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Do Executive Incentives Drive Performance? A Study of Manufacturing Firms in Indonesian

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Abstract

The growing disparity between executive compensation (EXECOMP) and employee wages, along with increasing concerns over the effectiveness of incentive structures, highlights the urgency of understanding how executive pay influences firm performance (FP). This study investigates whether well-aligned compensation schemes can effectively motivate executives and enhance firm value, particularly under conditions of public scrutiny and regulatory pressure. Grounded in agency theory, the study analyzes 264 observations from manufacturing firms listed on the Indonesia Stock Exchange (IDX) between 2016 and 2022. Using Ordinary Least Squares (OLS) regression analysis, the results reveal a statistically significant positive relationship between EXECOMP and FP. These findings underscore the importance of performance-based incentives in driving executive behavior and improving financial outcomes. The study contributes to the literature by offering updated empirical evidence from an emerging market context, reinforcing the strategic role of EXECOMP in promoting sustainable corporate growth.
Keywords: Executive compensation, firm performance, agency theory, financial incentives, manufacturing

Kesenjangan yang semakin besar antara kompensasi eksekutif (EXECOMP) dan upah karyawan, serta meningkatnya kekhawatiran atas efektivitas struktur insentif, menyoroti urgensi untuk memahami bagaimana gaji eksekutif mempengaruhi kinerja perusahaan (FP). Studi ini menyelidiki apakah skema kompensasi yang selaras dapat secara efektif memotivasi para eksekutif dan meningkatkan nilai perusahaan, terutama dalam kondisi pengawasan publik dan tekanan regulasi. Didasarkan pada teori keagenan, penelitian ini menganalisis 264 observasi dari perusahaan manufaktur yang terdaftar di Bursa Efek Indonesia (BEI) antara tahun 2016 dan 2022. Dengan menggunakan analisis regresi Ordinary Least Squares (OLS), hasil penelitian menunjukkan adanya hubungan positif yang signifikan secara statistik antara EXECOMP dan FP. Temuan ini menggarisbawahi pentingnya insentif berbasis kinerja dalam mendorong perilaku eksekutif dan meningkatkan hasil keuangan. Studi ini berkontribusi pada literatur dengan menawarkan bukti empiris terbaru dari konteks pasar yang sedang berkembang, yang memperkuat peran strategis EXECOMP dalam mendorong pertumbuhan perusahaan yang berkelanjutan.
Kata kunci: Kompensasi eksekutif, kinerja perusahaan, teori agensi, insentif keuangan, manufaktur

1. INTRODUCTION

In recent years, executive compensation (EXECOMP) has become a topic of growing public and academic interest. The substantial gap between EXECOMP and employee wages, along with the increasing scrutiny of performance-based incentives, has brought this issue to the forefront. For instance, in 2021, Pertamina allocated approximately IDR 446 billion in compensation to its board of directors and commissioners, despite public pressure over rising fuel prices. The board of directors and commissioners of PT Indofarma (Persero) Tbk received excessive allowances amounting to IDR 498,452,050, which contravened established regulations highlighting the scale of executive rewards and raising questions about the effectiveness of such compensation in driving firm performance (FP). Understanding how EXECOMP relates to FP , is essential to unravel the balance between incentivizing managers and sustaining firm value (Ajagun et al., 2025).

Executives are essential not only for achieving both short-term and long-term corporate objectives but also for guiding investment decisions and maintaining financial stability (Park & Byun, 2021). To attract qualified executives, companies must offer competitive and appealing compensation contracts (Nastiti &

Hartini, 2023). EXECOMP generally consists of four key components: fixed pay (including base salary and guaranteed bonuses), short-term incentives (such as cash bonuses or performance-based stock awards), long-term incentives (including stock options or equity-based grants), and various executive benefits (Chien et al., 2020; Lin et al., 2022).As executive performance improves, the level of compensation received tends to increase accordingly (Lin et al., 2022). Moreover, firms require well-designed compensation schemes to provide incentives and motivation, thereby minimizing executive moral hazard and encouraging performance-driven behavior (Collins et al., 2021; Han & Yu, 2023; Li, 2024). This alignment of pay and performance is crucial, as managerial ability has been shown to significantly enhance firm performance, particularly when coupled with higher compensation incentives (Chen et al., 2023).

