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Conference Paper

CEO Compensation and Audit Opinion 'Going Concern' Effect Banking Performance Using Data Envelopment Analysis (DEA) Method?

Farisha Eva Apriani*, R. Nelly Nur Apandi

Universitas Pendidikan Indonesia, West Java, Indonesia

*Corresponding author:
E-mail: farishaeva@gmail.com

ABSTRACT

Company performance as an achievement of finished tasks illustrates the company's financial condition, which can be analyzed by financial analysis tools. This study aimed to determine the impact of CEO compensation and audit opinion 'going concern' on the performance of banks listed on the BEI from 2014 to 2019, as well as to evaluate the performance using the Data Envelopment Analysis (DEA) tool. Furthermore, this study also aimed to examine the effect of audit opinion 'going concern,' which was determined as the moderation variable to the relationship between the CEO's compensation and banking performance. The study used a quantitative type. Subjects examined were banks listed in BEI and reported their financial statements consistently from 2014 to 2019. The data analysis was using Partial Least Square (PLS). Based on the study results, it is discovered that CEO's compensation positively and significantly affected banking performance on the studied year, audit opinion 'going concern' significantly affected banking performance, and the audit opinion 'going concern' that determined as the moderation variable could not strengthen or weaken the relationship between CEO's compensation and banking performance.

Keywords: Banking performance, DEA, CEO's Compensation, audit opinion 'Going Concern', moderation variable

Introduction

Profit is one of the main goals of a company (Thaib & Dewantoro, 2017). One of the profit-oriented industries is banking. Banking is a sector that becomes a country's development indicator barometer due to its high profit and is an enterprise that collects funds from capital owners, manages the funds, and distributes the funds in various products (Paparang, 2016). Although being a trustworthy business, banking is also a high-risk industry. One of these high-risk sources is from banks' products of credit loans that generate receivables for banks. Excessive receivables will harm the company and impact performance (Munandar et al., 2018).

The efficient banks' performance measurement still has drawbacks because it is not focused on banks' risk aspects and reflection of good performance is the improvement of efficiency (Sustawijaya & Lestari, 2009). Efficiency measurement should use an appropriate method. The method used to measure efficiency performance in this study was the Data Envelopment Analysis (DEA) method by focusing on input and output variables according to risk aspects of banks, i.e., minimize the number of uncollectible accounts receivable expenses and generating profit (Soedarsa & Raharjo, 2015). The Data Envelopment Analysis (DEA) is an efficient non-parametric measurement tool by involving an input to create an output (Duygun & Pasiouras, 2010).

One factor influencing performance success is the CEO's managerial ability. Compensation enables the CEO to generate excellent performance for its company. Therefore, appropriate compensation allows the CEO to create an outstanding performance (Sari & Harto, 2014). However, not all CEOs receiving high compensations or appropriate to their expectations generate excellent performance. As the study of (Osei- bonsu & Lutta, 2016) stated, a company that adopted the cash compensation scheme for CEO

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had bad performance based on ROA and ROE measurements. Many had not measured performance from the previous studies by linking it specifically with uncollectible account receivable expenses, a high-risk aspect. Hence, this study used the Data Envelopment Analysis (DEA) method as banking performance measurement using indicators of uncollectible account receivable expenses, third party funds, account receivables, and profits to discover the efficiency of banks' performance.

Besides the CEO's managerial ability, efficient performance can be affected by the company's financial condition. Its financial situation may illustrate a company's performance. A company's good or poor financial situation can be discovered from the audit opinion's going concern (Carcello & Neal, 2000). The audit opinion 'going concern' proves that the company should provide a significant financial improvement to obtain a clean opinion in the subsequent year. If there is no significant improvement, the audit opinion 'going concern' may be re- given.

In general, several things influence the auditor in providing Going concern audit opinion according to IAI, 2001: section 341.3, paragraph 6, including:

a. Negative Trends, for example, lack of working capital, continuous operating losses, and poor financial ratios.
b. Possible financial difficulties include failure to meet liabilities, sale of large portions of assets, and outstanding dividend payments.
c. Internal problems such as strikes, long-term commitments are not economic.
d. External problems that occur include, for example, court lawsuits, loss of victims, losses due to natural disasters.

