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EXECUTIVE COMPENSATION, INSTITUTIONAL OWNERSHIP, AND FINANCIAL PERFORMANCE (A STUDY ON MANUFACTURING COMPANIES IN INDONESIA)

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ABSTRACT
This research aims to determine and analyze Executive Compensation, Ownership and Financial Performance of Manufacturing Companies in Indonesia. The method used in this research is quantitative. The population of this research is all companies operating in the manufacturing sector registered on the BEI in 2019 - 2022. The sample in this study was selected using a purposive sampling method. The research results show that executive compensation significantly impacts manufacturing company performance through ROA but is less significant about ROE. Nonetheless, well-compensated executives are motivated to increase profits, potentially reducing agency costs. However, factors such as initial solid performance and external events such as COVID-19 may influence the impact of executive compensation on performance. In addition, institutional ownership does not significantly influence company performance because institutional investors tend to prioritize their portfolios and remain passive towards managerial activities, thereby rejecting the hypothesis that supports a significant positive effect of institutional ownership on performance.

Keywords: executive compensation, institutional ownership, financial performance, company.

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INTRODUCTION

Compensation is not only a form of return from the company to employees for their services and contributions to creating "value" for the company. It also provides a vital role for the company because it can be a triggering instrument that strengthens employee motivation. To achieve and exceed performance targets so that the company's performance trend will also increase (Merchant & Van der Stede, 2017). It is so important to increase employee motivation in order to create optimal company performance, especially on the board of directors as the highest position which exerts considerable influence and has the authority to take strategic actions that determine the achievement of company goals, so the amount of remuneration compensation that is greater and even excessive is given. Far from the average remuneration of employees in their Company (Sari et al., 2020), as can be seen in Table 1 and Table 2 regarding the remuneration received by the board of directors and employees in manufacturing sector companies, which are the object of this research. Manufacturing sector companies were chosen as the object of this research because they play an essential role in national economic Growth by covering various industries as classified by the Indonesian Stock Exchange with the IDX Industrial Classification report and citing the Ministry of Industry website, that "to support the achievement of the economic growth target of 5.3 % in 2023, optimal Leverage is needed from the manufacturing sector. "The Ministry of Industry's priority steps in the next year include adding commodities to the commodity balance, which will be encouraged

in 2023. This is important to guarantee the supply of raw or auxiliary materials and support added value and downstreaming in the country. "

Table 1. Remuneration for the Board of Directors in 2020

Name Company	Sub-Sector Industry	Number of Directors (Person)	Total Remuneration (Billion IDR / Year)	Average Remuneration (Billion/ Person/Year)
PT. Indo Acidatama Tbk	Chemicals	6	9,654	1,609
Clairvoyant Concrete Precast Tbk	Construction	5	8,341	1,668
Asiaplast Industries Tbk	Specialty Chemicals	3	4.55	1,517
Five Budi Dream Tbk (PBID)	Containers & Packaging	6	31,571	5,262
Krakatoa Steel (Persero) Tbk	Iron & Steel	6	16,772	2,795
Toba Pulp Sustainable Tbk	Forestry & Paper	5	8,538	1,708
Ceramics Indonesia Association Tbk.	Building Products & Fixtures	4	4,102	1,026
Sumi Indo Cable Tbk	Electrical	4	5,943	1,486
Kobexindo Tractors Tbk.	Machinery	6	20,961	3,494
Tri Banyan Tirta Tbk	Beverages	4	1,512	0.378
PT Indofood Success Prosperous Tbk	Processed Foods	16	234	14,625
Saraswanti Grace Prosperous Tbk.	Agricultural Products	6	5,869	0.978
Warehouse Salt Tbk	Tobacco	12	154	12,833
Chitose International Tbk	Household Products	7	3,2	0.457
Martina Berto Tbk	Personal Care Products	6	4,235	0.706
Goodyear Indonesia. Tbk	Auto components	3	13,847	4,615

Source: 2020 Company Annual Report

Based on Table 1, it can be seen that the board of directors at PT. Indofood Sukses Makmur received an annual compensation of 14.6 billion rupiah per year in 2020, while the average employee remuneration was around 1 billion rupiah per year on average.

