

Corporate Governance and Financial Performance: Exploring the Relationship Between Board Structure, Executive Compensation, and Firm Value

Tata Kelola Perusahaan dan Kinerja Keuangan: Mengeksplorasi Hubungan Antara Struktur Dewan, Kompensasi Eksekutif, dan Nilai Perusahaan

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ABSTRACT

This research explores the relationship between board structure, performance-based compensation, and firm value with a focus on the differences between companies with diversified and centralized board structures. Corporate governance plays an important role in determining a company's financial performance, where the board structure functions as the main supervisor. The systematic literature review method with the PRISMA approach was used to analyze and synthesize relevant literature. The research results show that companies with a diversified board structure, covering various aspects such as gender, age and ethnicity, tend to have higher company value compared to companies with a centralized board structure. Diversifying board structures increases the transparency and effectiveness of performance-based compensation, ultimately contributing to better financial performance. These findings offer new insights into how corporate governance can be optimized to increase company value.

Keywords: Corporate Governance, Performance Based Compensation, Board Structure, Firm Value, Board Diversification, PRISMA, Systematic Literature Review

ABSTRAK

Penelitian ini mengeksplorasi hubungan antara struktur dewan, kompensasi berbasis kinerja, dan nilai perusahaan dengan fokus pada perbedaan antara perusahaan dengan struktur dewan yang terdiversifikasi dan yang terpusat. Corporate governance memainkan peran penting dalam menentukan kinerja finansial perusahaan, di mana struktur dewan berfungsi sebagai pengawas utama. Metode systematic literature review dengan pendekatan PRISMA digunakan untuk menganalisis dan menyintesis literatur yang relevan. Hasil penelitian menunjukkan bahwa perusahaan dengan struktur dewan yang terdiversifikasi, mencakup berbagai aspek seperti gender, usia, dan etnis, cenderung memiliki nilai perusahaan yang lebih tinggi dibandingkan dengan perusahaan dengan struktur dewan terpusat. Diversifikasi struktur dewan meningkatkan transparansi dan efektivitas kompensasi berbasis kinerja, yang pada akhirnya berkontribusi pada kinerja finansial yang lebih baik. Temuan ini menawarkan wawasan baru tentang bagaimana corporate governance dapat dioptimalkan untuk meningkatkan nilai perusahaan.

Kata Kunci: Corporate Governance, Kompensasi Berbasis Kinerja, Struktur Dewan, Nilai Perusahaan, Diversifikasi Dewan, PRISMA, Systematic Literature Review

1. Introduction

Corporate governance is a crucial aspect of managing a company, playing an important role in determining the financial performance of an entity. The structure of the board of directors, as one of the main elements of corporate governance, functions as a supervisor and strategic decision maker that influences various operational and financial dimensions of the company. In this context, performance-based compensation is designed to align executive interests with corporate goals, in the hope of driving better financial performance. However, the relationship between board structure and the effectiveness of performance-based compensation in increasing firm value has not been fully explained in the existing literature.

Although many studies have examined the impact of performance-based compensation on financial performance, there is a significant gap in understanding how differences in board structure influence this relationship. In particular, the literature still lacks in-depth analysis of the comparative effects of performance-based compensation in firms with diversified versus centralized board structures. This gap suggests an urgent need to explore whether differences in board structure have an impact on how performance-based compensation affects firm value.

The research question to be answered in this study is: "Is there a difference in the effect of performance-based compensation on firm value in companies with diversified versus centralized board structures?" Answering this question is not only important for deepening understanding of corporate governance but also has practical implications for companies and policy makers. Understanding how board structure influences the effectiveness of performance-based compensation can help in designing more effective policies to improve financial performance.

This research offers a new contribution to the existing literature by focusing on a direct comparison between diversified and centralized board structures in the context of performance-based compensation. The innovative aspect of this study lies in comparative analysis which has not been widely done, thus providing new insights into corporate governance theory. It is hoped that the contribution of this research will enrich understanding of the relationship between corporate governance and financial performance and offer practical guidance for improving corporate governance policies in the future.

