonesia Stock Exchanges, data then were analyzed using a linear regression model. The result shows that independent commissioners and board remuneration significantly affect firm value. Moreover, the existence of independent commissioners plays an important role in strengthening the remuneration of the board in supporting the achievement of the company's firm value. The finding implies that adequate remuneration is required to make the governance mechanism works properly according to the function and scope.
Keywords: Governance; board; remuneration; firm value.

INTRODUCTION

Remuneration plays important role in any organization. Remuneration is an award for services that have been provided or compensation for services that have been performed. Therefore, it should be determined based on measurable performance and achievement (Hartikainen et al., 2021). Remuneration is generally delivered in the form of salary, honorarium, incentives, and allowances (Harymawan et al., 2020).

In practice, this remuneration is often associated with efforts to achieve the company's strategic goals (Hartikainen, et al., 2021). Unfortunately, some companies do not transparently disclose information about remuneration, even though such information plays an important role in determining business continuity (Hartikainen et al., 2021). Indeed, in the Indonesian capital market, only 25% of companies disclosed remuneration (Harymawan et al., 2020), which implies that companies should be encouraged to disclose such information to increase the company’s transparency.

Remuneration studies have been carried out in many perspectives, with different environmental scopes, including event studies. Remuneration studies in the perspective of

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firm performance have been conducted by Niap and Taylor (2012), Zalewska (2014), Rose (2016), Smirnova and Zavertiaeva (2017), Aslam et al. (2019), and Harymawan, et al. (2020). Remuneration is also studied from the perspective of sustainability by Hartikainen, et al. (2021). In the context of Asian countries, Harymawan, et al. (2020) examined the practice of providing remuneration and the existence of a remuneration committee in Indonesian companies, while Budsaratragoon, et al. (2020) reviewed director remuneration in Thailand, and Miao, et al. (2021) explore the existence of executive remuneration in companies in China. Hartikainen, et al. (2021) provide an overview of remuneration in supporting the sustainability of Finish companies. Moreover, Hearn (2013) shows the practice of director compensation with a governance board in West African companies, while Goh and Gupta (2016) describe the practice of remuneration for non-executive directors in the UK. Aslam, et al. (2019) also examines executive director remuneration in Pakistan. Malak (2015) examines the determinants of executive directors' remuneration in Malaysian companies. Remuneration is also investigated based on event studies, such as Initial Public Offering (Hearn, 2013) and economic turmoil (Niap and Taylor, 2012). The previous studies imply that all remuneration studies that have been carried out are quite diverse and show inconsistent findings.

Some studies show that remuneration is a component of governance (Mansour, et al., 2020; Musa, et al., 2015). The remuneration of the board of directors and executives should indeed be designed in the context of corporate governance to promote the effectiveness of the company's operations (Harymawan, et al., 2020). In the context of agency theory, remuneration can be viewed as a mechanism used to create alignment between managerial interests and shareholder interests to create a better organizational performance. Harymawan, et al. (2020) found that executive and director remuneration positively affects firm performance, especially in companies with remuneration committees. Furthermore, Rose (2016) indicates that in the context of corporate compliance with governance, remuneration significantly affects company performance when measured by Return on Equity, but not significantly when measured by Return on Assets, Smirnova and Zavertiaeva (2017) also conclude that incentives as a form of remuneration significantly influence firm performance.

Considering the previous conflicting findings, this study aims to investigate whether the existence of independent commissioners, commissioners' remuneration, directors'

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remuneration, and control variables (number of independent commissioners and directors) affect firm value. Thus, this study is intended to examine the following hypotheses:

H1: The existence of an independent commissioner can encourage an increase in firm value.
H2: The remuneration of the board of commissioners can encourage an increase in firm value.
H3: The remuneration of directors can encourage an increase in firm value.
H4: The existence of independent commissioners plays a role in strengthening the remuneration of directors in encouraging the increase in firm value.
H5: The existence of independent commissioners plays a role in strengthening the remuneration of the board of commissioners in encouraging the increase in firm value.

METHOD

This study uses quantitative data with a linear regression model. The data is based on the annual report of companies listed on the Indonesia Stock Exchanges (idx.co.id) with a final sample of 241 observations from all company categories in the period of 2018 – 2019. Remuneration data is obtained from the ESGI dataset.