Table 2 Average Employee Remuneration in 2020

Name Company	Sub-Sector Industry	Amount Employee (Person)	Total Remuneration / Year	Average Remuneration / Person / Year
PT. Indo Acidatama Tbk	Specialty Chemicals	380	IDR 31,405,718,000	Rp. 82,646,626
Clairvoyant Concrete Precast Tbk	Construction	1270	IDR 127,753,171,232	Rp. 100,593,048
Asiaplast Industries Tbk	Specialty Chemicals	404	Rp. 45,380,695,867	Rp. 112,328,455
Megawisata Epack SentosarayaTbk	Containers & Packaging	1241	IDR 172,706,558,064	Rp. 139,167,251
Krakatoa Steel (Persero) Tbk	Iron & Steel	3089	IDR 519,019,422,000	IDR 168,021,826
Toba Pulp Sustainable Tbk	Forestry & Paper	1195	Rp. 149,153,352,000	IDR 124,814,521

Name Company	Sub-Sector Industry	Amount Employee (Person)	Total Remuneration / Year	Average Remuneration / Person / Year
Indonesian Ceramics AssociationTbk.	Building Products & Fixtures	515	Rp. 65,973,768,210	Rp. 128,104,404
Sumi Indo Cable Tbk	Electrical	557	Rp. 34,966,286,394	Rp. 62,776,098
Kobexindo Tractors Tbk.	Machinery	790	IDR 59,919,383,958	Rp. 75,847,321
Tri Banyan Tirta Tbk	Beverages	290	IDR 22,462,094,455	Rp. 77,455,498
PT Indofood Sukses MakmurTbk	Processed Foods	91585	IDR 7,851,131,000,000	Rp. 85,725,075
Saraswanti Grace ProsperousTbk.	Agricultural Products	385	Rp. 64,206,991,719	Rp. 166,771,407
Warehouse Salt Tbk	Tobacco	30940	IDR 2,745,783,000,000	Rp. 88,745,410
Chitose International Tbk	Household Products	427	IDR 38,410,843,731	Rp. 89,955,138
Martina Berto Tbk	Personal Care Products	517	Rp. 103,664,382,337	Rp. 200,511,378
Goodyear Indonesia.Tbk	Auto components	837	IDR 47,932,691,946	Rp. 57,267,254

Source: 2020 Company Annual Report

Even though the value of compensation given to the board of directors is much greater than the value given to all employees on average, the value of compensation given fluctuates, as shown in Figure 1. and it can be seen that the value of compensation continuously varies from year to year, whether there is an increase from the previous year or a decline from the previous year with impacts on different levels of performance.

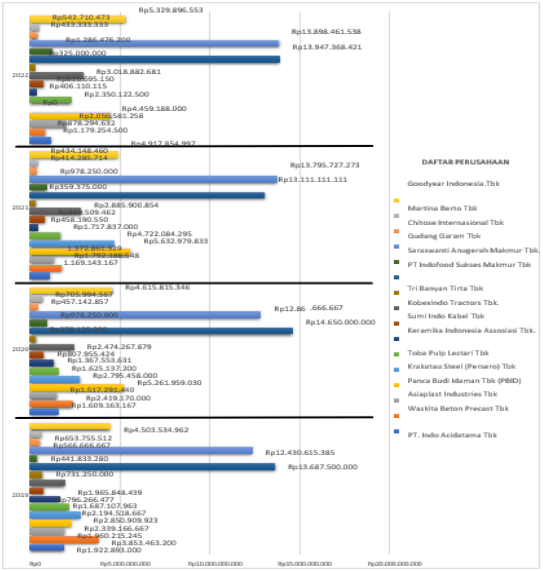

Figure 1. Graph of Remuneration for Directors of Manufacturing Companies for the 2019 – 2022 Period

Source: 2020 Company Annual Report

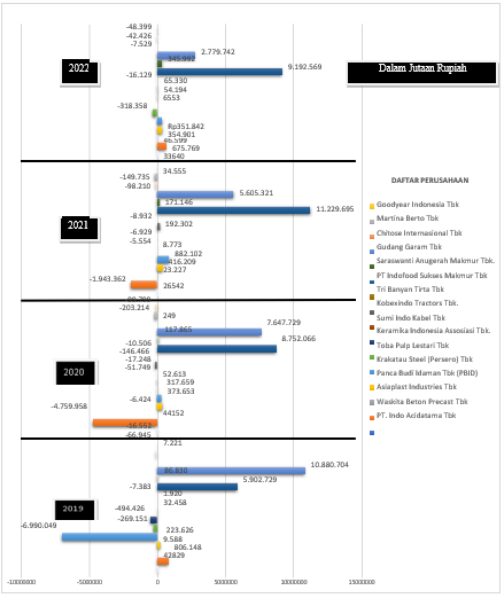

Figure 2. Graph of the Net Profit (Loss) of Manufacturing Companies for the 2019 - 2022 Period

