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The effect of bonus plan, audit committee and leverage on earning management

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Abstract
This study aims to determine how the effect of bonus plans, audit committees and leverage on earnings management in basic and chemical industry subsector manufacturing companies listed on the Indonesia Stock Exchange for the 2017-2019 period. The factors tested in this study are the bonus plan, audit committee and leverage as independent variables, while earnings management as the dependent variable. This research design uses causality research design, the type of data used in this study is quantitative data, the source of data used in this study is secondary data. The population in this study were all companies in the basic and chemical industrial sector manufacturing companies listed on the Indonesia Stock Exchange for the 2017 – 2019 period, totaling 50 companies. Sampling technique using purposive sampling. The sample in this study were 22 companies. The results of the study stated that there was an effect of the bonus plan on earnings management. Meanwhile, the audit committee has no effect on earnings management. Likewise, leverage has no effect on earnings management.

Keywords: audit committee; bonus plan; leverage; earning management

Introduction

Financial reports are often used as a performance assessment for a company. The income statement is one type of financial report to measure the success of the company's operations for a certain period and is one of the information used in decision making by users of financial statements. According to the Indonesian Institute of Accountants (IAI, the responsibility for the preparation and presentation of the company's financial statements is the management of the entity [1].

Investors when making decisions to invest will pay more attention to the profits generated by the company, because the company's ability to generate profits reflects the level of company performance [2]. Profit is the excess of income over expenses in connection with the business activities carried out [3]. The company will incur a loss if the expenses are greater than the revenues. If the company's profits decline, investors tend not to choose the company for investment. This motivates every company to increase company profits so that investors are interested. One way that is often used is to do earnings management.

According to the ACFE Indonesia Chapter, earnings management is an attempt to abuse accounting policies regarding accounting data to influence company profits [4]. Agency theory reflects the contractual relationship between shareholders who act as principals and managers who act as agents [5]. Agency theory explains that the practice of earnings management occurs because there is no alignment of goals that occurs between company owners, namely shareholders and management.

Earnings management arises as a result of agency problems, namely the misalignment of interests between managers and company owners due to information asymmetry. Information asymmetry is a condition where there is an imbalance in the acquisition of information between management and shareholders where management has more information than external parties [2]. Management is an internal party who is given the trust and authority to manage the company by shareholders or investors. The relationship between the two parties should be a mutually beneficial relationship. But in reality there is a difference of interest between the agent (management) and the principle (shareholder or investor). The difference in interests between management and shareholders or investors is the achievement of the prosperity of each party. This creates a conflict between the two parties which is called the agency problem. Management wants compensation for their performance or achievements in running the company. Meanwhile, shareholders or investors want profitability or profit in order to create a return on funds that have been invested in the company and the survival of the company or company is able to run in the long term.

The bonus plan will be given by the company when the management is able to meet the target given by the company owner. Management with compensation schemes will choose accounting procedures that can provide bonus rewards for their interests. Management ability is measured by the bonuses received, where the bonus itself depends on the profits earned [6]. One of the company's policy procedures is regarding the plan to give bonuses on the basis of profit. Companies that have bonus compensation, will make their managers try their best to generate profits according to the existing targets, so that management will get bonuses. This encourages managers to carry out earnings management by means of income smoothing.

Management will manipulate earnings up (up) if reported earnings have not reached the maximum bonus level, and conversely management will engineer earnings down (down) if reported earnings have exceeded the maximum bonus level. According to Natalie and Astika regarding the bonus plan states that managers try to manipulate earnings to maximize the present value of bonus payments [7]. Management with compensation schemes will choose accounting procedures that can provide bonus rewards for their interests.

The audit committee is tasked with assisting the board of commissioners to ensure that financial statements are presented fairly in accordance with generally accepted accounting principles, the company's internal control structure is well implemented, internal and external audits are carried out in accordance with applicable audit standards, and follow-up on audit findings is carried out. by management [8]. The meetings held by the audit committee are expected to help supervise management in realizing the quality of the company's internal audit.

In carrying out its duties, the audit committee acts independently in carrying out its duties and reporting and reporting directly to the Board of Commissioners. An audit committee was formed to supervise the company's performance and operations. Therefore, the existence of an audit committee is considered increasingly important by Bapepam. By issuing letter Kep-339/BEJ/07-2001, Bapepam requires all companies listed on the Indonesia Stock Exchange to have an audit committee.

The Audit Committee provides independent professional opinions to the Board of Commissioners on reports or matters submitted by the Board of Directors to the Board of Commissioners and identifies matters that require the attention of the Board of Commissioners, as well as helps to monitor the effectiveness of earnings management practices implemented by managers.

In research conducted by Sari et al in 2017 [9], and research by Marsha and Ghozali in 2017 [10] stated that the audit committee had a significant negative effect on earnings management. However, in the research conducted by Sudjatna and Muid in 2015 [11] and Susanto's research in 2016 [12] the results of the audit committee have a positive effect on earnings management.

Leverage is a ratio used to assess how much the company's assets are financed using debt. Companies that have more assets financed by debt tend to take action to increase the amount of profit earned due to the high interest expense (Agustia and Suryani, 2018). The higher the debt owned by the company, the more obligations and conditions that must be met by the company. With the fulfillment of several terms and conditions, the company will try to look good in the eyes of creditors. If the company is not able to meet these terms and conditions, then one way that is done by management is to beautify the financial statements with earnings management practices. Yanti and Setiawan's research results in 2019 [13], Nalarreason et al. in 2019) [14] and S. abbadi et al. in 2016 [15] leverage has a positive effect on earnings management. Companies that have high leverage will be encouraged to carry out earnings management because there are several obligations and agreements made to creditors. However, the research conducted by Savitri and Priantinah (2019) [16] has different results that Leverage has a negative effect on earnings management [16]. If the leverage in a company is high, the practice of earnings management in the company is low and vice versa. This can happen because the low debt value is caused by the high level of earnings management carried out by the company so that the financial statements look good to convince creditors and attract earnings management investors.

