EQUITY COMPENSATION INCENTIVE IN SYARIAH STOCK COMPANIES IN INDONESIA: THE ROLE OF EXECUTIVE FACTORS AND COMPANIES

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Abstract

This study aims to determine the effect of executive factors, including executive overconfidence, average age of executives, and tenure of executives, as well as company factors such as growth, return on total assets, and market ratio, on equity compensation incentives. The study focuses on sharia-compliant companies listed on the Indonesia Stock Exchange. Utilizing secondary data sourced from the official websites of the Financial Services Authority and Bank Indonesia, this study covers a ten-year period from 2010 to 2020. Using panel data analysis through E-views software, this study seeks to provide valuable insights into the dynamics of executive and company factors that influence equity compensation incentives in the context of sharia-compliant companies in Indonesia. The results show that executive overconfidence, average age of executives, and tenure of executives positively affect equity compensation incentives. The higher the level of executive confidence, age, and experience, the higher the likelihood of receiving equity compensation incentives. In addition, growth, ROA, and market ratio also positively affect equity compensation incentives, highlighting the alignment of executive incentives with strong financial performance and the company's strategic growth.

Keywords: Equity Compensation Incentives, Age, Tenure, Growth, ROA, Market Ratio

INTRODUCTION

Equity compensation incentives have garnered the interest of academics, government regulatory bodies, and researchers in recent decades (Mehdi & Imen, 2014). Equity compensation is a reward mechanism and a long-term incentive system used by companies to motivate executive performance in situations characterized by the separation of ownership and control within the organization (Zi & Gao, 2014). Equity compensation incentives are designed to align the interests of employees with those of shareholders (Arora & Alam, 2005; Focke, 2022).

The policies or programs of equity compensation incentives offer various benefits for companies, one of which is performance improvement. Several researchers have demonstrated that the presence of equity compensation incentives plays a significant role in influencing company performance and success (Arbaugh et al., 2004; Murphy, 2013). By granting executives ownership in the company through stock options, restricted shares, or other equity-based instruments, organizations can foster a sense of loyalty and alignment of interests (Conyon, 2006; Magnan & Martin, 2019). This alignment often results in a more committed and motivated workforce, which, in turn, can positively impact the company's performance (Bettis et al., 2018; Matolcsy et al., 2012).

In the capital market, there are two different investment models: conventional investment and Sharia-compliant investment (Aisah et al., 2022; Alam et al., 2017). Currently, the Sharia investment model is experiencing significant growth, marked by the increasing number of Sharia financial institutions providing a wide range of financial products and services aligned with Islamic law (I. Ahmed et al., 2022). This expansion indicates a growing demand for ethical and Sharia-compliant investment options among investors seeking financial instruments that adhere to Islamic principles.

The development of Sharia-compliant stocks influences the overall picture of Sharia stock investments in the capital market (Satria & Putri, 2021). This can be observed from the increase in both the number of investors and the transaction value of Sharia stocks year by year (Amijaya et al., 2020). Even during the COVID-19 pandemic, when the economy experienced negative growth, the development of the Sharia capital market in Indonesia consistently grew positively (Yunus, 2021).

The improved performance of Sharia stocks in Indonesia can partly be attributed to key factors such as equity compensation incentives. Equity compensation incentives are an essential aspect of the relationship between shareholders and executives (Guay et al., 2002). Previous empirical findings have shown that compensation is closely related to company performance in Indonesia. Lindrianasari et al. (2012) found that when executives successfully drive company growth, their compensation tends to increase, reinforcing a positive feedback loop. Furthermore, Frye (2004) discovered that companies with higher equity-based employee compensation often perform better, suggesting that higher compensation not only rewards past performance but also motivates executives toward future success (Utami & Kusuma, 2019). Therefore, this study aims to explore the factors influencing equity compensation incentives, as these indirectly affect the performance of Sharia stocks in Indonesia.

To ensure that executives act in the best interests of shareholders, equity compensation incentive programs have been designed (Siahaija, 2019). While some studies indicate that equity compensation incentives are effective in aligning the interests of executives and shareholders, other studies suggest that these incentives can encourage executives to manipulate information (Zi & Gao, 2014). Moreover, the collapse of large publicly traded companies has triggered significant controversy regarding failures in corporate governance structures to adequately protect investors, which has been linked to the shortcomings of equity compensation incentives (Siahaija, 2019). Hence, it is crucial to understand how to design an optimal equity compensation incentive system by considering various factors or variables that may influence its magnitude.

Unlike rational executives, overconfident executives tend to invest in projects with higher risk levels (Bick, 2015). This tendency inadvertently creates risk factors for the company, as such overestimations can have adverse consequences on the organization's financial health and stability (S. Chen, 2019). Therefore, companies must be vigilant in identifying and managing the impact of executive overconfidence to mitigate potential risks and ensure decision-making that aligns with the company's long-term interests.

Based on existing theories and literature, executive characteristics play a significant role in determining equity compensation incentives. Research on the influence of executive

characteristics on equity compensation incentives becomes crucial so that companies can design appropriate incentives to maximize the interests of the company and shareholders while managing risks associated with executives. This study will adopt and develop the research model of Chen (2019). In Chen's study, only one variable, executive overconfidence, was tested for its effect on equity compensation incentives. However, based on a literature review, other executive characteristics, such as age and tenure, also potentially have a significant influence on equity compensation incentives. Therefore, this study will examine executive characteristics—specifically executive overconfidence, age, and tenure—in influencing equity compensation incentives.