Source: Company Annual Financial Report 2019 - 2021

For example, as shown in Figure 1. and Figure 1. which are based on the annual reports of each company for the period 2019 to 2022, in general, the level of directors' compensation is directly proportional to the level of company performance, meaning that if the amount of compensation increases, then the level of compensation will increase. Company performance will also increase and vice versa.

On the other hand, several companies experience different conditions, such as the PT Keramika Indonesia Association. Tbk (KIAS), where there was a decrease in the value of directors' compensation year on year (yoy), but the company experienced an increase in performance, which was marked by a reduction in the level of net loss for the current year since 2019 with a loss of IDR (494,426) million and the loss continues to decrease year on year (yoy) until 2022 it managed to make a profit again of IDR 6,554 million. Then at PT. Goodyear Indonesia. Tbk (GDYR). 34,555 million, but in 2022, the company will again record a net loss of (Rp. 48,999) million; this indicates that increasing compensation does not necessarily have the impact that the company will experience increased performance or generate net profits and gives the impression that there is waste for the company. However, the decline in company performance was also caused by the Covid-19 pandemic, which caused abnormal phenomena and the decline in the world economy (Siswati, 2021), so a different analysis approach will be carried out between the research sample and the year included in the pandemic period category. (abnormal) with the research year included in the non-pandemic (normal) period category. Apart from experiencing losses, there were also corruption cases that befell several government-owned manufacturing companies, namely PT Krakatau Steel Tbk (KRAS), based on CNN Indonesia, 19 July 2022, the Attorney General's Office (Kejagung) appointed the former Main Director of PT Krakatau Steel (Persero) for the period 2007- 2012 as a suspect in a corruption case for the Blast Furnace Complex (BFC) Factory construction project which caused losses in several consecutive years referring to the company's financial reports.

Furthermore, the latest case regarding alleged corruption also occurred at PT Waskita Karya (Persero) Tbk, which according to CNBC Indonesia, 2 May 2023, explained that "The Attorney General's Office (Kejagung) has named the President Director of PT Waskita Karya as a suspect in the alleged corruption case. or misuse of funds from PT Waskita Beton Precast in 2016-2020", and suffered the same fate as PT Krakatau Steel Tbk (KRAS), which also experienced losses referring to the company's financial report in 2020. Corruption cases continue to be mentioned as reported, which can also be caused by the company's governance system. The bad thing that cannot be separated from agency problems is the difference in the focus of different interests between the controlling party (management) and the owner (shareholders) in the agency problem theory (Jensen & Meckling, 2019).

The news is quite worrying. Some manufacturing companies, one of which has the status of a state-owned company, have experienced relatively poor performance and losses in several years even though the board of directors has been given remuneration in amounts that are much greater than the average remuneration for all employees based on tables one and table 2 because apart from being an instrument that motivates employees, providing compensation also functions to provide a controlling role as explained by (Merchant & Van der Stede, 2017) in their book entitled "Management Control System" incentives are the final essential element in the result control or control system results. Result Control is an effective preventive control system because it directly addresses the problem where control is needed and can be used to control employee behaviour at various levels of the organization.

Furthermore, even though the company's performance is decreasing, causing losses and corruption cases, it is still influenced by various other factors. However, this research is only limited to finding out how the role of compensation can influence company performance. Other factors that influence the level of company performance include the COVID-19 pandemic, which indicates that some manufacturing companies are pretty vulnerable in mitigating and overcoming disasters or in the worst situations; as we know, world conditions are pretty dynamic and should be able to face and overcome various kinds of risks. Alternatively, even survive sustainably in even the worst situations, especially as the manufacturing sector is one of the vital sectors for economic Growth; companies are expected to show good performance, such as generating maximum profits and guaranteeing shareholders' welfare. Discusses company performance, which can be defined and measured in terms of profitability, Growth, market value, total shareholder return, economic added value, and customer satisfaction, based on stakeholder expectations (Raharjo & SE, 2023) and according to (Fuadah & Hakimi, 2020) defines corporate performance as "the total value created by the company". through its activities, which is the amount of utility created for each legitimate stakeholder." The hope of the community, shareholders, government and all stakeholders is, of course, that as soon as possible, the issuers who perform poorly, especially the board of directors, immediately improve or improve their performance as they have been given compensation and awards, so they should provide optimal performance commensurate with the awards given by the company.