This is in line other previous studies, namely, Bani Khaled (2020); Shaddady & Alnori (2020); Shi et al. (2021); Chen et al. (2023) which show a significant positive relationship between EXECOMP and FP. This relationship is based on the view that investors perceive EXECOMP as a strategic tool for attracting and retaining individuals with the necessary skills and competencies to fulfill specific managerial responsibilities (Santos, 2020). Moreover, compensation plays a critical role in shaping corporate leadership (Alrashdan, 2024) and in designing incentive structures that can directly impact a firm's financial outcomes (Trivedi et al., 2024). However, several studies, such as those conducted by Prabowo & Indah Sari (2020) and Guan et al. (2022), have reported different results, showing a significant negative relationship between EXECOMP and FP. Excessive incentives may induce irrational managerial behavior, such as prioritizing personal goals over organizational interests, which can ultimately undermine overall firm performance (L. Cai & Luo, 2021). While EXECOMP may offer positive incentive effects, these benefits are likely diminished by rising salary-related expenses, which in turn negatively affect overall FP and may explain the absence of a statistically significant relationship (Zoghlami, 2021).Previous studies have reported inconsistent findings regarding the effect of EXECOMP on FP, particularly when measured using Return on Assets (ROA). These inconsistencies indicate that the relationship between EXECOMP and FP remains inconclusive and warrants further investigation. Therefore, this study aims to re-examine this relationship by focusing on manufacturing companies in Indonesia listed on the IDX (Indonesia stock exchange) as the research sample.

Based on the framework of agency theory, the design of EXECOMP systems linked to performance outcomes primarily aims to align managerial interests with those of shareholders. This approach is believed to mitigate agency conflicts and promote managerial decisions that contribute positively to FP (Jensen & Meckling, 1976). A substantial body of empirical evidence supports this view, indicating that the implementation of equity-based compensation schemes, such as granting stock options to executives, is positively and significantly associated with long-term FP. This is attributed to executives increased motivation to make strategic decisions consistent with shareholder value creation (Core et al., 1999; Frye, 2004)

This study used 264 observations from 2016 to 2022. Data were obtained from the annual reports. This study focuses on manufacturing firms listed on the (IDX) as a sample because of the uniformity of the industry, availability of transparent data, and significant role of the manufacturing sector in the national economy, which collectively facilitates a more accurate assessment of the impact of EXECOMP on FP. The results reveal a significant positive relationship between EXECOMP and FP, suggesting that higher incentives for directors and commissioners contribute to overall improvements in corporate performance. To verify the stability of the hypotheses, robustness checks were performed using generalized least squares (GLS) estimation, confirming the consistency of the results.

This study makes a valuable contribution by examining the impact of EXECOMP on FP, focusing specifically on the IDX of manufacturing companies. By concentrating on manufacturing firms, thise study captures industry-specific dynamics and distinctive characteristics of local governance, thereby producing findings that are both contextually relevant and insightful. This approach not only strengthens the empirical evidence on the role of compensation incentives in enhancing performance but also offers practical guidance for manufacturing firms in designing effective remuneration systems to support sustainable growth and long-term competitiveness.

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2. LITERATURE REVIEW AND HYPOTHESIS DEVELOPMENT

Agency Theory

Agency theory is founded on three core assumptions as proposed by Eisenhardt (1989): human, organizational, and information assumptions. Human assumptions consist of three key elements: (1) self-interest, which reflects the tendency of individuals to prioritize their own personal gains; (2) bounded rationality, referring to the limited cognitive capacity of individuals to process information and make fully rational decisions; and (3) risk aversion, which describes individuals' preference to avoid or minimize exposure to risk. Organizational assumptions also include three components: (1) the existence of goal conflict among participants within the organization, (2) efficiency as a primary criterion for evaluating effectiveness, and (3) information asymmetry between principals (owners) and agents (managers). Finally, the information assumption posits that information is treated as a tradable commodity, implying that access to information can be acquired at a cost.