This research provides novelty from various perspectives. First, studies on factors influencing equity compensation incentives in Indonesia are still very limited. Research on such factors has been predominantly conducted in the context of other countries, such as China and the United States. The findings from previous studies using samples from other countries may not necessarily apply to Indonesia due to differences in context and culture. For example, Y. S. Huang and Li (2019), in their study of Chinese companies, found that overconfident executives tend to receive higher equity compensation incentives compared to rational executives. In contrast, Bick (2015) found that overconfident executives in U.S. companies received fewer equity compensation incentives. Thus, it is important to further investigate the influence of executive and company variables on equity compensation incentives within the context of Indonesian companies.

This study also addresses the existing research gap concerning the relationship between executive characteristics such as age and tenure. There are inconsistencies in prior research findings regarding the relationship between age, tenure, and executive compensation, particularly equity compensation incentives. Some researchers found that age and tenure positively influence equity compensation incentives, while others found negative or insignificant effects (Banghøj et al., 2010; Mehdi & Imen, 2014; Ryan & Wiggins, 2001). Therefore, this study aims to clarify the relationship between executive characteristics—age and tenure—and equity compensation incentives. Consequently, companies can appropriately tailor equity compensation incentives based on the levels of executive overconfidence, age, tenure, and company variables such as growth, ROA, and market ratio.

RESEARCH METHOD

Research Approach

This study employs a quantitative associative research approach, a method designed to identify and analyze the relationships between two or more variables. Associative research is particularly useful in uncovering how these variables interact, often in the form of cause-and-effect relationships. This approach was chosen to provide a structured examination of the interactions between variables, enabling precise measurement of their influence on one another. By utilizing a quantitative framework, this study gains the ability to statistically validate these relationships, thereby clarifying whether one variable can be considered a predictor or influencer of another within the scope of the research.

Research Object

The object of this research is companies that issue Sharia-compliant stocks and are listed on the Indonesia Stock Exchange.

Research Location

The scope of this study encompasses companies that issue Sharia-compliant stocks and are listed on the Indonesia Stock Exchange during the period of 2010–2020.

Data Collection Techniques

The data collection techniques in this study include determining the population and research sample, as described below.

Population

The population of this study includes all companies that issue Sharia-compliant stocks and are part of the Indonesia Sharia Stock Index (ISSI), as well as those listed on the Indonesia Stock Exchange in 2020.

Sample

The sample is a subset of the population that shares specific characteristics. The sampling technique used is purposive sampling, which involves selecting samples based on specific criteria. The sample for this study includes companies that issue Sharia-compliant stocks and meet the following criteria:

1. Companies that issue Sharia-compliant stocks included in the Indonesia Sharia Stock Index (ISSI) and are listed on the Indonesia Stock Exchange.

2. Companies whose financial reports indicate that at least 80% of their investments are in equity securities (stocks).
3. Companies with financial reports of Sharia-compliant stocks recorded at the Financial Services Authority (OJK) during the period 2010–2020.
4. Companies with complete annual financial reports for Sharia-compliant stocks for the period 2010–2020.

RESULTS AND DISCUSSION

Classical Assumption Test Results

Normality Test

In panel data regression analysis, testing the normality of residuals is crucial to ensure the validity of statistical conclusions. The normality test is conducted by examining the probability value of the Jarque-Bera test. If the probability value is greater than 0.05 (5%), the data is considered normally distributed. Conversely, if the probability value is less than 0.05, the data is considered not normally distributed.

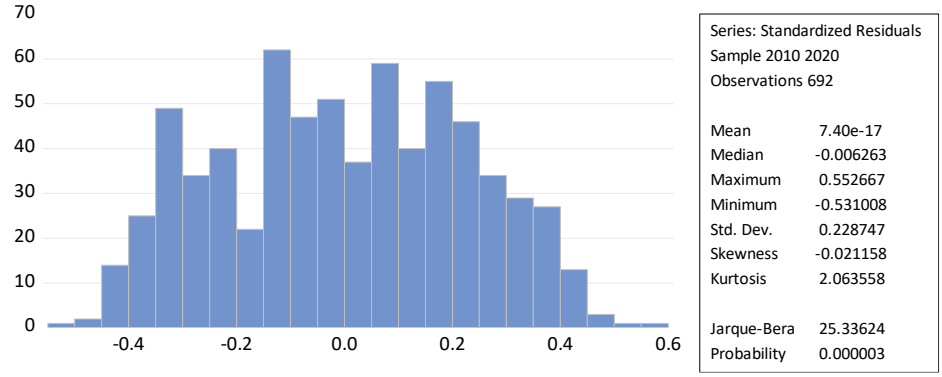

Figure 1.
Normality Test Results
Source: Processed data (2024)

Figure 1 illustrates the results of the normality test. According to the figure, the Jarque-Bera probability value is 0.000003, which is less than 0.05. Therefore, it can be concluded that the data is not normally distributed. However, despite the non-normality, this assumption can be relaxed due to the large sample size in this study (Gujarati & Porter, 2009). They noted that normality is a critical assumption for studies with small sample sizes (usually

fewer than 100 observations) but is less important for studies with large cross-sectional and time-series data.