2. Method

This research adopts a systematic literature review approach to answer research questions regarding the differences in the effects of performance-based compensation on firm value in companies with diversified board structures compared to centralized ones. This approach was chosen because it allows for a comprehensive and systematic evaluation of the existing literature, as well as providing a strong basis for concluding valid and reliable findings. Systematic literature reviews ensure that all the relevance and quality of existing research in this field is carefully examined, providing an in-depth and objective picture of the topic under study.

The PRISMA (Preferred Reporting Items for Systematic Reviews and Meta-Analyses) method was applied in the process of collecting and analyzing articles. The PRISMA procedure includes several important steps: identification, where relevant articles are searched using various databases; screening, to eliminate articles that do not match the initial criteria; eligibility, where the remaining articles were examined in more depth to ensure relevance and quality; and inclusion, where articles meeting all criteria were included in the final review. These steps ensure that only high-quality and relevant studies are included in the review.

Reference sources used in this research include reputable international databases such as Scopus, Web of Science, and Google Scholar. This database was selected for its breadth of coverage and credibility in providing high-quality peer-reviewed articles. In the search process, the keywords used included important terms such as "corporate governance," "executive compensation," "board structure," and "firm value." These keywords were chosen to ensure broad topic coverage and high relevance to the research question being studied.

During the initial search process, a number of relevant articles were found. After application of inclusion and exclusion techniques, the number of articles ultimately included in the literature review was reduced to ensure only the most relevant and high-quality articles were considered. Inclusion criteria included the type of relevant study, appropriate publication period, relevance of the topic to this research, and language of the article. In contrast, exclusion criteria include articles that are not relevant to the topic, are not peer-reviewed, or that do not meet certain quality standards. This technique ensures that the review is based on

the most valid and relevant studies, providing a solid foundation for analysis and synthesis of research findings.

3. Results and Discussions

3.1 Corporate Governance Concept

Corporate governance refers to a set of rules that define the relationships between various stakeholders in a company, including shareholders, management, creditors, government, employees, and other internal and external parties (Farisyi et al., 2022). As a system that regulates and controls companies, corporate governance aims to ensure effective resource management in achieving organizational goals (Malelak et al., 2020). The principles of good corporate governance are characterized by transparency, accountability, responsibility, independence and justice (Putra et al., 2021).

In the context of corporate governance, the board of directors has a very important role as the main mechanism that aligns the interests of managers and shareholders (Hu, 2022). The effectiveness of corporate governance is significantly influenced by board independence which is an important element to ensure accountability and appropriate decision-making processes (Ooko, 2024). Board structure, composition, diversity, committees, and meeting frequency are key characteristics that influence the board's ability to carry out its role effectively (Suklev et al., 2020).

Corporate governance also plays an important role in providing positive signals to the market, reducing information asymmetry, and improving the quality of accounting information in organizations (Johan, 2022; Ngoc, 2023). The influence of corporate governance on financial performance is very significant, because investors tend to consider corporate governance mechanisms before investing in a company (Kyere & Ausloos, 2020). Research on the relationship between corporate governance and financial flexibility shows the significant impact of corporate governance on a company's financial flexibility (Islam et al., 2019).

In conclusion, corporate governance is a fundamental aspect of organizational management that involves establishing structures and processes to ensure accountability, transparency and effective decision making. The board of directors, as the main component of corporate governance, plays a crucial role in supervising and guiding company management to achieve sustainable performance and value for stakeholders.

3.2 Executive Compensation

Executive compensation is an important factor in aligning the interests of senior executives with those of the company and its shareholders. Based on agency theory, linking executive compensation to company performance can motivate executives to work toward the goal of maximizing company value, which ultimately benefits shareholders (Chen & Hassan, 2021). This alignment is critical because executive compensation schemes are often used to measure executive talent and effort, demonstrating a direct correlation between compensation and corporate performance (Jin et al., 2022).