Agency theory posits that executives tend to act in their own self-interests (agency conflict) ; therefore, appropriate mechanisms are necessary to ensure that they do not neglect the interests of shareholders (Jensen & Meckling, 1976). Agency theory suggests that performance-based executive compensation serves as an effective mechanism to align managerial decisions with the firm's long-term growth and performance objectives (Mussolin et al., 2020). Accordingly, the theory suggests that increasing EXECOMP inherently encourages executives to improve their FP

Conceptual Framework

The conceptual framework outlining the variables employed in this study is presented as follows.

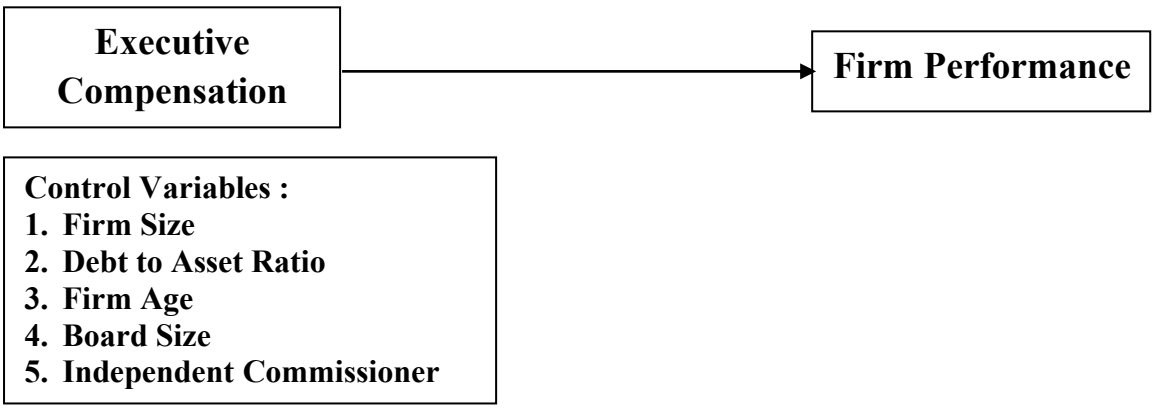

Image 1. Conceptual Framework

The Role of Executive Compensation in Firm Performance

Compensation plays an important role in rewarding executive loyalty, which influences corporate strategies and policies to maintain stable performance and achieve long-term goals (Nastiti & Hartini, 2023). EXECOMP refers to remuneration given to individuals who occupy the top two levels in a company's organizational hierarchy, namely the board of directors and the board of commissioners (Kholid & Prayoga, 2023). Both internal and external stakeholders assess a company's performance as a basis for determining the level of compensation awarded to the board of commissioners and board of directors (Haryani & Susilawati, 2023). EXECOMP comprises both financial and non-financial benefits granted by the company as remuneration for the services provided by executives (Runkat & Ismiyanti, 2024).

EXECOMP expenditures may be viewed as strategic investment, as executives capabilities serve as a critical driver for enhancing FP (Yunita Riaswati et al., 2021). Well-structured remuneration governance particularly through the implementation of long-term incentives linked to measurable performance indicators can improve the alignment between EXECOMP and FP, thus mitigating the likelihood of excessive executive pay (Bussin et al., 2023). Elevated levels of EXECOMP incentivize managers to execute strategies efficiently, thereby improving overall FP (Park & Byun, 2022). FP itself is a multidimensional concept that includes financial outcomes, market position, innovation capacity, and sustainable growth. Well-designed compensation structures, especially monetary and equity incentives, significantly promote efficient resource

allocation by motivating executives to optimize performance and align their interests with shareholders for sustainable value creation (Yin et al., 2021). Consequently, Effective remuneration policies, encompassing equitable salary structures, incentives, and benefits, significantly motivate leadership to achieve superior performance (Satoto, 2023).