This study includes 693 observations, qualifying as a large sample size, which allows the normality assumption to be relaxed. Thus, the data can still be effectively used in regression analysis, even if the residual distribution is not normal.

Multicollinearity Test

The multicollinearity test aims to detect strong correlations among independent variables, as high correlations can lead to unreliable coefficient estimates and increased standard errors. In this study, multicollinearity is assessed by examining the correlation values among independent variables. A correlation value greater than 0.8 between two independent variables indicates the presence of multicollinearity.

Table 1 presents the results of the multicollinearity test. As shown in the table, no correlations between variables exceed 0.80. The highest observed correlation is 0.2264493262433474, which occurs between ROA and Market Value. Consequently, it can be concluded that multicollinearity is not an issue in this dataset, indicating that the independent variables can be reliably used in the analysis without the risk of distorted estimates or increased standard errors. This ensures the robustness and accuracy of the regression results.

Table 1.
Multicollinearity Test Results

	EXC	AGE	GROWTH	TENURE	ROA	P_B
EXC	1,000000	0,01253975943186541	0,02161965075628043	-0,06605632485027268	-0,07746329611424862	0,06389947974199028
AGE	0,01253975943186541	1,000000	0,06359314603811346	0,09779376649674606	0,1145659720996328	-0,07030520307410084
GROWTH	0,02161965075628043	0,06359314603811346	1,000000	0,0809478791671927	-0,04458065167379241	0,05316895460056698
TENURE	-0,06605632485027268	0,09779376649674606	0,0809478791671927	1,000000	0,1178697729134797	-0,1089803312579108
ROA	-0,07746329611424862	0,1145659720996328	-0,04458065167379241	0,1178697729134797	1,000000	0,2264493262433474

P_B	0,06389947974199028	-0,07030520307410084	0,05316895460056698	-0,10898033 12579108	0,22644932 62433474	1,000000

Source: Processed data (2024)

Heteroscedasticity Test

Heteroskedasticity occurs when the variance of residuals is not constant across groups or over time, violating the assumption of homoscedasticity. This can lead to inefficient coefficient estimates and biased standard errors, making it essential to detect heteroskedasticity to ensure the reliability of regression results. In panel data regression, the Likelihood Ratio (LR) test is commonly used to assess the presence of heteroskedasticity.

Table 2.
Panel Cross-Section Heteroscedasticity

	Value	**df**	**Probability**
Likelihood ratio **LR Test Summary:**	402,3215	63	0,0000
	Value	**df**	
Restricted LogL	39,38975	685	
Unrestricted LogL	240,5505	685	

Source: Processed data (2024)

Tables 2 and 3 present the results of the heteroskedasticity test. Table 2 indicates that the likelihood ratio probability value is 0.000, which is less than 0.05, suggesting the presence of heteroskedasticity in the cross-sectional panel data. However, Table 3 reveals a likelihood ratio probability value of 1.0000, which is greater than 0.05, indicating the absence of heteroskedasticity in the time-series panel data.

Table 3.
Panel Period Heteroskedastisity

	Value	**df**	**Probability**
Likelihood ratio **LR Test Summary:**	5,821591	63	1,0000
	Value	**df**	
Restricted LogL	39,38975	685	
Unrestricted LogL	42,30054	685	

Source: Processed data (2024)

The results confirm the presence of heteroskedasticity in the cross-sectional data of the study. While heteroskedasticity does not invalidate the properties of Ordinary Least

Squares (OLS) in panel data regression, it reduces the efficiency of the model. To address this issue, corrections for heteroskedasticity are necessary.

In EViews software, heteroskedasticity can be managed by applying White's robust standard errors, which adjust the standard errors to account for heteroskedasticity. Therefore, hypothesis testing in this study is based on regression results corrected using White's robust standard errors. The adjusted regression analysis results are presented in Table 6, ensuring the findings are reliable and restoring the model's efficiency.

Model Estimation Selection Test Results

Chow Test

The Chow test is a key tool used to determine the most appropriate estimation model for panel data analysis, specifically when choosing between the common effect model and the fixed effect model. This test evaluates whether there is a statistically significant difference in the coefficients of the two models.

The decision is based on the probability of the cross-section F value. If F cross-section probability ≥ 0.05, the null hypothesis (H0H_0H0) is accepted, indicating that the common effect model is more suitable. Conversely, if the F cross-section probability < 0.05, the null hypothesis is rejected, suggesting that the fixed effect model should be applied.

Table 4.
Chow Test Results

Effects Test	Statistic	d.f.	Prob.
Cross-section F	110.200442	(62,623)	0,0000
Cross-section Chi-square	1717.648518	62	0,0000

Source: Processed data (2024)

Chow Test Results

Based on the Chow test results presented in Table 4, the cross-section probability value is 0.0000, which is less than 0.05. Therefore, the null hypothesis (H_0) is rejected, indicating that the fixed effect model is the appropriate estimation model to use.

Hausman Test

The Hausman test is a crucial tool for selecting the most suitable estimation model between the fixed effect model and the random effect model. This test examines whether there is a significant difference in the coefficients estimated by each model.

The decision is based on the Chi-square probability value. If the Chi-square probability ≥ 0.05, the null hypothesis (H_0) is accepted, indicating that the random effect model is appropriate. Conversely, if the Chi-square probability < 0.05, H_0 is rejected, suggesting that the fixed effect model should be retained.