In this study, the audit opinion 'going concern' was established as the moderation variable to moderate the relationship between the CEO's compensation and banking performance. When a company receives the audit opinion 'going concern,' the company will strive to improve its continuity and performance and not disturb the compensation.

This study is different from predecessor ones where they mostly used ROA, ROE, BOPO, and other ratios to measure and discover a bank's performance. Therefore, this study is important because most studies have not examined bank efficiency performance by linking it specifically with risk-bearing indicators such as credit risk faced by banks. Besides, previous studies demonstrated result differences from both variables and indicators used. Thus, this study used the audit opinion 'going concern' as the moderating variable in examining the relationship between the CEO's compensation and bank performance.

This study aimed to discover banking efficiency performance measured using the Data Envelopment Analysis (DEA) method. This study also aimed to discover the effects of the CEO's compensation and audit opinion 'going concern' to banking performance and the relationship between the CEO's compensation and banking performance moderated by the audit opinion 'go-ing concern.'

Literature Review

Agency theory

According to Company et al. (1976), an agency relationship is a contract between an agent and its principal. One or more people command other people to conduct a service in the principal's name and give the agent authority to make the principal's best decision. If the principal and agent share mutual objectives, the agent will support and execute all principal commands. However, each party has different objectives. Such a condition causes poor company governance due to the lack of the agent's openness in expressing the company's performance to the principal. If reviewed from an agency viewpoint, a manager will fulfill their desires to achieve the best performance to obtain high compensations.

Suppose the desires from each agent and principal are allowed to continue. In that case, it will eventually emerge long-term conflicts which trigger the agency cost, which, according to (Company et al., 1976), are consisted of three types:

a. The Monitoring Expenditures by the Principle: the expenses by the principal to monitor the agent's performance.

b. The Bonding Expenditures by the Agent: the expenses by the agent to persuade the principle that the management has been implemented accordingly.
c. The Residual Loss: the loss of market value reduction because of agency conflicts and principal and agent's welfare reduction because of the agency relationship.

Research on performance with compensation is usually explained by agency theory. A man-ager will receive high compensation if his performance is high as well. When examined from an agency point of view, a manager will prioritize his desire to get the best performance to get increased compensation (Utami, 2017). The higher the performance generated, the higher the compensation obtained.

Agency theory also always deals with the issue of executive compensation. This agency theory assumes that the executive or CEO (agent) is only concerned with his interests, so a mechanism must be made so that the CEO can pay attention to other things. With effective monitoring, it will produce good company performance so that the company value will increase and the principal's welfare. Another form that can reduce agency problems is by providing compensation to the CEO. (Nichols & Subramaniam, 2001) stated that compensation is one way to reconcile differences in interests between principals and agents.

Efficiency performance measurement using DEA

The efficiency measurement in a company can be seen from the ratio of outputs and inputs as the guideline. A company is declared efficient if it can minimize the expense cost to maximize the revenue. The Data Envelopment Analysis was introduced by Charnes, Coopers, & Rhodes (CCR) in 1978. The Data Envelopment Analysis is a mathematical program optimization method that measures a decision-making unit (DMU) and compares it to other DMUs.

Data Envelopment Analysis (DEA) is a performance measurement tool related to many input variables to produce several outputs so that decision making can be made and increased efficiency. DEA is a non-parametric approach, so it does not assume the initial assumption of the production function. The assumption used is that there is no random error, so that the deviation from the frontier is indicated as inefficiency (Ascarya, Yumanita, and Rokhimah, 2009: 14 in Pratikto & Sugianto, 2011).

Each unit in the sample is considered to have a non-negative efficiency level, with scores ranging from 0 to 1, where one means the perfect efficiency. Other units with a score of one are used to create an envelope for the efficiency frontier. Other units in the envelope show the inefficiency level (Saifi, 2015).

Accounts receivables and uncollectible account expenses

Account receivables are a part of current assets with a significant value. Therefore, it has to be managed well to avoid the emergence of losses that disrupt its profit. Account receivables are determined as the uncollectible account receivables are losses reported in the profit loss report as an expense, or the uncollectible account expenses.