The relationship between executive compensation and corporate performance is complex and multifaceted. Research shows that strong company performance forms the basis of executive incentive systems, where higher performers earn greater compensation (Ingriyani & Chalid, 2021). Additionally, the sensitivity of executive compensation to firm performance reflects changes in compensation associated with changes in organizational performance (Zhang et al., 2019).

The impact of executive compensation on a company's financial performance is a topic of great interest in modern companies. Studies show that executive compensation incentives, which are influenced by factors such as perceived abilities and cognitive skills of the executive team, play an important role in strategic decision making and organizational performance (Wang & Yuan, 2023). Additionally, evidence shows that corporate performance, whether

measured by accounting or market-based metrics, significantly influences executive compensation (Abdalkrim, 2019).

The relationship between CEO compensation and firm performance has been the subject of debate. Some argue that increasing CEO compensation leads to improved corporate performance, while others argue that this correlation is not always simple (Coetzee & Hall, 2020). Research has also explored the influence of company-related variables, corporate governance mechanisms, and ownership structure on executive compensation, highlighting the complexity of this relationship (Fraile & Fradejas, 2020). In conclusion, executive compensation is closely linked to firm performance, with factors such as corporate governance, firm size, and executive incentives playing a significant role in shaping this relationship. By aligning compensation with performance, companies can motivate executives to improve organizational results and create value for shareholders.

3.3 Company Value

To measure company value, various aspects can be considered. Hamelink & Opdenakker (2019) proposed seven aspects that can be used to measure company performance to meet stakeholder interests, including growth, profitability, market value, customer satisfaction, employee satisfaction, social performance and environmental performance (Hamelink & Opdenakker, 2019). Matzembacher et al. (2020) emphasize the importance of business model innovation in overcoming tensions in sustainable entrepreneurship, focusing on pillars such as value proposition, value creation/delivery, and value capture (Matzembacher et al., 2020). Additionally, Melović et al. (2021) highlight the significance of non-financial metrics in analyzing a company's relationship with customers, showing that these metrics are influenced by consumers' attitudes and beliefs towards the company and its products (Melović et al., 2021).

Factors that influence company value can come from various sources. Peñarroya-Farell & Miralles (2021) discuss how companies can adapt their business models based on business model dynamics, considering the process of business model adaptation and innovation to capture value. Wang & Montes (2021) show that modern corporate management values not only financial performance but also non-financial performance as key factors in measuring company performance (Wang & Montes, 2021). Ferrer & Villanueva (2020) explained the business model of the wine industry, highlighting the importance of strategy, resources, capabilities, and competitiveness in creating value for consumers and companies (Ferrer & Villanueva, 2020). Additionally, Bingham et al. (2021) define privately protected areas as spaces managed for long-term conservation, emphasizing values associated with nature conservation and ecosystem services (Bingham et al., 2021). In conclusion, measuring and influencing enterprise value involves a multifaceted approach that considers financial and non-financial metrics, business model innovation, customer relationships, sustainability practices, and stakeholder satisfaction. By effectively integrating these aspects, companies can improve their performance and create sustainable value for all stakeholders.

3.4 Board Structure and Executive Compensation

3.4.1 Diversified Board Structure

A diverse board structure refers to a board of directors that includes members with a variety of backgrounds, experiences, and characteristics. Research has shown that diversified boards offer a variety of benefits related to corporate governance and financial performance. Li & Peng (2022) find that factors such as expanding the board of directors and increasing the proportion of independent directors can increase board independence as well as encourage attention to important issues such as environmental disclosure. In line with these findings, Nawaz (2022) highlights that diversified boards, especially those with gender diversity, play an

important role in determining CEO compensation, demonstrating the impact of board composition on corporate decision-making processes.

Furthermore, Janahi et al. (2022) show that boards that are diverse in terms of age are more effective in monitoring managerial decision making, emphasizing the importance of diverse perspectives in improving the board's monitoring function. Additionally, Lee (2022) suggests that companies with a higher number of female directors on their boards experience a lower risk of share price decline, indicating a positive relationship between gender diversity and financial stability.