Table 5.
Hausman Test Results

Test Summary	Chi-Sq. Statistic	Chi-Sq. d.f.	Prob.
Cross-section random	15,794569	6	0,0000

Source: Processed data (2024)

Hausman Test Results

Table 5 presents the Hausman test results, which show that the Chi-square probability for the random cross-section is 0.0000. Since this value is less than 0.05, the null hypothesis (H_0) is rejected, confirming that the fixed effect model is the most suitable choice. Given that both the Chow test and the Hausman test indicate that the fixed effect model is the best fit, the Lagrange Multiplier test is unnecessary. Therefore, the fixed effect model is selected as the estimation model for this study, ensuring robust and accurate results.

Hypothesis Testing

Regression Test Results

The research data, which have met the classical assumption tests, are then used for regression analysis. Based on the results of the parameter estimation selection tests, the fixed effect model is the regression model chosen for the panel data analysis. The results of this panel data regression analysis will serve as the basis to assess the impact of each independent variable on the dependent variable and will be used to support or reject the research hypotheses.

Table 6.
Panel Data Regression Test Results

Dependent Variable: ECI
Method: Panel Least Squares
Sample: 2010 2020
Periods included: 11
Cross-sections included: 63
Total panel (unbalanced) observations: 692
White cross-section (period cluster) standard errors & covariance (d.f. corrected)
Standard error and t-statistic probabilities adjusted for clustering

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	-0.065915	0.039828	-1.654979	0.1289
EXC	2.68E-10	3.60E-10	0.744518	0.4737
AGE	0.008375	0.000989	8.464699	0.0000
TENURE	0.002407	0.000956	2.517540	0.0305
GROWTH	0.000912	0.000716	1.274688	0.2312
ROA	0.008055	0.001270	6.344836	0.0001
P_B	0.008168	0.002438	3.351081	0.0074
Effects Specification				
Cross-section fixed (dummy variables)				
Root MSE	0.066077	R-squared		0.925395
Mean dependent var	0.444345	Adjusted R-squared		0.917252
S.D. dependent var	0.242091	S.E. of regression		0.069640
Akaike info criterion	-2.396572	Sum squared resid		3.021383
Schwarz criterion	-1.943926	Log likelihood		898.2140
Hannan-Quinn criter.	-2.221505	F-statistic		113.6416
Durbin-Watson stat	0.780796	Prob(F-statistic)		0.000000

Source: Processed data (2024)

Based on the results of the panel data regression test in Table 6, the panel data regression equation in this study is as follows:

$$ECI = -0{,}065915 + 2{,}68E\ EXC + 0{,}008375\ AGE + 0{,}002407\ TENURE + 0{,}000912\ GROWTH + 0{,}008055\ ROA + 0{,}008168\ P\_B$$

Referring to the results, the testing outcomes of each hypothesis can also be outlined as follows:

1. The variable executive overconfidence has a coefficient value of 2.68. The positive sign of the coefficient or the absence of a negative sign indicates that the effect of executive overconfidence on equity compensation incentives is positive. The significance is determined by the probability value of 0.4737 > 0.05, which means there is no significant effect.
2. The variable average age of executives has a coefficient value of 0.008375. The positive sign of the coefficient or the absence of a negative sign indicates that the effect of the average age of executives on equity compensation incentives is positive. The significance is determined by the probability value of 0.0000 < 0.05, which means there is a significant

effect. Therefore, this study proves a positive effect of the average age of executives on equity compensation incentives, supporting the second hypothesis (H2).

3. The variable tenure of executives has a coefficient value of 0.002407. The positive sign of the coefficient or the absence of a negative sign indicates that the effect of the tenure of executives on equity compensation incentives is positive. The significance is determined by the probability value of 0.0305 < 0.05, which means there is a significant effect. Therefore, this study proves a positive effect of the tenure of executives on equity compensation incentives, supporting the third hypothesis (H3).
4. The variable growth has a coefficient value of 0.000912. The positive sign of the coefficient or the absence of a negative sign indicates that the effect of growth on equity compensation incentives is positive. The significance is determined by the probability value of 0.2312 > 0.05, which means there is no significant effect.
5. The variable return on assets (ROA) has a coefficient value of 0.008055. The positive sign of the coefficient or the absence of a negative sign indicates that the effect of return on assets (ROA) on equity compensation incentives is positive. The significance is determined by the probability value of 0.0001 < 0.05, which means there is a significant effect. Therefore, this study proves a positive effect of return on assets (ROA) on equity compensation incentives, supporting the fifth hypothesis (H5).
6. The variable market ratio, measured by price to book value (PB), has a coefficient value of 0.008168. The positive sign of the coefficient or the absence of a negative sign indicates that the effect of market ratio on equity compensation incentives is positive. The significance is determined by the probability value of 0.0074 < 0.05, which means there is a significant effect. Therefore, this study proves a positive effect of market ratio on equity compensation incentives, supporting the sixth hypothesis (H6).

Furthermore, in Table 6, the results of the panel data regression test show an adjusted R-squared value of 0.917252. This means that the variables executive overconfidence, average age of executives, tenure of executives, growth, ROA, and market ratio explain 91.7252% of the variation in the dependent variable. The remaining 8.2748% is explained by other variables not studied in the regression model.