The study by (Rositah, 2016) stated that uncollectible account expenses negatively and significantly affected ROA. The more the company achieves the uncollectible account expenses, the less the ROA or profitability. It is supported by the theory that "profitability quality assessment often influences by the account receivables and its collectability analysis." Therefore, the company should limit its uncollectible account expenses and control the account receivables to minimize congested receivables.

Third-party funds

The third-party fund explained in the Law of Banking RI No. 10 of 1998 regarding banking is funds trusted by society to banks based on fund storage agreement in the forms of the current account, time deposit, saving account, or other forms equivalent. This third-party fund is also a measure of the bank's success in financing its operations from this fund.

The third-party fund also has a positive relationship with the company's profit. When the third party fund is increasing in a bank, the net profit generated will also increase, and vice versa. The third-party fund from customers is processed and distributed to generate revenue to provide net profit (Winarsih, 2017).

Profit

The company's performance measurement can use the profit parameter because profit is a company's performance indicator. In this case, the profit is used as a measure of the performance achievement of a company. Profit is also a reflection of prospects regarding the company's performance success (Ginting, 2019). The Relationship of CEOs' Compensation and Performance.

The company generates performance in a specific period according to specific measures used to generate performance. Performance is measured to assess the company's results. Good performance will be produced if all divisions cooperate. The study of (Raithatha & Komera, 2016) stated that executive compensation influenced companies' performances in India. This study used all companies' data throughout India from 2002-2012. The higher the compensation given, the bigger the expectation to improve performance.

Providing compensation to the CEO is one of the goals so that the CEO is motivated to increase the productivity of his company's performance. CEO compensation makes the CEO more responsible for improving his company. Compensation can be used as a way to overcome moral hazard management. The higher the compensation given, the greater the expectation that performance will increase (Sari & Harto, 2014).

Another opinion was also expressed by (Mardiyati & Devi, 2013) that what concerns investors is the provision of salaries to CEOs or, in other words, CEO compensation. This compensation is intended to motivate management to provide the best possible performance, and a CEO will be paid higher than the other parties if this can be achieved.

If CEOs can improve the company's performance, the company will compensate according to the performance. In other words, the higher the profit generated by CEOs, the higher the compensation received by them. It makes CEOs to be motivated to strive harder in improving their companies' performance. It is supported by the study of (Focke, Maug, & Niessen-ruenzi, 2016), stating that CEOs worked hard to generate excellent performance to create a prestigious company; hence, elevating the CEO's social status.

The relationship of audit opinion of going concern with performance

The company's performance explains the analyzed financial condition of the company. Thus, the good or bad financial condition which reflects the company's performance in a specific period is discovered. If the profit generated is low, it indicates that the financial condition is poor; hence, reflecting bad performance (Ayu & Budiasih, 2016).

As a business unit, the company will certainly try to generate high profits from its business results. Also, the owner and other interested parties want to feel the effects and see the progress of the business's products that has been run from time to time. Therefore, the acceptance of going concern audit opinion is very important because it can be used as a tool to assess future financial performance.

When a company experiences a bad financial condition, its performance will be disturbed, impacting the company's risk level in maintaining its life continuity in the future. This affects the audit opinion provided by auditors (Jalil, 2019). Another argument by (Rezky, 2011) stated that the probability analysis objective measures the company's efficiency level and its achieved profitability. Therefore, the more the profitability ratio, the better the company is and auditors should refrain from issuing the going concern opinion to the company.

The Relationship between CEOs' Compensation and Performance Moderated by Audit Opin-ion of Going Concern

A good entity that is describing its viability well and outsiders, such as investors can see the performance that has been generated. Companies with a going concern audit opinion will suffer a downturn both in terms of finance and their existence in the public's eyes. A company that receives a going concern audit opinion will get worse if it does not take. Therefore, a company that receives an audit opinion of going concern on the previous year will potentially receive an audit opinion of going concern (Fahmi, 2015). If the company's financial condition accepts a going concern audit opinion, the company's performance will also decline.

High compensation is given to CEOs for their success in producing a good performance. Any form of compensation will encourage CEOs to create a good image in the company. The CEOs will encourage company profits to increase and the performance will always get better to meet the target compensation level obtained. Hence, CEOs will be motivated and work hard so that the company's financial condition is not bad. The company's performance does not decrease so that the going concern audit opinion is not accepted. Therefore, in this study, going concern audit opinion as a moderating variable will strengthen the relationship between CEOs' compensation and the performance produced. When a company receives a going concern audit opinion, the CEO will work harder to avoid going concern audit opinion in the following year. Thus, the resulting performance improves and the compensation obtained is appropriate.