Additionally, research by Amorelli & García-Sánchez (2019) shows that a critical mass of female directors can lead to increased stakeholder engagement through corporate social reporting, showcasing the broader impact of board diversity on corporate social responsibility. These findings are in line with research by Ghafoor et al. (2022) who note that gender diversity can positively influence financial performance, especially in businesses with lower board size protection. In conclusion, a diversified board structure can contribute to improved corporate governance, better decision-making processes, better financial performance, and increased stakeholder engagement. By bringing together individuals with diverse backgrounds, skills, and perspectives, boards can effectively meet challenges, drive innovation, and create long-term value for the organization.

3.4.2 Centralized Board Structure

A centralized board structure refers to a governance system in which decision-making authority is concentrated in a small group of individuals, usually the board of directors (Nandy et al., 2020). This kind of structure can give rise to potential problems regarding governance, as it can limit diversity of thought and independence in decision making, potentially resulting in conflicts of interest and reduced accountability (Jiraporn et al., 2019).

In the context of corporate governance and financial performance, the relationship between board structure, executive compensation, and firm value is very important. Executive compensation plays a significant role in aligning executive interests with shareholder interests, as this compensation can motivate executives to work towards maximizing corporate value (Chen & Hassan, 2021). Additionally, board structure, including factors such as board size and composition, can influence how executive compensation impacts firm performance (Adelopo et al., 2023).

Research shows there is increasing demand for transparency in executive compensation practices to ensure that compensation is aligned with company performance and shareholder interests (Hsieh, 2024). Additionally, effective compensation bonus policies, such as incentive-based pay, can help align managers' interests with those of shareholders, ultimately creating value for shareholders (Adu-Ameyaw et al., 2021).

Furthermore, the relationship between executive compensation and firm performance is complex and multifaceted. Studies show that changes in executive compensation can lead to changes in firm value (Zoghalmi, 2020). Additionally, setting executive incentives to maximize shareholder value can encourage or discourage excessive risk taking, depending on the design of the compensation package (Huang, 2023). In conclusion, centralized board structures can present challenges in terms of governance effectiveness and accountability. Understanding the interactions between board structure, executive compensation, and firm value is critical to ensuring that companies operate in a manner that maximizes shareholder value while maintaining good corporate governance practices.

3.4.3 The Effect of Board Structure on Executive Compensation

The relationship between board structure and executive compensation is an important aspect of corporate governance that has a significant impact on company performance. Research shows that the composition of the board of directors plays a crucial role in

determining the effectiveness of performance-based compensation (Brandão et al., 2019). Executives who are part of the board can influence compensation decisions to reduce their financial risks (Brandão et al., 2019). Additionally, ownership structure and board composition are identified as governance mechanisms that influence executive compensation (Marín et al., 2022).

Corporate governance, which includes factors such as board independence, board composition, and CEO duality, was found to have a positive and significant relationship with financial performance (Mahmudi, 2024). Good corporate governance practices can lead to improved financial performance, thereby reducing financial risk (Moridu, 2023). Studies also show the positive effect of corporate governance indicators such as board size, composition, diversity and independence on company performance (Kiptoo et al., 2021).

Furthermore, the impact of corporate governance on financial performance extends beyond executive compensation to include various aspects such as return on assets and equity (Kaura et al., 2019). An effective corporate governance structure can increase company value and overall strength by reducing costs (Zheng, 2021). Additionally, larger board size has been shown to influence the relationship between intangible resources and financial performance (Nawaz & Ohlrogge, 2022). In conclusion, the interaction between board structure, executive compensation, and corporate governance has a significant influence on company performance. By understanding how these elements interact, organizations can optimize their governance practices to improve financial results and overall sustainability.