However, several studies have reported a significant negative relationship between EXECOMP and FP., some research such as that conducted by Prabowo & Indah Sari (2020) has instead identified a significant negative association. In addition, other studies Items et al. (2021), have found a significant negative relationship between EXECOMP and FP, suggesting that higher bonuss compensation may incentivize executives to adopt more conservative strategies, which could adversely affect overall company performance.

Moreover, other studies have also identified a significant positive relationship between EXECOMP and FP . A study conducted in the Brazilian market identified a positive association between EXECOMP and FP, with long-term incentive components emerging as the most influential factor in enhancing corporate outcomes (Dias et al., 2020). Although an increase in total compensation may potentially enhance executive performance in improving a firm's economic profitability, the positive effect tends to diminish due to a simultaneous rise in the company's labor costs (Zoghlami, 2021). According to previous research conducted by Park & Byun (2021), it was found that EXECOMP has a positive effect on company value among MSMEs in Korea, because higher compensation levels encourage executives to carry out operational activities more diligently. The study by Ricardo & Itan (2023) demonstrates that board compensation significantly strengthens the relationship between family ownership and real earnings management by enhancing the board's oversight role and balancing power within family firms. Consistent with agency theory, increased total EXECOMP within the same industry appears to effectively align managerial and shareholder interests, thereby contributing to improved FP (Zoghlami, 2021). Thus, the initial hypotheseis of this studyare as follow :

H1. Executive compensation has a significant positive on firm performance.

3. RESEARCH METHODS

Population and Sample

This study focuses on manufacturing companies listed on the IDX during 2016–2022, with a total of 264 observations. In this study, sampling was adjusted according to the following criteria :

1. Manufacturing companies in Indonesia listed on the IDX from 2016 to 2022,
2. Manufacturing companies in Indonesia listed on the IDX publish annual reports from 2016 to 2022,
3. Manufacturing companies in Indonesia with all the variables in this study from 2016 to 2022

Sources, Types of Data and Data Collection Methods

This study uses secondary data obtained from the annual reports of manufacturing firms listed on the IDX for the period 2016-2022. Additionally, it incorporates insights and findings from previous research as foundational references to support thise analysis.

Data Processing Techniques

These data ware tested using StataMP 17 software. The tests conducted in this study included descriptive statistics, pearson correlation, regression using OLS, a robustness test using generalized least squares (GLS), and additional analysis.

Definition of Variable

Executive Compensation (EXECOMP)

In this study, EXECOMP is defined as the total remuneration received by members of the board of directors and board of commissioners within a fiscal year, as disclosed in the company's annual report. This measure includes both fixed and variable components, comprising base salary, honoraria, allowances, bonuses or performance-based incentives (tantiem), facilities, non-cash benefits, and equity-based

compensation where applicable (Cohen et al., 2023). EXECOMP comprises financial rewards designed to recognize executives' strategic roles and align their interests with corporate goals to drive value creation (Yin et al., 2021). Collaboration between the Board of Commissioners and the Board of Directors plays a pivotal role in enhancing the FP and long-term value (Mardianto et al., 2024). Corporate governance governs all activities and influences every strategic decision within the company (Chandra & Cintya, 2021).

Firm Performance (FP)

Firm performance is commonly measured by ROA, defined as net income divided by total assets, using figures reported in the company's annual report. ROA is utilized to evaluate a company's ability and effectiveness in generating net profit through the utilization of its assets (Chandra, 2021). ROA reflects management's efficiency in generating profit from assets, influencing investor confidence by shaping their assessment of risk and return (Chandra & Huang, 2021). Investors consistently assess corporate performance by analyzing financial statements periodically disclosed by the management (Mardianto et al., 2024). Firms that exhibit strong asset management capabilities typically achieve superior financial outcomes, reinforcing the validity of ROA as a dependable indicator of managerial efficiency in deploying company resources (Tampubolon & Saiful, 2024).