Several previous studies have discussed the effect of providing compensation on the quality of company performance. However, the research results differ from one study to another as in the

research conducted (Smirnova & Zavertiaeva, 2017), (Wang et al., 2021). Have the same opinion, which finds that executive compensation positively affects company performance. However, research provides the opinion that CEO compensation does not always positively impact company performance. Then, another research conducted by (Kim & Jang, 2020) found that providing compensation improves company performance in the short term but can reduce company revenue in the long term.

The novelty of this study is that it attempts to explore the relationship between executive compensation, ownership structure, and financial performance in the context of manufacturing companies in Indonesia. The researcher tried to carry out re-testing and tried to find solutions to the negative issues caused by indications of agency conflicts and suspected that other factors could potentially influence the relationship between executive compensation and the level of quality of the company's performance, namely monitoring activities which were one element of corporate governance mechanisms. Supervisory activities are one of the effective measures to mitigate agency problems based on the statement of Jean Tirole, an economist mentioned in research (Miller et al., 2022), that "A supervisor is actively tasked with reducing agency problems in the companies in which they invest." External or internal parties can carry out supervision activities, and one of the parties who can carry out supervision is the shareholders themselves, where the shareholders are classified based on the proportion of shares owned by each party and form a structured structure. Referred to as ownership structure, so in this study, the researcher raised ownership structure as a moderator between the two research objects.

Based on the explanation above, the manufacturing sector's role is so essential for economic Growth that it is miserable if the news is heard about the loss of a manufacturing company. The level of effectiveness of providing compensation to improve employee performance, especially for the board of directors, is the party with the most authority and responsibility; however, it turns out that this is still the case. There are cases of corruption that are not expected, along with the latest negative issues regarding the performance of some companies in the manufacturing sector as quoted by the media circulating and the presentation of previous research where there are still differences in views. Hence, the researcher aims to determine and analyze the Executive Compensation, Ownership and Performance of Corporate Finance of Manufacturing Companies in Indonesia.

METHOD

The method used in this research is quantitative. The population of this research is all companies operating in the manufacturing sector listed on the IDX in 2019 - 2022, and the research period spans the pre-Covid 19 period and the post-Covid-19 period. The sample in this study was selected using a purposive sampling method. The data in this research is secondary data obtained from annual reports and financial reports of companies listed on the Indonesia Stock Exchange. The research period was four years, from 2019 to 2022.

This study uses statistical methods by looking for the effect of Executive Compensation, and ownership on financial performance at Manufacturing Companies in Indonesia. So, after the data is obtained, then the data is processed statistically using the SPSS 24.0 application. Data analysis used

is inferential statistical analysis with classical tests and hypothesis testing. Classical tests include normality test, autocorrelation test, multicollinearity test, heterogeneity test, multiple linear regression test, and coefficient of determination analysis. While the hypothesis test uses the F test and the t test. After the data is processed, the data is presented and conclusions are drawn.