Robustness Test Results

Next, the author conducted a robustness test, a common procedure in empirical research to assess the reliability of results by examining how the core regression coefficients respond to changes in the model, such as adding or removing variables (Xun Lu & White, 2014). This process is important for valid causal inference, as critical coefficients should remain stable under appropriate conditions. In this study, the robustness test was conducted by adding control variables to the regression analysis. These control variables included research and development intensity, separation, stock return, company market value, company age, fixed assets, financial leverage, nature of property, and equity concentration.

Table 7.
Robustness Test Results

Dependent Variable: ECI
Method: Panel Least Squares
Sample: 2010 2020
Periods included: 11
Cross-sections included: 63
Total panel (unbalanced) observations: 682
White cross-section (period cluster) standard errors & covariance (d.f. corrected)
Standard error and t-statistic probabilities adjusted for clustering

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	0.867195	0.300940	2.881622	0.0163
EXC	7.59E-10	1.60E-10	4.751880	0.0008
AGE	0.001214	0.000954	1.271640	0.2323
TENURE	0.000438	0.000297	1.474586	0.1711
GROWTH	0.001413	0.000530	2.665944	0.0237
ROA	0.000592	0.001155	0.512140	0.6197
P_B	0.005394	0.001518	3.552424	0.0052
R_D	-0.002681	0.000847	-3.166647	0.0100
SEPARATION	0.032816	0.010406	3.153581	0.0103
STOCKR	0.000406	8.45E-05	4.803096	0.0007
MARVALUE	-0.024863	0.009237	-2.691598	0.0226
COMAGE	0.017427	0.001108	15.73267	0.0000
FIXEDASSET	-0.020425	0.006992	-2.920970	0.0153
FINLEV	-0.114811	0.015040	-7.633439	0.0000
NATPROPERTY	0.004729	0.023910	0.197799	0.8472
EQUITYCON	-0.008932	0.001748	-5.109919	0.0005
Effects Specification				

Cross-section fixed (dummy variables)

Root MSE	0.056514	R-squared	0.945728
Mean dependent var	0.446987	Adjusted R-squared	0.938809
S.D. dependent var	0.242765	S.E. of regression	0.060052
Akaike info criterion	-2.679913	Sum squared resid	2.178205
Schwarz criterion	-2.162387	Log likelihood	991.8502
Hannan-Quinn criter.	-2.479618	F-statistic	136.6887
Durbin-Watson stat	0.931933	Prob(F-statistic)	0.000000

Source: Processed data (2024)

The results of the robustness test are presented in Table 7. Based on the table, the variable of executive overconfidence was found to have a positive and significant effect on equity compensation incentives, supporting the first hypothesis (H1). Additionally, in this robustness test, the variable of growth also showed a positive and significant effect, thereby supporting the fourth hypothesis (H4) of the study.

Almost all control variables were found to have a significant effect on equity compensation incentives. The adjusted R-square value obtained from the robustness test was 0.938809. This value indicates an increase in adjusted R-square compared to the previous panel data regression analysis. The increase in the adjusted R-square value suggests that the research model is robust.

These findings support previous research that indicated that research and development intensity, separation, stock return, company market value, company age, fixed assets, financial leverage, and equity concentration affect equity compensation incentives (Bouteska & Mefteh-Wali, 2021; S. Chen, 2019; Ryan & Wiggins, 2001; Siahaija, 2019).

Research and development (R&D) intensity has a negative effect on equity compensation incentives. This can occur due to the uncertainty and risks associated with R&D activities. High R&D expenditure can lead to increased financial volatility, making it difficult for employees to predict future stock performance and reducing the attractiveness of equity-based incentives. This effect is particularly evident in smaller companies, where high R&D activity may give employees access to valuable private information, making it harder to align compensation with performance (Clinch, 1991). Previous studies have shown that executives, who are often more risk-averse than shareholders, may reduce R&D investment due to concerns about wealth and career stability, especially when they receive

performance-based incentives such as bonuses and salaries (Gormley et al., 2013; Xiaowei Lu et al., 2020; Zavertiaeva et al., 2018).

Separation has a positive effect on equity compensation incentives. The separation of roles between the chairman and the general manager positively impacts equity compensation incentives by improving corporate governance and accountability. When the chairman and the general manager are different individuals, it reduces the concentration of power, encouraging a more balanced decision-making process. This separation aligns with post-IPO shareholder preferences for long-term incentives, addressing potential conflicts between managers and independent investors (Cadman & Sunder, 2014).

Stock Return has a positive effect on equity compensation incentives. Higher stock returns directly link executive rewards to company performance. This result is consistent with previous studies that show companies with strong stock performance are more likely to adopt equity-based incentives (S. Chen, 2019), and companies with higher stock returns tend to increase the intensity of incentives and the proportion of stock-based rewards (Bryan et al., 2000).

Company Market Value has a negative effect on equity compensation incentives. This result is inconsistent with the study by S. Chen (2019), which found a positive effect of company market value on equity compensation incentives. However, this study aligns with Garvey and Milbourn (2003). Given the conflicting direction of the effect of company market value, further research is needed to confirm the direction of its impact.

Company Age has a positive effect on equity compensation incentives. As a company grows older, it tends to offer higher equity compensation incentives. Experienced companies often have well-developed governance structures that help align executive actions with shareholder interests, thereby strengthening the impact of equity compensation motivation (M.-Y. L. Li et al., 2015; Ryan & Wiggins, 2001).