The dependent variable is the firm value (FV) with Tobin's Q proxy, while the independent variables consist of the existence of an independent board of commissioners (COM_IN) which is calculated from the proportion of independent commissioners, commissioners remuneration (REMUN_COM), directors remuneration (REMUN_DIR), both of which are calculated from the total disclosed in the company's annual report, and control variables consisting of the number of directorship president commissioner (Press COM), and several directorship president director (Press DIR). Moderation testing is also carried out to see the role of independent commissioners. In addition, we involved moderating variables MOD_1 and MOD_2 which are the multiplication required for moderation (COM_IN*REMUN_DIR and COM_IN*REMUN_COM). The following models are used in the moderation test:

$$FV = \alpha + \beta 1\ COM\_IN + \beta 2\ REMUN\_COM + \beta 3\ REMUN\_DIR + \beta 4\ MOD\_1 + \beta 5\ MOD\_2 + \beta 6\ Press\_COM + \beta 7\ Press\_DIR + \varepsilon$$

RESULTS AND DISCUSSION

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In a sample of 241 observations, descriptive statistical testing has been carried out with the following results:

Table 1. Descriptive Statistic

	FV	COM_IN	REMUN_COM	REMUN_DIR	Press_COM	Press_DIR
Min	0.02	1.00	13,716,000.00	60,934,000.00	1.00	1.00
Max	0.99	7.00	3,402,000,000,000.00	9,220,000,000,000.00	12.00	9.00
Mean	0.37	1.76	39,396,699,856.17	121,409,244,761.15	2.57	1.80
SD	0.24	0.97	262,892,333,330.83	788,957,483,970.81	2.00	1.51
N	241					

According to table 1, with a sample of 241, it is shown that the value of the company in this study has an average of 0.37 which is in the range of 0.02 to 0.99 with a standard deviation of 0.24. With this average range, it shows that the company has a higher level of asset replacement compared to the value of the company. Meanwhile, the number of independent commissioners in the sample companies were between 1 and 7 people with an average of 1.76 (2 people) and a standard deviation of 0.97. The Financial Services Authority Regulation (Number 33/POJK.04/2014) regulates management related to companies and commissioners to the public. The regulation requires the number of commissioners to be at least two people, one of whom is an independent commissioner. However, if the number of the board of commissioners is more than two people, the independent commissioner is required to be at least 30%. From the range of sample data, the average number of independent commissioner is 2. If the company has a board of commissioners between 2 to 7, this has complied with the provisions of the OJK, but if the board of commissioners is more than 7, it cannot be said to have met the requirements. It seems that the number of commissioners for future research is needed to be revealed.

Commissioners' remuneration (in rupiah) ranges from 13,716,000 to 3,402,000,000,000 with an average of 39,396,699,856.17 and a standard deviation of 262,892,333.33.83. The backward remuneration (in rupiah) ranges from 60,934,000 to 9,220,000,000,000, an average of 121,409,244,761.15 and a standard deviation of 788,957,483,970.81. This shows that the remuneration for the board of the company is quite varied, as can be seen from the fairly high standard deviation. Furthermore, the independent commissioner has an average 3 positions (2.57) with a range from 1 to 12, while the average placement has 2 positions (1.80) ranging from 1 to 9 for all sample companies. Some of these are in accordance with OJK regulations, but some are not. Based on the

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understanding of POJK Number 33/POJK.04/2014, a member of the board of commissioners can hold concurrent positions a) a maximum of two for other issuers as a member of directors or commissioner, b) a maximum of four for other issuers as a member of the board of commissioners, if the board of commissioners is not concurrently as a member of the board, c) a maximum of five members of the board concerned with other board members or board members, as long as they do not meet other regulatory provisions. If there are differences with other regulations, the stricter regulations will be stipulated.