RESULTS AND DISCUSSION

Classic assumption test

Normality test

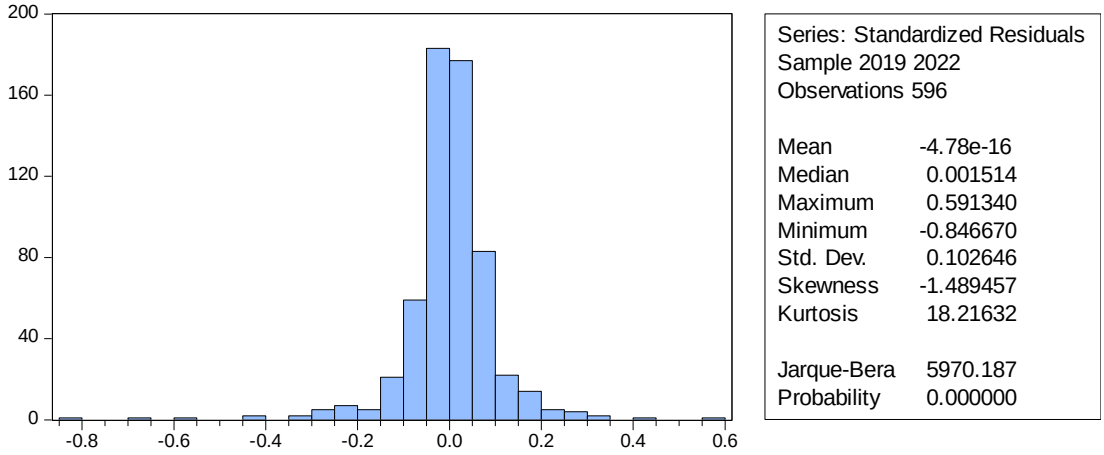

Figure 3. Normality Test Results

Source: Eviews output results 9, 2023

The Sig value is obtained based on the Eviews output presented in Figure 3. The normality test using the Jarque-Bera method with a probability value smaller than alpha (0.000000 < 0.05) shows that the residual data is not normally distributed.

Because the data is panel data, the normality of the data is assumed to have been fulfilled because the panel data has more than 30 observations; this is by the central limit theorem, which states that if there are more than 30 n, then it is stated that the data tends to distribute normal (Mclave, 2015). Based on this, further testing can be carried out.

Autocorrelation Test

Table 3 Durbin-Watson Statistical Test

Durbin-Watson stat	Conclusion
1.624313	There is Positive Autocorrelation

Source: Eviews output results 9, 2023

From Table 3, the Durbin-Watson value is obtained. This value is then compared with the dL and dU values in the Durbin-Watson table. For α = 0.05, k = 7 and n = 596, we get dL = 1.84574 and dU = 1.88612. Because the Durbin-Watson value is less than the dL value (1.624313 < 1.84574), it can be concluded that there is positive autocorrelation. Because the model chosen is a random effect or General Least Square (GLS) estimator, it is BLUE because the standard error of the transformed equation is not autocorrelated and homoscedastic.

Multicollinearity Test

Table 4. Multicollinearity Statistical Testing

Variance Inflation Factors
Date: 12/19/23 Time: 12:26
Sample: 1 596
Included observations: 596

Variables	Coefficient Variance	Uncentered VIF	Centred VIF
C	0.006210	348.2707	NA
LNCOMP	2.14E-05	645.6182	2.196373
KI	0.000295	10.51246	1.059866
LNSIZE	1.33E-05	607.7746	2.207565
LEVERAGE	6.29E-07	1.049464	1.001910
AGE	3.96E-08	5.066148	1.101181
GROWTH	2.49E-05	1.035404	1.028876
LIQUIDITY	2.36E-08	1.059820	1.031667

Source: Eviews output results 9, 2023

Based on Table 4, it can be seen that the results in the attachment show that the VIF value of each independent variable is far below 10, So it can be concluded that there is no multicollinearity between independent variables in the regression model. So, the data regression model is suitable for use in subsequent analysis.

Heteroscedasticity Test

Table 5. Heteroscedasticity Test Results

Heteroskedasticity Test: Breusch-Pagan-Godfrey			
F-statistic	1.402625	Prob. F(7,588)	0.2015
Obs*R-squared	9.788508	Prob. Chi-Square(7)	0.2009
Scaled explained SS	249.8679	Prob. Chi-Square(7)	0.0000

Source: Eviews output results 9, 2023

From Table 5 of the heteroscedasticity test results, the probability value of *the p-value is obtained***.** The model has a value greater than 0.05 (α = 5%), indicating no heteroscedasticity problem.

Multiple linear regression

Table 6. Regression Analysis Results

Variables	**Coefficient**	**Std. Error**	**t-Statistics**	**Prob.**
C	-0.600147	0.294632	-2.036937	0.0421
LNCOMP	0.016494	0.016888	0.976687	0.3291
KI	0.015698	0.062943	0.249402	0.8031
LNSIZE	0.008019	0.013527	0.592804	0.5535
LEVERAGE	-0.034834	0.002265	-15.38153	0.0000
AGE	0.001644	0.000752	2.186352	0.0292
GROWTH	0.033905	0.014458	2.345103	0.0194
LIQUIDITY	0.000030	0.000512	0.059480	0.9526

Source: Eviews output results 9, 2023

Thus, the multiple linear regression equation is obtained as follows:

$$\mathbf{Y = -0.600147 + 0.016494X_1 + 0.015698X_2 + 0.008019X_3 - 0.034834X_4 + 0.001644X_5 + 0.033905X_6 + 0.000030X_7}$$

The above equation can be interpreted as follows:

A = -0.600147: If LnComp, KI, LnSize, Leverage, Age, Growth and Liquidity are zero (0), ROE will be -0.600147 units.