Hypothesis

H1: The influence of the CEO's compensation on banking performance

H2: The influence of the audit opinion 'going concern' on banking performance

H3: The influence of the audit opinion 'going concern' in moderating the relationship between the CEO's compensation and banking performance

Material and Methods

Research strategy

This research aims to analyze the efficiency of the technique, and the data used is quantitative, a study that analyzes data in the form of numbers. This was done in 5 years, from 2015 to 2019, for the CEO compensation variable and banking performance, and from 2014 to 2018 for the going concern audit opinion variable. This research was conducted by looking at the financial reports of Indonesia's banking sector, which were taken from the Indonesian stock exchange. For CEO compensation, see the year concerned to know the banking performance in that year as well. Forgoing concern audit opinion, look at the previous year to see banks' performance in that year.

Population and sample

This study's population was banking on the Indonesia Stock Exchange (IDX) during the period 2014 to 2019.

Sampling method

Purposive sampling was used in this analysis, which indicates that the sample was selected based on certain parameters, such as studying product safety, and thus the sample data sources were a food specialist. This means that the sample was not collected arbitrarily and that the evidence was collected based on certain requirements. The sample criteria used in this study are as follows:

a. Banks listed on the IDX.
b. The sample is in the form of banking financial reports that have consistently published financial statements every year from 2014 to 2019.
c. Financial reports in rupiah currency for the required period.

d. The company has complete data regarding the information, including income received, uncollectible accounts receivable expense, third-party funds, accounts receivable, CEO compensation, and independent audit reports.

Research object

This study uses banking performance listed on IDX from 2015 to 2019 as the object of research.

Data collection

This study's data collection method is the documentation method, which collects information and data from the literature, literature study methods, and financial reports published by the Indonesia Stock Exchange (BEI). The data used in this study is to use secondary data from financial statements on the IDX and the official website of each sector during the period 2014 to 2019.

Measurement

The testing was using the PLS to test the hypotheses. Partial Least Square (PLS) is a multivariate statistical technique that compares multiple dependent variables and multiple independent variables. PLS is a variant-based SEM statistical method designed to solve regression in specific data problems, such as small study sample size, missing data, and multicollinearity (Hiu & Ana-stasia, 2020). Each hypothesis was analyzed with SmartPLS 3.0 software to test the relationship of each variable.

PLS is an analysis whose main function is for model design, but can also be used for theory confirmation. The PLS function is grouped into 2 parts, namely the inner model and the outer model. The outer model is more concerned with testing validity and reliability. In contrast, the inner model is more in the direction of regression, namely, to assess one variable's effect on other variables. The hypothesis tested by PLS must pass the inner model test. One of the inner mod-el tests that must be passed is the significant test, which aims to determine how much influence the independent variable has on the dependent variable. The estimated value for the inner model path relationship is used to determine the significance of the relationships between the variables being tested. The p-value of < 0.05, T calculated > T table and saw the regression coefficient value.

Research instrument

The study variables were independent, i.e., the CEO's compensation and audit opinion 'going concern', while the dependent variable was the banking performance. CEO compensation is an independent variable that is expected to affect the resulting performance and uses the total components received by company executives in the form of basic salary, annual bonus, long-term incentives, and other additional income. Executives or CEOs are usually people in the company's top two levels, such as the president director, vice president-director, executive managers, and commissioners.

Going concern audit opinion was measured using a dummy variable. Category 1 was banks that received a going concern audit opinion and category 0 was banks that did not receive a going concern audit opinion. Dummy variables are variables used to quantify qualitative variables. Dummy variables are categorical variables that are thought to influence sustainable variables.

This study's banking performance was measured using the Data Envelopment Analysis (DEA) method that is generally used to measure an organization's or company's relative efficiency performance. The more efficient a bank than other banks, the better its performance. The banking efficiency was measured by calculating the output-to-input ratio. The outputs used were profit and account receivables, while the inputs were uncollectible account receivable expenses and third-party funds. The output used was the profit generated by the banking sector because profit is an instrument that reflects the company has achieved one of the main objectives it wants to achieve. Another output used was the receivables given. Meanwhile, the input used was the burden of banks' uncollectible accounts as one of the risks faced by banks if the burden is getting bigger. Also, the input used was third-party funds as one of the earners of net bank profit.