Control Variables

The control variables in this study include firm size (FSIZE) , measured by the natural logarithm of total assets; debt to asset ratio (DAR), calculated as total debt divided by total assets; firm age (FAGE), determined by the number of years since the company's establishment; board size (BSIZE), defined as the total number of members on the board of commissioners and directors; and independent commissioner (INDCOM), represented by the count of independent commissioners serving on the board. The presence of INDCOM with effective oversight helps mitigate the occurrence of fraudulent practices (Chandra & Junita, 2021). The size of the independent commissioners significantly influences the effectiveness of monitoring the board of directors' performance (Chandra & Cintya, 2021). All measurements are derived from the company's annual reports. These variables were selected due to their significant influence on corporate performance and governance. Specifically, firm size and age reflect the company's available resources and accumulated experience, leverage indicates the financial risk level, while board composition affects the quality of oversight and strategic decision-making processes (Kijkasiwat et al., 2022).

Table 1 provides a detailed description of the variables and their corresponding measurement methods.

Table 1. Variabel Definitions

Variabel Name	Measurement	Data Source
Independent Variabel		
Executive Compensation (EXECOMP)	Total Remuneration of Commissioner and Director	Annual Report
Dependent Variable		
Firm Performance (FP)	ROA : Net Income / Total Asset	Annual report
Control Variable		
Firm Size (FSIZE)	Natural Logarithm of Total Asset	Annual Report
Debt to Asset Ratio (DAR)	Total Debt / Total Asset	Annual Report
Firm Age (FAGE)	Firm Age by Incorporation Year	Annual Report
Board Size (BSIZE)	Number of Commissioner and Director	Annual Report
Independent Commissioner (INDCOM)	The People Seated as Firm's Independent Commissioner	Annual Report

Source : Created by author

Model Specification

To analyze the association between EXECOMP and FP, we developed an empirical model, as shown in Equation :

$$FP_{it} = \beta_0 + \beta_1 EXECOMP_{it} + \beta_2 FSIZE_{it} + \beta_3 DAR_{it} + \beta_4 FAGE_{it} + \beta_5 BSIZE_{it} + \beta_6 INDCOM_{it} + YEAR\_FE + \epsilon_{it}$$

Where:

FP_{it}	: firm performance of firm *i* at time *t*
β_0	: konstanta or Intercept
$\beta_1 EXECOMP_{it}$	: executive compensation
$\beta_2 FSIZE_{it}$	: firm size
$\beta_3 DAR_{it}$	: debt to asset ratio
$\beta_4 FAGE_{it}$	: firm age
$\beta_5 BSIZE_{it}$	: board size
$\beta_6 INDCOM_{it}$	: number of Independent Commissioners on the board
$YEAR\_FE$	: year fixed effects to control for year-specific factors.
ε_{it}	: error term

4. RESULTS AND DISCUSSION

Descriptive Statistics

The descriptive statistics in table 2 indicate that EXECOMP has an average value of 23.739, with a relatively balanced distribution. FP varieds considerably across the samples, with a positive mean of 0.055. The FSIZE was relatively stable, with a mean of 12.772. In contrast, the DAR exhibiteds extreme variation, as reflected by the notably high maximum value of 403.180. FAGE averages 42.891 years, suggesting a diverse range of company maturity. BSIZE has an average of 2.959, while INDCOM averages 1.144, indicating variation in corporate governance structures. These results highlight the substantial heterogeneity among the firms in the sample, justifying further empirical investigation.