β_1 = 0.016494: If LnComp increases by one unit, ROE will increase by 0.016494 units.

β_2 = 0.015698: If KI increases by one unit, ROE will increase by 0.015698 units.

β_3 = 0.008019: If LnSize increases by one unit, ROE will increase by 0.008019 units.

β_4 = - 0.034834: If Leverage increases by one unit, ROE will decrease by 0.034834 units.

β_5 = 0.001644: If Age increases by one unit, ROE will increase by 0.001644 units.

β_6 = 0.033905: meaning that if Growth increases by one unit, ROE will increase by 0.033905 units.

β_7 = 0.000030: If liquidity increases by one unit, ROE will increase by 0.000030 units.

Analysis of the Coefficient of Determination

Table 7 Analysis of Determination Coefficient

Model	R Square	Adjusted R Square	SE of regression
Quality of Earnings	0.303968	0.295682	0.286244

Source: Eviews output results 9, 2023

The analysis in Table 7 shows that LnComp, KI, LnSize, Leverage, Age, Growth and Liquidity influence ROE of 0.303968 or 30.40% (rounded). Meanwhile, the remaining 69.60% is influenced by other variables not examined in this research.

Hypothesis testing

F Test (Simultaneous)

The following are the results of the simultaneous test:

Table 8. Simultaneous Hypothesis Test Results

R-squared	0.303968	Mean dependent var	0.039252
Adjusted R-squared	0.295682	SD dependent var	0.341076
SE of regression	0.286244	Sum squared resid	48.17805
F-statistic	36.68405	Durbin-Watson stat	2.290503
Prob(F-statistic)	0.000000		

Source: Eviews 9 output results

Based on table 8, it is found that the value of prob. (F- *statistic*) is 0.000000 < 0.05; then H_0 rejected and H_1 accepted, which means that LnComp, KI, LnSize, Leverage, Age, Growth and Liquidity simultaneously or together have a significant effect on ROE.

t Test (Partial)

Table 9. Partial Hypothesis Test Results

Variables	Coefficient	Std. Error	t-Statistics	Prob.
C	-0.600147	0.294632	-2.036937	0.0421
LNCOMP	0.016494	0.016888	0.976687	0.3291
KI	0.015698	0.062943	0.249402	0.8031
LNSIZE	0.008019	0.013527	0.592804	0.5535
LEVERAGE	-0.034834	0.002265	-15.38153	0.0000
AGE	0.001644	0.000752	2.186352	0.0292
GROWTH	0.033905	0.014458	2.345103	0.0194
LIQUIDITY	0.000030	0.000512	0.059480	0.9526

Source: Eviews 9 output results

Based on Table 9, it can be concluded that:

1. LnComp variable
   The calculated t_{value} for the LnComp variable is 0.976687 with a p-value of 0.3291. Because the p-value is > 0.05 (5% significance level), H_0 was accepted, and H_1 was rejected. It was concluded that the LnComp variable partially had no significant effect on ROE.
2. KI variable
   The calculated t_{value} of the KI variable is 0.249402 with a p-value of 0.8031. Because the p-value is > 0.05 (5% significance level), H_0 was accepted, and H_1 was rejected. It was concluded that the KI variable had no significant effect on ROE partially.
3. LnSize variable
   The calculated t_{value} for the LnSize variable is 0.592804 with a p-value of 0.5535. Because the p-value is > 0.05 (5% significance level), H_0 was accepted, and H_1 was rejected. It was concluded that the LnSize variable had no significant effect on ROE partially.
4. Leverage Variable
   The calculated t_{value} for the Leverage variable is -15.38153 with a p-value of 0.0000. Because the p-value is <0.05 (5% significance level), then H_0 rejected and H_1 accepted, it was concluded that partially the Leverage variable had a significant effect on ROE.
5. Age Variable
   The calculated t_{value} for the Age variable is 2.186352 with a p-value of 0.0292. Because the p-value is <0.05 (5% significance level), then H_0 rejected and H_1 accepted, it was concluded that partially the Age variable had a significant effect on ROE.
6. Growth Variable
   The calculated t_{value} for the Growth variable is 2.345103 with a p-value of 0.0194. Because the p-value is <0.05 (5% significance level), H_0 was rejected, and H_1 was accepted. The conclusion is that the growth variable partially significantly affects ROE.
7. Liquidity Variable
   The calculated t_{value} for the Liquidity variable is 0.059480 with a p-value of 0.9526. Because the p-value is > 0.05 (5% significance level), H_0 was accepted, and H_1 was rejected. It was concluded that the liquidity variable partially had no significant effect on ROE.