In this study, the classical assumption test was also carried out and then the hypothesis was tested with the following results:

Table 2. Result

$FV = \alpha + \beta 1$ COM_IN + $\beta 2$ REMUN_COM + $\beta 3$ REMUN_DIR + $\beta 4$ MOD_1 + $\beta 5$ MOD_2 + $\beta 6$ Press_COM + $\beta 7$ Press_DIR + ε

Variable	*Prediction*	*FV*	*Result*
Constant		0.409	
COM_IND	β+	-0.037 (-2.139) *Sig.*0.033	*Significant**
REMUN_COM	β+	1.00E-12 (2.208) *Sig.* 0.028	*Significant**
REMUN_DIR	β+	-1.578E-13 (-1.473) *Sig.* 0.142	*Not significant*
MOD_1 (COM_IN REMUN_DIR)*	β+	3,297E-13* (-2.204) *Sig.* 0.029	*Significant**
MOD_2 (COM_IN REMUN_COM)*	β+	9,134 E-134* (2.039) *Sig.* 0.043	*Significant**
Press_COM	β+	0.007 (0.841) *Sig.* 0.401	*Not Significant*
Press_DIR	β+	0.000 (-0.024)	*Not Significant*

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	Sig. 0.981
R	0.253
R2	0.064
Adjusted R2	0.036
Fstat	2.267

**Statistically supported at 5% alpha*

The findings show that the existence of independent commissioners has a significant effect on firm value, although there are negative coefficient results. Likewise, the remuneration of the board (commissioners) shows a significant result. This means that the remuneration of the board of commissioners can encourage an increase in the firm value of the company. These results confirm the previous studies, such as Harymawan, et al. (2020), Rose (2016), and Smirnova and Zavertiaeva (2017). This finding supports the agency theory argument that remuneration encourages harmonization between managerial interests and shareholder interests which indicates that when the board of directors is rewarded, they will make maximum efforts to increase firm value. This finding is also supported by the moderation test which shows that both the involvement of independent commissioners in providing remuneration for the board of commissioners and in providing remuneration for the board of directors significantly strengthens the increase in firm value.

From all of the variables studied, only the remuneration of directors does not significantly affect the company's performance. This finding indicates that the existence of the board of directors is under the direction of the board of commissioners, and the function of the board of commissioners has been running effectively. Therefore, the remuneration for the board of directors is not able to motivate the board of directors in increasing firm value. For directors, whether there is remuneration or not, they still carry out their duties. However, when independent commissioners are involved, remuneration for directors can encourage the achievement of high firm value. These results support the findings of Harymawan, et al. (2020) regarding the role of the supervisory board (committee, especially the remuneration board) in achieving company performance.

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Other findings indicate that the control variable does not affect the number of board positions on the achievement of firm value. This result implies that the number of independent commissioners and directors has not been able to become a driving mechanism for the effectiveness of achieving firm value. Consequently, further research is needed to examine the mediating role of other determinant variables.

Our research also contributes to the importance of using Tobin's Q as a proxy for firm value which is statistically explained by governance components, such as the presence of independent commissioners and the remuneration of the board of commissioners. In the context of remuneration, previous studies have mostly used ROA and ROE as proxies of firm value (Rose, 2016) and some previous research also found insignificant results when Tobins'Q was used as a proxy.

CONCLUSION

Our study contributes to research on remuneration and firm value. Our research shows that the existence of independent commissioners and board remuneration (especially the board of commissioners) can increase firm value. The involvement of independent commissioners plays an important role in strengthening the effect of the board's remuneration on the achievement of high firm value. These results indicate that governance mechanisms (especially the existence of independent commissioners and board remuneration) need to be maintained within the company because they encourage increased company performance. However, the remuneration mechanism for the board of directors requires adequate oversight. Our research findings on the moderation test show that the involvement of independent commissioners plays an important role in strengthening the effect of directors' remuneration on achieving high firm value.

This research has limitations in that we did not conduct sensitivity testing on the research model so that it could not contribute to the appropriateness of the direction of the coefficients. Further research can be carried out by involving sensitivity testing using other similar variables to determine the consistency of the direction of the relationship between variables.

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Our findings provide opportunities for further research on the importance of the supervisory board in providing direction and monitoring remuneration mechanisms in improving firm performance. Research Harymawan, et al. (2020) has included the existence of a remuneration committee, but the study has not considered other governance components and the latest developments in corporate governance. Future studies also need to consider gender issues in the supervisory board because gender studies are still interesting and rarely considered in research. Likewise, the involvement of the board and remuneration in the implementation of the company's ESG can also be an interesting study that can be explored further.

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