Fixed Assets, Financial Leverage, and Equity Concentration have a negative effect on equity compensation incentives. This finding supports Bouteska and Mefteh-Wali (2021) and S. Chen (2019), who found that these control variables significantly affect equity compensation incentives. High levels of fixed assets and significant debt obligations limit the funds available for equity compensation incentives.

Executive Overconfidence and Equity Compensation Incentives

This study proves that executive overconfidence has a positive effect on equity compensation incentives in Shariah-compliant companies listed in the Indonesia Stock Exchange (IDX) and included in the Indonesia Sharia Stock Index (ISSI). The result supports the first hypothesis that executive overconfidence influences equity compensation incentives. Furthermore, this finding is consistent with several previous studies that found executive overconfidence significantly influences equity compensation incentives (Y. S. Huang & Li, 2019; Hwang & Han, 2022; Xiong, 2018).

This research supports the opinion of Chen (2019), which states that companies adjust equity compensation incentive contracts to encourage overconfident executives to make decisions aligned with shareholder interests. Incentives are used to strengthen their optimistic views. This positive effect indicates that companies encourage these executives to invest more in risky, value-added initiatives, leveraging their confidence in their ability to drive long-term growth.

The positive effect aligns with Gervais et al. (2011), who suggest that companies often design high-incentive contracts for overconfident executives to exploit their positive outlook on the company's potential. Y. S. Huang and Li (2019) also found a generally positive and significant relationship between executive overconfidence and intensive equity compensation incentives. This indicates that many companies find value in using equity compensation incentives to align the ambitions of overconfident executives with long-term organizational goals.

Additionally, some studies suggest that excessive confidence in executives can be beneficial by helping to mitigate agency problems. Companies can strategically leverage excessive confidence to align executives with shareholder interests, encouraging risk-taking and alignment through well-structured compensation plans (Gervais et al., 2011; Palomino & Sadrieh, 2011). For example, stock options are often granted to overconfident executives to encourage behaviors that support growth and profitability, aligning executive actions with shareholder goals for value creation (Jensen & Meckling, 2019).

However, several studies have found that executive overconfidence negatively impacts equity compensation incentives (S. Chen, 2019; Otto, 2014). Some studies indicate

that overconfident executives may actually receive smaller stock option grants and bonuses than their peers, possibly due to concerns about excessive risk-taking (Otto, 2014). This contrast highlights that the impact of executive overconfidence on compensation is not universally agreed upon and may vary depending on the company's specific approach to risk and performance incentives. Schrand and Zechman (2012) argue that companies wishing to leverage the positive aspects of excessive confidence should implement monitoring mechanisms to manage the biases associated with this trait.

Average Age of Executives and Equity Compensation Incentives

The analysis of this study also proves that the average age of executives has a positive impact on equity compensation incentives in Sharia-compliant companies listed in the Indonesia Sharia Stock Index (ISSI) and registered on the Indonesia Stock Exchange (IDX). This result supports the second hypothesis, which states that the average age of executives influences equity compensation incentives. Additionally, the findings of this study are consistent with several previous studies that found a significant impact of the average age of executives on equity compensation incentives (S. Chen, 2019; Elsilä et al., 2013; Y. S. Huang & Li, 2019; Humphery-Jenner et al., 2016).

The average age of executives can positively influence equity compensation incentives because more experienced leaders often bring long-term perspectives that align with equity compensation incentives. This result supports several studies that show older executives generally avoid risk more than their younger counterparts, particularly due to financial concerns related to approaching retirement (Serfling, 2014; Vieito & Khan, 2012). This can positively impact equity compensation incentives because it reduces the likelihood of excessive risk-taking that could jeopardize the company's long-term stability. Additionally, as executives age, their excessive confidence often diminishes, leading to more balanced and prudent decision-making (Agha & Pramathevan, 2023).

For executives nearing retirement, short-term performance incentives may complement equity-based compensation. Davidson et al. (2007) stated that although older executives may care less about the long-term trajectory of the company, their focus may shift to short-term improvements that still benefit the company's value. This approach helps these

executives increase their personal wealth while supporting the immediate goals of the organization.

Moreover, this study supports Bick (2015), who argued that providing higher equity compensation levels to older executives approaching retirement may better align their interests with shareholder interests. By offering substantial equity incentives to these executives, companies encourage them to focus on selecting high-quality projects that maximize shareholder returns, leveraging their experience to choose initiatives with the best potential outcomes (Bick, 2015). Overall, equity compensation incentives, when properly aligned, can harness the strengths of the experience and conservative approach of older executives, promoting performance that balances both short-term and long-term company goals.

Tenure of Executives and Equity Compensation Incentives

The analysis of this study also confirms that the tenure of executives has a positive impact on equity compensation incentives in Sharia-compliant companies listed on the Indonesia Sharia Stock Index (ISSI) and registered on the Indonesia Stock Exchange (IDX). This result supports the third hypothesis, which states that the tenure of executives influences equity compensation incentives. Additionally, the findings of this study are consistent with several previous studies that found a significant effect of executive tenure on equity compensation incentives (S. Chen, 2019; Humphery-Jenner et al., 2016; Siahaija, 2019).