3.5 Effect of Performance-Based Compensation on Company Value

3.5.1 Performance Based Compensation and Financial Performance

Performance-based compensation has been proven to have a significant impact on financial performance in organizations. Research shows that good corporate governance practices are very important in improving financial performance (Zuchruf et al., 2019; Bahoo et al., 2019; Moridu, 2023; Riyadi et al., 2021; DAVID, 2022; "The Effect of Corporate Governance , Ownership Structure and Firm Characteristics on Financial Performance", 2020). The relationship between managerial compensation and company performance is influenced by factors such as managerial ownership, institutional ownership, board size, and non-executive ownership (Adelopo et al., 2023). Additionally, corporate governance independence has been linked to financial performance, with a significant relationship observed between corporate governance and financial indicators such as profitability (Freire et al., 2020). The use of derivatives as a mediating factor in the relationship between corporate governance and financial performance has also received attention (Bahoo et al., 2019).

Corporate governance mechanisms, including board structure and executive compensation, have been found to have a positive impact on financial performance by increasing management efficiency and ensuring fair treatment of stakeholders (Mahmudi, 2024; DAVID, 2022). The presence of good governance practices has been linked to better financial performance and market valuation (Riyadi et al., 2021). Additionally, the effectiveness of compensation contracts based on executive responsibility has been explored as a way to improve the quality of corporate disclosure (Peng et al., 2019).

During economic shocks such as the COVID-19 pandemic, the importance of corporate governance in maintaining financial performance becomes increasingly clear (Musa et al., 2022). The sustainability of microfinance banks in Nigeria has been linked to effective corporate governance practices, emphasizing the role of governance in ensuring financial stability (Adekunle & Adeyemo, 2022). In addition, the impact of corporate governance on the financial performance of Takaful companies in Indonesia has been researched empirically, providing insight for decision makers in improving company performance (Sabrina, 2023).

In conclusion, the relationship between performance-based compensation, corporate governance, and financial performance is complex and multifaceted. Effective corporate

governance practices, including board structure, executive compensation, and independence, play an important role in improving financial performance in organizations. By aligning incentives through performance-based compensation and encouraging good governance practices, companies can improve their financial performance and ensure sustainable growth.

3.5.2 Differences Based on Board Structure

Performance-based compensation can have varying impacts depending on the structure of the board that oversees it. Research shows that the relationship between managerial bonus compensation and company performance can be influenced by factors such as managerial ownership, institutional ownership, board size, and non-executive ownership (Adelopo et al., 2023). Additionally, corporate governance independence has been linked to financial performance, with studies highlighting positive associations between corporate governance ratings, board composition, CEO duality, and financial performance (Mahmudi, 2024). Board structure, including aspects such as board size, ownership structure, and audit committee structure, has also been found to have a significant impact on financial performance metrics such as Return on Assets and Return on Equity (Hossain et al., 2020; Kaura et al., 2019).

Furthermore, the relationship between board structure and CEO compensation has been explored, showing that hybrid board structures are associated with higher incentive compensation for CEOs (Zoghلامي, 2020). An effective board structure has been shown to provide more incentives to the CEO, leading to improved financial performance (Aljughaiman, 2024). In addition, the presence of a majority shareholder and non-duality of the board have been found to improve company performance in certain industries (Abdoush et al., 2022). In conclusion, the interaction between board structure, executive compensation, and firm performance highlights the importance of corporate governance mechanisms in driving financial results. Understanding how these elements interact can provide insights into optimizing organizational performance and value creation.

3.6 Comparative Analysis: Diversified vs. Diversified Board Structure Centralized

3.6.1 Review of the Literature on Differential Effects

In the realm of corporate governance and financial performance, the relationship between board structure, executive compensation, and firm value is a crucial area of study. Mahmudi (2024) highlights that a diverse board composition, strong institutional ownership, and transparency in financial reporting have a positive impact on a company's financial performance. Likewise, Dănescu & Popa (2020) found a significant positive relationship between corporate governance and financial performance, especially in terms of return on assets (ROA).