The formulation is:

$$\frac{\sum_{i=1}^{m} UiYis}{\sum_{i=1}^{n} ViSis} \leq 1; r = 1, \ldots, N$$

Hs: Efficiency
Yis: The number of Output i
Xjs: The number of Input j
Ui: The weight of Output i
Vj: The weight of Input j, and calculated from 1 to m, while j is calculated from1 ton.

From the formula, 41 studied banks' efficiency performances were generated with a performance variable maximum value of 1.000, indicating that the performance of a bank is efficient and a minimum value of 0.009, indicating that the bank is inefficient. Here is an example of an efficiency score table and the Slack table of Bank Central Asia:

Table 1. DEA efficient score on BACA

BACA	Efficient Score	Category
2015	1	Efficient
2016	0.4543	Inefficient
2017	1	Efficient
2018	1	Efficient
2019	0.4652	Inefficient

From 2015-2019, Bank Capital Indonesia in 2016 and 2019 was declared inefficient with efficient score values of 0.4543 and 0.4652, while in 2015, 2017, and 2019 was displayed efficient with an efficient score value of 1.

Table 2. Slack DEA on BACA

BACA	Weight	DPK	Profit	Receivables
2015	0	0	0	0
2016	0	0	29545610.47	0
2017	0	0	0	0
2018	0	0	0	0
2019	0	0	397718149.9	0

Based on the table, inefficient works of Bank Capital Indonesia occurred in 2016 and 2019. The slack value of the DEA shows the cause of inefficient works based on input variables. In 2016 and 2019, the cause of BACA's inefficient works was the profit under the DEA's standard. An addition should be made to generate an efficient score of 1, indicating efficient work. The amount of addition on the profit variable in 2016 was IDR 29,545,610,470 and in 2019 was IDR 397,718,149,900.

The higher the obligations that must be paid, the higher the interest paid (Mulyani & Budiman, 2017). Therefore, the bank must allocate these funds as a credit to customers. If this credit in-come is greater than interest expense, the bank will get a profit.

Results and Discussion

From 41 studied banks, after conducting the efficient performance calculation using the Data Envelopment Analysis (DEA) Method, only two banks had an efficiency score of 1 each year from 2015 to 2019, i.e., Bank Dinar Indonesia and Bank Central Asia. The rests that were still inefficient or having efficient scores after the DEA calculation of less than one were presented in the slack table.

Here are the results of the calculation of the first and second hypotheses tested with PLS:

Table 3. Path coefficient of first hypothesis and second hypothesis

	Original Sample	Mean	Standard Deviation	T-Values	P-Values
X1(CEO Compensation-> Y (Banking Performance)	0.316	0.315	0.044	7.171	0.000
X2(Audit Opinion "*Going Concern*-> Y (Banking Performance)	-0.186	-0.185	0.071	2.631	0.009

It is discovered that the generated P values for the influences of the CEO's compensation and the audit opinion 'going concern' on banking performances were less than 0.05, and the T statistic values were more than t-table (t-calculation > 1.97). Therefore, the first and second hypotheses were accepted and significantly affecting. The first hypothesis showed that the CEO's compensation positively and significantly affected banking performances. Therefore, the hypothesis was accepted. The positive regression coefficient direction showed that CEOs' high compensations resulted in good or efficient banking performances. This performance-influencing CEO's compensation is closely related to the agency theory because it is one way to tackle moral hazards. CEO compensation is an award in the form of cash and non-cash received by the CEO to produce the expected performance. As an agent, the CEO is only concerned with his interests, and to monitor the CEO to produce a good performance and prosper the principals, the compensation given to the CEO is one way to resolve these problems. CEOs' compensations are rewards of cash or non-cash received by CEOs to produce the expected performance. It follows the study of (Sari & Harto, 2014; Smirnova & Zavertiaeva, 2017; Chou, 2018) that a considerable amount of compensation was effective to motivate CEOs to create efficient performances.