Executive tenure positively impacts equity compensation incentives by promoting a better understanding of shareholder interests and enhancing alignment with the company's objectives. Executives with longer tenures typically have a clearer understanding of shareholder expectations, which helps reduce information asymmetry and enables more effective decision-making that drives financial performance (Cao et al., 2021; Hendry, 2002). This alignment makes equity-based incentives more meaningful because these experienced leaders can directly influence company growth while benefiting from improved stock performance.

These findings also support previous research showing that equity compensation incentives increase with executive tenure and company size, as longer-tenured executives often use their seniority to negotiate higher compensation, including equity-based awards

(Jaiswall & Bhattacharyya, 2016; Mehdi & Imen, 2014). This is in line with the entrenchment theory, which suggests that long-serving executives may leverage their position to secure larger compensation packages, sometimes beyond what is strictly performance-based. Over time, these executives may exert significant influence over the board of directors and compensation committees, allowing them to negotiate contracts with favorable terms that might involve less sensitivity to company performance (Edmans et al., 2012; Marinovic & Varas, 2019).

As executives' tenure increases, they also become more skilled at understanding the incentive mechanisms set by the CEO and the board, allowing them to anticipate how compensation will respond to their efforts and adjust their strategies accordingly (Edmans et al., 2012; Marinovic & Varas, 2019). This insight often results in a tailored compensation structure that reflects the preferences of long-tenured executives, as they learn how to maximize their rewards through knowledge of performance metrics and incentive triggers.

This study aligns with the findings of Edmans et al. (2012), who suggested that boards tend to view long-tenured executives as valuable assets and often reward them with higher salaries. As tenure increases, executives also tend to receive compensation schemes that emphasize stability, such as higher fixed salaries, in line with their preference for consistent financial security (Hou et al., 2014). These results underscore how tenure enhances executives' capacity to shape their compensation, particularly in ways that support long-term growth and align with their accumulated expertise and influence within the company.

Growth and Equity Compensation Incentives

The results of this study indicate that growth has a significant positive impact on equity compensation incentives in Sharia-compliant companies listed on the Indonesia Sharia Stock Index (ISSI) and registered on the Indonesia Stock Exchange (IDX). This finding supports the fourth hypothesis of this study, which states that growth influences equity compensation incentives. The positive relationship suggests that, as a company's growth increases, it may be more inclined to offer higher equity compensation incentives, thereby motivating executives and aligning their interests with shareholder value.

This finding is consistent with previous studies that also indicate that growth can influence equity compensation incentives (Z. Chen et al., 2017; Lindrianasari et al., 2012).

The alignment between the findings of this study and earlier research strengthens the robustness of the hypothesis, highlighting the importance of growth as a factor in shaping the structure of equity compensation incentives for executives.

Growth positively impacts equity compensation incentives because companies with high growth rates and substantial profits are attractive to investors seeking new opportunities (Y. S. Huang & Li, 2019). In such an environment, companies often use equity-based incentives to align executives' interests with shareholders' goals, reinforcing a commitment to sustainable performance. This supports Y. S. Huang and Li (2019), who argue that growth-oriented companies view equity compensation as an effective tool for motivating executives.

Skilled executives play a crucial role in driving company performance, and equity compensation incentives serve as a form of recognition for their contributions (Lindrianasari et al., 2012). By tying compensation to stock performance, companies can incentivize executives to focus on long-term growth and profitability, directly rewarding them for the achievements they help bring about. The findings of this study also support Z. Chen et al. (2017), highlighting that executives play a key role in steering the company toward a positive trajectory, making it essential for companies to design compensation packages that reflect their strategic impact and achievements.

High-growth companies often offer performance-based salaries, such as stock options, to align managers' interests with those of shareholders (Oxley & Pandher, 2016). This approach helps reduce the pressure to pay high dividends and allows greater financial flexibility, as equity incentives reward growth rather than direct cash expenditures (Burns et al., 2015). Conversely, during periods of lower growth, equity incentives tend to decrease compared to profit-based incentives (Oxley & Pandher, 2016). Thus, equity compensation is most attractive and effective in high-growth scenarios, directly linking executive rewards to the company's success trajectory and attracting leaders motivated to drive sustainable growth.

Return on Total Assets and Equity Compensation Incentives

The results of this study show that return on total assets (ROA) has a significant positive impact on equity compensation incentives in Sharia-compliant companies listed on the Indonesia Sharia Stock Index (ISSI) and registered on the Indonesia Stock Exchange (IDX). This finding supports the fifth hypothesis of this study, which posits that ROA

influences equity compensation incentives. The positive relationship indicates that companies with higher ROA are more likely to offer higher equity compensation incentives as a means of rewarding executives for their role in achieving strong financial performance.

This finding is consistent with several previous studies that have also demonstrated that ROA significantly influences equity compensation incentives (Kanagaretnam et al., 2018; Leone et al., 2006; Matolcsy & Wright, 2011). By linking executive compensation with ROA, companies encourage leaders to optimize asset utilization and increase overall profitability, which ultimately aligns management goals with shareholder interests. The consistency of these findings with earlier research highlights the relevance of ROA as a key factor in shaping executive incentives in Sharia-compliant companies listed on the ISSI.