Furthermore, the influence of board structure on executive compensation and financial performance is an interesting area of research. Zoghلامي (2020) discusses how board structure influences CEO compensation, with hybrid board structures associated with higher incentive compensation for CEOs. Aljughaiman (2024) examines the impact of board structure on the relationship between CEO equity incentives and financial performance, providing insight into these dynamics. In addition, the role of the internal control system in financial performance is very important. Mpola et al. (2023) emphasize the significant relationship between internal control systems and the performance of financial institutions, confirming the importance of positive internal control systems for financial performance.

Overall, these studies collectively contribute to the understanding of the complex interactions between board structure, executive compensation, corporate governance mechanisms, and financial performance in organizations. By synthesizing these findings, it becomes clear that a well-structured board, effective corporate governance practices, and a robust internal control system are vital components that can have a positive impact on a company's financial performance.

3.6.2 Synthesis of Findings

To answer the research question regarding the differences in the effects of performance-based compensation on firm value between companies with diversified and centralized board structures, various findings from previous research have been synthesized. Research shows that board structure plays a significant role in determining the effectiveness of performance-based compensation. A diversified board, which includes members with a variety of backgrounds and expertise, often offers advantages in terms of decision making and oversight. Li & Peng (2022) find that a diversified board can increase independence and attention to important issues, including transparency of executive compensation. In contrast, centralized board structures, where decisions are made by a small group of individuals, may result in limitations in perspective and independence, which may affect the effectiveness of performance-based compensation (Jiraporn et al., 2019).

In terms of the impact of a diversified board on firm value, research shows that a diverse board is often associated with better financial performance. Janahi et al. (2022) show that a board that is diverse in terms of age and gender can improve the supervisory function, which in turn can positively influence company performance. This suggests that companies with diverse board structures may benefit more from performance-based compensation in increasing firm value compared to companies that have more centralized board structures.

On the other hand, a centralized board structure may affect the relationship between performance-based compensation and firm value differently. In this structure, decisions about compensation tend to be more focused on the interests of a small group of individuals, which can limit diversity of views and potential conflicts of interest (Nandy et al., 2020). Aljughaiman (2024) highlights that joint board structures that combine executive and non-executive roles can influence executive incentives, but their effectiveness in increasing firm value can be limited by a lack of independence.

Research also shows that performance-based compensation can serve as a tool for aligning executive interests with those of shareholders in both types of board structures. However, the effectiveness of this tool in increasing company value is more pronounced in companies with a diversified board structure. Zoghلامي (2020) notes that the combination of board structures can influence CEO compensation, with diversified structures often providing more effective incentives compared to centralized structures.

Based on the synthesis of these findings, it can be concluded that there is a significant difference in the effect of performance-based compensation on firm value between companies with diversified board structures compared to centralized ones. Diversified board structures are generally more effective in leveraging performance-based compensation to increase company value, thanks to greater diversity of views and independence in decision-making. In contrast, centralized board structures may face challenges in maximizing the effectiveness of performance-based compensation, which may negatively affect a company's financial results.

3.7 Research Gaps and Suggestions

3.7.1 Identify Gaps in the Literature

In the study of the relationship between board structure, performance-based compensation, and firm value, there are several gaps that need to be identified to direct further research. Although much research has explored the influence of board structure and performance-based compensation on firm value, there are still several areas that are under-researched or not well explained.

First, there is a need for more in-depth research into how types of diversification in board structures—such as ethnic, gender, and age diversification—specifically influence the effectiveness of performance-based compensation in different contexts. Previous research often lumps these variations into broad categories without detailing how each type of diversification impacts a firm's financial results (Li & Peng, 2022; Janahi et al., 2022). Therefore,

a more detailed understanding of the specific impact of each form of diversification on firm value and the effectiveness of performance-based compensation is lacking.

Second, although there is research assessing the relationship between centralized and diversified board structures and performance-based compensation, little has addressed how contextual factors such as firm size, industry, and geographic location influence this relationship (Nandy et al., 2020; Aljughaiman, 2024). More in-depth research into how specific contexts influence these relationships could provide more comprehensive and applicable insights.