The Effect of Executive Compensation on Financial Performance

The first primary variable of this research is executive compensation, whose influence on company performance is proxied by ROA and ROE. Based on the hypothesis test results in Table 9, which displays the company's performance measurement with the *income ROA proxy*, it has a coefficient value ($t_{calculated}$) of 4.496663 and a probability value, respectively. Less than 0.05, which is 0.0000, which means it is significant. This indicates that the executive compensation variable positively affects manufacturing company performance as proxied by ROA. However, the influence of management compensation on company performance using the ROE proxy produces different results from the ROA proxy. Based on Table 9, it can be seen that *income* has a coefficient value (t_{count}) of 0.976687 and a probability value of 0.976687, respectively. More than 0.05, namely a value of 0.3291, which means it is not significant.

Based on these results, the first hypothesis proposed in this research is that executive compensation positively affects company performance. However, it is partially accepted and supports the research conducted. (Abdalkrim, 2019), (Afrifa & Adesina, 2018), (Buachoom, 2017), (Wang et al., 2021), (Dias et al., 2020), and (Smirnova & Zavertiaeva, 2017) argue that giving CEO compensation can improve company performance, this is because if the executive ranks are well paid, this tends to be more likely For increase performance company, Because bonus, as part compensation No still (depends on level performance employee), give impact Whichvery good for improving company results, namely higher performance The Company generates profits, the higher the bonus Which will accept ranks executive company, cost agency will reduce Andmanager can motivated more dedicated For look for profit for company. Furthermore, research also supports the influence of providing executive compensation on its impact in mitigating agency problems (Jensen & Meckling, 2019); it is said that effective corporate governance practices mitigate agency costs by providing incentives to executives through appropriate remuneration mechanisms (Jensen & Meckling, 2019) ; (Gillan et al., 2022).

Then, regarding the research results proxied by ROE, which state that the provision of executive compensation does not have a significant effect on the level of performance of manufacturing companies and supports research conducted by (Kim & Jang, 2020), this could be due to the possibility of good company performance in generating profits in the first period due to the performance of the board of directors and other factors that supported the company's profit achievement, so they were given an increase in compensation in the second period. However, then in the following period, the company's performance is not relevant to the capabilities and behaviour of executives, such as the occurrence of corruption cases in government-owned manufacturing companies due to agency problems or other factors that trigger a decline in company profits, as in this research during the period that passed the Covid-19 pandemic. This is an extraordinary condition that has never occurred in human history before, resulting in a negative impact on the economy; company performance can drop to the mean (average) performance in the following period; another cause is increasing employee compensation, which has a short-term negative effect, although it can have a positive effect in the long term because this has implications for increasing employee compensation which directly worsens the company's profitability. After all, the company may not always carry out careful calculations and immediately transfer these costs and increase product selling prices so that the company do not immediately feel the benefits of providing compensation. So, the company's compensation to executives appears to be useless and insignificant even in the short term.

The Influence of Institutional Ownership on Financial Performance

The second primary variable of this research is institutional ownership, with the results not having a significant influence on the quality of company performance even from an accounting measurement perspective. This can be caused because institutional investors only focus on their investment portfolio in generating profits and tend to be passive regarding the company's managerial activities. Based on this, the second hypothesis, which assumes that institutional ownership has a significant positive effect on the level of company performance, is rejected.

CONCLUSION

Based on the research results, it is found that executive compensation has a positive influence on financial performance. Executive compensation has a significant positive effect on company performance represented by ROA, while compensation measured by ROE has no significant effect. Meanwhile, institutional ownership has no positive influence on financial performance.. This lack of impact might be due to institutional investors focusing solely on their investment portfolios to generate profits, remaining passive toward a company's managerial activities and efforts to mitigate agency problems.

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