ROA positively impacts equity compensation incentives by tying executive rewards to their effectiveness in utilizing company assets to generate profit. When executives are compensated based on metrics such as ROA, they are more motivated to improve operational efficiency and asset utilization, which contributes to the overall performance of the company. According to Leone et al. (2006), companies allocate compensation based on performance evaluations, and when executive rewards reflect actual contributions, it supports motivation and drives high performance. Conversely, misaligned compensation can reduce executive drive, underscoring the importance of ROA-based incentives that align with real achievements (Matolcsy & Wright, 2011).

This study supports the work of Smirnova and Zavertiaeva (2017), who found that executive compensation tied to ROA enhances company performance, as executives have a financial stake in driving asset-based returns. This compensation approach strengthens their commitment to strategic decisions that positively impact asset performance, ultimately benefiting shareholders (Smirnova & Zavertiaeva, 2017).

Additionally, the findings align with Frye (2004), who argued that companies with high ROA are more likely to use equity compensation incentives. These companies perform better and tend to align compensation with company performance (Frye, 2004). This setup not only rewards high-performing companies but also motivates executives to prioritize decisions that support ROA.

Finally, the results are consistent with Wang et al. (2021), who found a positive correlation between executive equity compensation and ROA. This is consistent with agency theory, which posits that granting company shares to executives aligns their interests with those of shareholders. This alignment reduces principal-agent conflicts and encourages executives to focus on the company's long-term success (Wang et al., 2021).

Market Ratio and Equity Compensation Incentives

The results of this study demonstrate that the market ratio has a positive influence on equity compensation incentives in Sharia-compliant companies listed on the Indonesia Sharia Stock Index (ISSI) and registered on the Indonesia Stock Exchange (IDX). This finding supports the sixth hypothesis of this study, which suggests that the market ratio influences equity compensation incentives. The positive relationship indicates that companies with strong market ratios are more likely to offer equity compensation incentives to align executive interests with shareholder value, thus encouraging long-term strategic growth.

These findings are consistent with previous research that shows a significant impact of market ratio on equity compensation incentives (Azim et al., 2011; Gan & Park, 2016). According to Aras and Yilmaz (2008), companies with a high market ratio attract significant investor interest and are key indicators of the company's growth potential and positive investor sentiment. When executives are able to maintain or improve this ratio, it reflects their success in positioning the company attractively in the market (Aras & Yilmaz, 2008).

Executives are often tasked with improving the company's market ratio, as this ratio serves as a measure of the company's financial health and performance relative to its book value (Hutauruk et al., 2014; Ramaswami et al., 2009). Companies with higher market ratios are more likely to offer competitive compensation packages to reward executives for achieving strong market performance. This aligns with the findings of Gan and Park (2016), which show a significant relationship between market ratio and equity compensation incentives, indicating that executives who effectively manage market perceptions and drive high price-to-book ratios are compensated in accordance with their contributions.

The positive relationship between market ratio and equity compensation incentives is reinforced by the executives' ability to strategically understand and respond to market conditions, enabling them to maintain or improve the company's market position. A higher

price-to-book (P/B) ratio reflects successful leadership and market appeal, which justifies increased compensation. Research by Azim et al. (2011) supports this relationship, demonstrating that when executives successfully maintain a high market ratio for the company, they are rewarded with more substantial equity incentives. These incentives align the executives' personal rewards with the company's valuation objectives, ensuring that market performance and executive interests are closely linked, ultimately benefiting shareholders.

CONCLUSION

Based on the results of the data analysis, the conclusions that can be drawn from this research are:

1. Executive Overconfidence

   Executive overconfidence has a positive influence on equity compensation incentives in companies listed in the Indonesian Sharia Stock Index (ISSI) and registered on the Indonesia Stock Exchange. Executives who are overly confident tend to accept higher equity compensation incentives. Companies can leverage the confidence and abilities of executives to drive long-term growth.

2. Average Age of Executives

   The average age of executives has a positive influence on equity compensation incentives in companies listed in the Indonesian Sharia Stock Index (ISSI) and registered on the Indonesia Stock Exchange. The older the executives, the more experience and risk aversion they bring, which aligns with the company's long-term goals, prompting the company to offer higher equity compensation incentives.

3. Tenure of Executives

   The tenure of executives has a positive influence on equity compensation incentives in companies listed in the Indonesian Sharia Stock Index (ISSI) and registered on the Indonesia Stock Exchange. Executives with longer tenure develop a deeper understanding of the company’s operations and shareholder interests, thus fostering trust and reducing information asymmetry, making companies more likely to offer higher equity compensation incentives.

4. Growth

   Growth has a positive influence on equity compensation incentives in companies listed in the Indonesian Sharia Stock Index (ISSI) and registered on the Indonesia Stock Exchange. The higher the company's growth, the more likely it is to offer higher equity compensation incentives to motivate executives and align their interests with shareholder value.

5. Return on Total Assets (ROA)

   Return on total assets (ROA) has a positive influence on equity compensation incentives in companies listed in the Indonesian Sharia Stock Index (ISSI) and registered on the Indonesia Stock Exchange. Companies with higher ROA are more likely to offer more equity compensation incentives as a means to reward executives for their role in achieving strong financial performance.

6. Market Ratio

   Market ratio has a positive influence on equity compensation incentives in companies listed in the Indonesian Sharia Stock Index (ISSI) and registered on the Indonesia Stock Exchange. Companies with a higher market ratio are more likely to offer equity compensation incentives to align the interests of executives with shareholder value, which encourages long-term strategic growth.

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