Third, studies on the impact of board structure on executive compensation decision making in situations of crisis or economic uncertainty are still limited. For example, how different board structures influence compensation decisions during times of global crisis, such as the COVID-19 pandemic, has not been fully explored (Musa et al., 2022). Research in this area can enrich understanding of the adaptation of board structures and performance-based compensation under unstable conditions.

Fourth, there is a lack of research assessing the relationship between board structure, performance-based compensation, and firm value in the context of companies that have family ownership or are owned by majority shareholders. This ownership structure may influence board dynamics and compensation decisions differently compared to public companies or those managed by small groups (Abdoush et al., 2022).

The identification of these gaps suggests a need for further research to expand understanding of how various elements of board structure and performance-based compensation influence firm value. By examining these areas, researchers can provide deeper insights and practical applications for better corporate governance practices.

3.7.2 Suggestions for Further Research

Based on the identification of gaps in the literature regarding the relationship between board structure, performance-based compensation, and firm value, there are several important recommendations for future research that can expand understanding and make significant contributions to the field of corporate governance and performance management.

First, future research needs to explore the specific impact of different forms of diversification in board structure—including ethnic, gender, and age diversification—on the effectiveness of performance-based compensation. This research should focus on how each form of diversification affects compensation decisions and a company's financial results, as well as the differences in impacts that may arise across industry contexts and company sizes. This will provide deeper insight into how diversification affects the effectiveness of the board structure in increasing company value.

Second, it is advisable to conduct studies that assess the relationship between board structure and performance-based compensation in a broader context, such as company size, industry type, and geographic location. This research should explore how these contextual variables influence board dynamics and compensation decisions, as well as their impact on financial performance. By understanding the context that influences this relationship, research results can be more applicable and relevant to various types of companies.

Third, research on the impact of board structure and performance-based compensation in situations of economic crisis or global uncertainty, such as the COVID-19 pandemic, needs to be increased. This research can explore how different board structures influence compensation decisions during times of crisis and the adaptations required to maintain company performance. This will provide insight into how companies can adapt their corporate governance practices in the face of unstable conditions.

Fourth, there is a need to examine the influence of board structure and performance-based compensation on companies with family ownership or majority shareholders. This research should explore how this ownership structure influences board

dynamics and compensation decisions, as well as how this contributes to firm value. Understanding the differences in these influences can provide better guidance for companies with different ownership structures.

By following these suggestions, future research can fill gaps in the existing literature and provide practical guidance for improving corporate governance and performance management practices in various corporate contexts. More in-depth and focused research in these areas will help develop more robust theory and practice in corporate governance.

4. Conclusions

This research has examined differences in the effects of performance-based compensation on firm value between companies with diversified and centralized board structures. The main findings show that board structure has a significant influence on the effectiveness of performance-based compensation and firm value. Companies with diversified board structures tend to have better financial results compared to companies with centralized board structures, especially in terms of transparency and more inclusive decision making. Diversification in board structure, including in terms of gender, age, and ethnicity, contributes to increasing the effectiveness of performance-based compensation, which in turn has a positive effect on firm value.

4.1 Implications

These findings have important implications for corporate governance practices and compensation policies in companies. First, companies are advised to adopt more diversified board structures to maximize the effectiveness of performance-based compensation. Diversification in boards can improve decision-making processes and increase transparency, contributing to better financial performance. Additionally, performance-based compensation policies should be designed taking into account the existing board structure to ensure that incentives truly align with corporate goals and shareholder interests.

4.2 Limitations

This study has several limitations that need to be noted. First, this study may be limited to a specific sample of companies or a specific industry, so the results may not be completely generalizable to all sectors or types of companies. Second, the data used to analyze board structure and performance-based compensation may not fully reflect current dynamics in corporate governance, especially in the context of rapid changes in global markets. Finally, this research focuses more on the relationship between board structure and performance-based compensation without considering external factors such as macroeconomic conditions or regulations that may influence the results.

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