Table 2. Descriptive Statistics

	Mean	Median	Minimum	Maximum
EXECOMP	23.739	23.697	19.104	29.191
FP	0.055	0.046	-0.876	0.921
FSIZE	12.772	12.770	10.700	14.616
DAR	5.323	2.084	0.450	403.180
FAGE	42.891	44.000	5.000	93.000
BSIZE	2.959	3.000	0.000	14.000
INDCOM	1.144	1.000	0.000	5.000

Source : Created by author with stata application

Pearson Correlation

In the table 3 results show a positive and significant correlation between EXECOMP and FP (r = 0.235; $p < 0.01$), indicating that a higher executive pay is associated with better financial outcomes. EXECOMP was also strongly correlated with FSIZE (r = 0.770; $p < 0.01$), suggesting that larger firms tend to offer higher compensation. FSIZE is positively related to BSIZE, FAGE, and INDCOM, reflecting the more complex governance in larger firms. DAR is negatively correlated with EXECOMP and FSIZE, implying that highly leveraged firms are smaller and offer lower compensation. A strong correlation was also observed between BSIZE and INDCOM (r = 0.899; $p < 0.01$), whereas BSIZE showeds no significant link with firm performance. These correlations support the relevance of variables in the regression analysis.

Tabel 3. Pearson Correlation

	FP	EXECOMP	FSIZE	DAR	FAGE	BSIZE	INDCOM
FP	1.000						
EXECOMP	0.235***	1.000					

	(0.000)						
FSIZE	0.063	0.770***	1.000				
	(0.304)	(0.000)					
DAR	0.088	-0.163***	-0.193***	1.000			
	(0.152)	(0.008)	(0.002)				
FAGE	0.395***	0.264***	0.190***	-0.146**	1.000		
	(0.000)	(0.000)	(0.002)	(0.017)			
BSIZE	0.026	0.446***	0.522***	-0.088	0.162***	1.000	
	(0.672)	(0.000)	(0.000)	(0.153)	(0.008)		
INDCOM	0.127**	0.393***	0.455***	-0.102*	0.257***	0.899***	1.000
	(0.039)	(0.000)	(0.000)	(0.097)	(0.000)	(0.000)	

p-values in parentheses
* $p < 0.1$, ** $p < 0.05$, *** $p < 0.01$
Source : Created by author with stata application

Regression

Table 4 reports the OLS regression results analyzing the relationship between EXECOMP and FP under two model specifications. In Specification (1), which includes year fixed effects, EXECOMP is positively and significantly associated with FP ($\beta = 0.024$; $t = 3.36$). This positive association also appears in Specification (2), which excludes year fixed effects ($\beta = 0.027$; $t = 3.88$), indicating a consistent pattern across both models. FSIZE negatively affects performance in both specifications ($\beta = -0.035$; $t = -2.65$; $\beta = -0.033$; $t = -2.49$), possibly due to higher agency costs in larger firms. The DAR and FAGE show positive and significant effects, suggesting that firms with better capital structures and longer operational experience tend to perform better. BSIZE is negatively associated with performance, whereas INDCOM have a positive impact, highlighting the importance of effective board composition in improving governance outcomes.

These findings support the view that effectively designed EXECOMP awards can serve as a mechanism for aligning management objectives with the interests of Chen et al. (2023) company owners. In addition, performance-based compensation schemes such as bonuses, stock options, and profit incentives serve as internal control tools that can reduce the potential for opportunistic behavior on the part of management (Carline et al., 2023). Well-designed compensation awards are essential for aligning management objectives with the interests of company owners, as they can motivate appropriate risk-taking behavior and prevent overly conservative management strategies (Kreilkamp et al., 2023). The existence of strategic incentives that are aligned with company objectives can shape executive behavior to promote efficiency, profitability, and long-term growth through effective decision-making (Kharbedia & Gvichia, 2024).In line with agency theory as proposed by Jensen & Meckling (1976), executives may prioritize their personal interests, which can lead to agency conflicts. To mitigate such conflicts, it is essential to implement effective governance mechanisms that align managerial actions with shareholder objectives (X. Cai, 2023). One such mechanism is performance-based executive compensation, which serves as a strategic incentive to direct managerial behavior toward maximizing firm value and enhancing overall performance (Pangastuti et al., 2020).