The second hypothesis showed that the audit opinion 'going concern' was negatively and significantly affected banking performances. Hence, the hypothesis was accepted. It shows the relationship between the audit opinion 'going concern' variable with the banking performance variable. Banks accredited with the audit opinion 'going concern' will enhance their performances in the subsequent year. This second hypothesis is comparable to the results of research conducted (Carcello & Neal, 2000; Jalil, 2019; Ayu & Budiasih, 2016), which states that when a company gets a going concern audit opinion, it reflects the company's performance is not good. Research conducted (Azizah & Anisykurlillah, 2014) when a company accepts a going concern audit opinion, so the company must fix all causes of the deterioration of its sustainability, such as addressing debt defaults, continuous losses, and losses. The reasons for 'going concern' predicate on banks were particular credit card data modifications, operational losses causing the deficit, loss from modal quantities, and criminal charges on some banks. Here are the calculation results of the third hypothesis:

Table 4. Hypothesis three path coefficient

	Original Sample	Mean	Standard Deviation	T-Values	P-Values
X1(CEO Compensation-> Y (Banking Performance)	0.311	0.315	0.045	6.899	0.000
X2 as Moderation Variables-> Y (Banking Performance)	0.037	0.038	0.051	0.717	0.474
X2(Audit Opinion "*Going Concern*-> Y (Banking Performance)	-0.183	-0.180	0.074	2.465	0.014

It is discovered that the P-value generated for the audit opinion ‘going concern’ as the moderating variable affected the relationship between the CEO’s compensation and banking per-formance with a value of more than 0.05, and T statistic value of less than t-table (t-calculation < 1,97). Therefore, the third hypothesis was not affecting and insignificant.

The analysis results show that the audit opinion ‘going concern’ could not reinforce the relationship between the CEO’s compensation and banking performance. With or without the audit opinion ‘going concern’ on banks, CEOs remained concerned about their compensations to produce the expected per-formances. The CEO’s compensation had reflected the bank’s performance calculated using the DEA method with output variables of profit and account receivables, and input variables of uncollectible ac-count receivable expenses and third-party funds. The au-dit opinion ‘going concern’ variable, which is used as a moderating variable between the relationship between CEO compensation and banking per-formance, is classified as quasi moderator (Quasi Moderator). This pseudo moderating variable is a variable that moderates the relationship between the independent variable and the dependent variable, where the pseudo moderation variable acts as an independent variable as well as a moderating variable (Bryan & Haryadi, 2018). Thus, the audit opinion ‘going concern’ variable cannot be said to weaken or strengthen the relationship between CEO compensation and banking performance, given the dual role that audit opinion ‘going concern’ has, namely as a moderating variable as well as an independent vari-able that interacts or has a direct effect on banking performance.

Conclusion

This study aimed to acquire empirical evidence regarding the effects of the CEO’s compensation and audit opinion ‘going concern’ on banking performance calculated using the Data Envelopment Anal-ysis (DEA) method. This study used 41 banks listed in the Indonesia Stock Exchange (IDX) from 2014-2019.

1. The CEO’s compensation was proven to be influencing banking performance from the calcula-tion using the Data Envelopment Analysis (DEA) method. It indicates that the level of the CEO’s compensation affects the bank’s performance. When the CEO’s compensation is high, the bank’s performance will follow.
2. The audit opinion ‘going concern’ was negatively and significantly affecting banking perfor-mances. The results of a calculation using the Data Envelopment Analysis (DEA) method indi-cate that if a bank received the audit opinion ‘going concern’ in the previous year, its perfor-mance in the subsequent year would advance.
3. The audit opinion ‘going concern’ determined as the moderating variable could not strengthen the relationship between the CEO’s compensation and banking performance. Besides, the audit opinion ‘going concern’ as the moderating variable was categorized as a pseudo moderating variable. Hence, it could not purely strengthen or weaken the relationship between the CEO’s compensation and banking performance.

Based on the study results, several disadvantages and weaknesses were discovered:

1. Studied variables were limited to only several variables, such as the CEO'sCompensation and audit opinion 'going concern.' It is suggested for future studies to examine other variables af-fecting banking performance.
2. Samples used in this study were only sourced from public enterprises in the banking in-dustry. Therefore, different results might emerge from trading and manufacturing enterprises.

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