Previous research conducted by Yunita Riaswati et al. (2021); Suzan & Khadrinur (2023), which shows a significant positive relationship between EXECOMP and FP. A high ROA indicates greater profitability, which often leads to increased executive compensation; this, in turn, can enhance job satisfaction among executives and employees while fostering greater discipline and motivation in the workplace (Suzan & Khadrinur, 2023). This other study conducted by Shaddady & Alnori (2020) identifies a positive relationship between executive compensation and firm performance, suggesting that a well-structured compensation strategy can mitigate agency problems and contribute to improved organizational outcomes. Based on these findings and discussions, hypothesis 1 is accepted, indicating that EXECOMP has a significant positive effect on FP, thus supporting the theoretical expectation that incentive alignment can improve organizational effectiveness.

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Table 4. Regression

	(1) FP	(2) FP
EXECOMP	0.024***	0.027***
	(3.36)	(3.88)
FSIZE	-0.035***	-0.033**
	(-2.65)	(-2.49)
DAR	0.005***	0.005***
	(2.86)	(2.91)
FAGE	0.002***	0.002***
	(4.79)	(4.60)
BSIZE	-0.013**	-0.014***
	(-2.58)	(-2.86)
INDCOM	0.032***	0.030**
	(2.77)	(2.58)
_cons	-0.120	-0.268**
	(-0.85)	(-2.25)
Year FE	Yes	No
r2	0.279	0.252
r2_a	0.244	0.235
N	264	264

t statistics in parentheses
* $p < 0.1$, ** $p < 0.05$, *** $p < 0.01$
Source : Created by author with stata application

Robustness

Table 5 is presented a robustness check that considers the generalized least squares (GLS) that considers the possibility of heteroskedasticity and autocorrelation among the panel numbers. The results shows that EXECOMP has a positive and significant effect on FP (β = 0.026; t = 10.07; p < 0.01), which reinforces the previous findings. FSIZE has a negative and significant effect on performance (β = -0.050; t = -8.94; p < 0.01), indicating that larger companies tend to face inefficiencies that can reduce profitability. DAR hads a positive and significant effect on performance (β = 0.009; t = 7.61; p < 0.01), indicating that the effective use of debt can improve performance. FAGE also has a positive and significant effect (β = 0.002; t = 16.74; p < 0.01), indicating that more mature companies tend to have better performance. Conversely, BSIZE has a negative and significant effect on performance (β = -0.012; t = -11.70; p < 0.01), indicating that an overly large board can hinder effective decision-making. The proportion of INDCOM hads a positive and significant effect (β = 0.028; t = 13.46; p < 0.01), supporting the role of independent oversight in improving company performance. This model was controlled for annual fixed effects, and the estimation results showed good model strength.

Table 5. Generalized Least Squares

	(1) FP
EXECOMP	0.026***
	(10.07)
FSIZE	-0.050***
	(-8.94)
DAR	0.009***
	(7.61)
FAGE	0.002***
	(16.74)

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BSIZE	-0.012***
	(-11.70)
INDCOM	0.028***
	(13.46)
_cons	-0.022
	(-0.62)
Year FE	Yes
F	
p	.
r2_p	
r2_a	
N	192

t statistics in parentheses
* $p < 0.1$, ** $p < 0.05$, *** $p < 0.01$
Source : Created by author with stata application

Additional Analysis

Additional Analysis: Effects Varying by Firm Size

FSIZE is a critical factor for both creditors and investors, as it directly relates to the outcomes of investment decisions (Chandra, 2021). Therefore, an additional analysis based on company size in table 6 shows that Specification (1) indicates that EXECOMP has a significant positive effect on performance in small companies (β = 0.035; t = 4.33), but not in large companies in Specification (2) (β = -0.001; t = -0.11). DAR and FAGE had significantly positive effects in both groups. BSIZE has a significant negative effect only on small companies (β = -0.017; t = -3.34), whereas the proportion of INDCOM has a significant positive effect only on large companies (β = 0.048; t = 3.72). These findings emphasize the importance of considering the context of company size because different characteristics affect the effectiveness of incentive mechanisms and governance in improving performance (Fan et al., 2022 ; Tran & Thu, 2023).

Table 6. Additional Analysis – FSIZE

	(1) FP	(2) FP
EXECOMP	0.035***	-0.001
	(4.33)	(-0.11)
DAR	0.004***	0.024***
	(3.01)	(3.61)
FAGE	0.001**	0.003***
	(2.00)	(4.26)
BSIZE	0.006	-0.017***
	(0.73)	(-3.34)
INDCOM	-0.018	0.048***
	(-0.94)	(3.72)
_cons	-0.655***	-0.088
	(-3.14)	(-0.48)
Year FE	Yes	Yes
r2	0.349	0.427
r2_a	0.290	0.374
N	133	131

t statistics in parentheses
* $p < 0.1$, ** $p < 0.05$, *** $p < 0.01$
Source : Created by author with stata application

Additional Analysis : The Role of Board Size

The analysis presented in table 7 examines the impact of executive compensation and other variables on firm performance by board size. Specification 1 covers firms with small boards, where EXECOMP significantly improves performance (β = 0.023; t = 2.60), whereas FSIZE negatively affects FP (β = -0.033; t = -1.85). DAR and FAGE were not significant, but INDCOM positively influenceds performance (β = 0.065; t = 2.81). Specification 2 refers to large boards, where EXECOMP is not significant (β = 0.009; t = 1.00), but DAR (β = 0.020; t = 3.66) and FAGE (β = 0.004; t = 6.10) have positive effects. FSIZE and INDCOM showed no significant effect. Smaller board sizes are generally associated with faster decision-making processes and lower coordination costs, whereas larger boards tend to offer broader expertise that can enhance the quality of strategic decisions (Abdullah et al., 2022)

Table 7. Additional Analysis – BSIZE

	(1) FP	(2) FP
EXECOMP	0.023**	0.009
	(2.60)	(1.00)
FSIZE	-0.033*	-0.015
	(-1.85)	(-0.87)
DAR	0.001	0.020***
	(0.85)	(3.66)
FAGE	0.001	0.004***
	(1.36)	(6.10)
INDCOM	0.065***	0.012
	(2.81)	(1.21)
_cons	-0.050	-0.195
	(-0.22)	(-1.36)
Year FE	Yes	Yes
r2	0.214	0.464
r2_a	0.144	0.423
N	123	141

t statistics in parentheses
* $p < 0.1$, ** $p < 0.05$, *** $p < 0.01$
Source : Created by author with stata application

5. CONCLUSION

This study investigateds the relationship between EXECOMP and FP using 264 observations from manufacturing companies listed on the IDX. This study uses OLS regression analysis, and the empirical findings reveal a statistically significant and positive relationship between EXECOMP and FP. These results support the agency theory perspective, indicating that performance-based executive remuneration can serve as an effective mechanism to align managerial actions with shareholder interests and, thereby enhance corporate outcomes Thise study contributes to the literature by providing updated empirical evidence from an emerging market context, specifically Indonesia, where governance structures and compensation systems may differ from those in developed economies. By focusing on the manufacturing sector, this study also adds sector-specific insights into how EXECOMP operates within production-driven industries. However, this study hads several limitations. First, the sample is limited to manufacturing companies listed on the IDX, which may limit the generalizability of the study results across sectors or countries. Second, the EXECOMP measurement focuses only on executives at the director and commissioner board levels, excluding compensation at the managerial level, which may also affect FP. Third, FP is assessed only through ROA, which, although common, may not fully capture broader performance dimensions such as operational efficiency or market perception. Future research should expand the sample to other sectors or countries, include a broader definition of executive roles (including top management teams), and use additional

performance indicators to provide a more comprehensive understanding of the compensation-performance relationship.

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