Based on the inconsistencies produced by several previous researchers, the authors are interested in re-examining how much this influence affects earnings management and how the market reaction occurs due to earnings management. This study examines the basic and chemical industry sub-sector manufacturing companies in the 2017-2019 period. Because this sector makes a very large contribution to the development of development, industry, and the economy in Indonesia. The basic and chemical industry sector is a strategic industry because it produces goods needed by other industries so that it often becomes the attention of investors in investing their capital.

Method

Desain Penelitian

This research design uses a causal research design, namely research that seeks influence or causal relationships. In this study the independent variable or the variable that affects (X) on the dependent variable or the variable that is influenced (Y). This study aims to obtain empirical evidence about the effect of the Bonus Plan and the Audit Committee, Leverage on Earnings Management in manufacturing companies in the basic and chemical industrial sectors listed on the IDX for the period 2017 – 2019. The research framework can be described as shown in Figure 1 below.

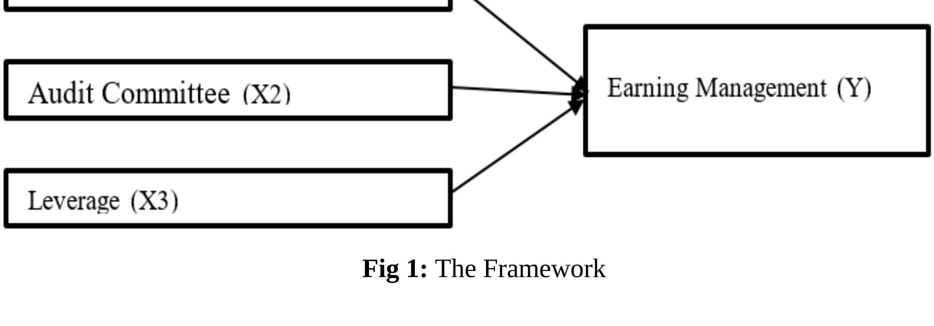

Fig 1: The Framework

Types of Research

Based on the type of data used in this study is quantitative data. According to Sugiyono, 2016 [17] quantitative research methods can be interpreted as research methods based on the philosophy of positivism, used to examine certain populations or samples. Collecting data using research instruments, data analysis is quantitative or statistical in nature with the aim of testing the established hypothesis. This data is in the form of company financial data obtained from the annual financial statements of manufacturing companies in the basic and chemical industrial sectors listed on the IDX for the period 2017 – 2019

Data Source

Sources of data used in this study is secondary data. According to Sugiyono, 2016 secondary sources are sources that do not directly provide data to data collectors, for example through other people or through documents (17). The secondary data used is the company's annual financial report data on manufacturing companies in the basic and chemical industrial sectors listed on the IDX for the period 2017 - 2019.

The data was obtained from the official IDX website www.idx.co.id In this study, researchers collected data by means of observation techniques on company financial statements obtained from the Indonesia Stock Exchange through the official website www.idx.co.id and through websites in the 2017-2019 period and library research by collecting, reading and studying literature such as books, journals and other sources related to the research topic.

Population, Sample, and Sampling Technique

According to Anshori and Iswati (18) population is a generalization area consisting of objects or subjects that have certain qualities and characteristics determined by researchers to be studied and then drawn conclusions. The population in this study were all companies in the basic and chemical industrial sector manufacturing companies listed on the Indonesia Stock Exchange for the 2017 – 2019 period, totaling 50 companies. The sample is part of the number and characteristics possessed by the population. The sampling method that will be used in this study is the purposive sampling method, namely the determination of the sample with certain considerations [18]. The sample in this study were 22 companies.

The sampling technique used purposive sampling, namely the determination of the sample with certain considerations [18]. The criteria used as samples in this study are the basic and chemical industrial sector manufacturing companies listed on the Indonesia Stock Exchange for the period 2017 – 2019 which have a financial year ending on December 31 and which have complete information data related to the required variables. The sample in this study were 22 companies

Hypothesis

Based on the literature review, the hypotheses in this study are:

H1: Bonus plan has an effect on earnings management.

H2: The audit committee has an effect on earnings management.

H3: Leverage has an effect on earnings management.

Data Analysis Technique

This study uses regression analysis to determine how much influence the independent variable (X) has on the dependent variable (Y) with multiple linear regression equations as follows:

$$Y= a + \beta_1X_1+\beta_2X_2+\beta_3X_3 + e$$

Results

Multiple Linear Regression Analysis

Multiple linear regression analysis was used to determine the effect of the independent variables, namely bonus plan (X1), audit committee (X2) and leverage (X3) on the variable, namely earnings management (Y). The results of multiple linear regression are presented in table 1:

Table 1: Recapitulation of Multiple Linear Regression Test Results.

Model	Unstandardized Coefficients		Standardized Coefficients	t	Sig.
	B	Std. Error	Beta		
(Constant)	-197351,677	153082,580		-1,289	.202
Bonus Plan	9888.115	3092 071	.373	3.198	.002
Audit Committee	369657038	362582,620	.120	1.020	.312
Leverage	3.554	1532.134	.000	.002	.998
F	3.822				
Sig F	.014 b				

Based on table 1 can be obtained multiple linear regression equation as follows:

Y= -197351.677 + 9888.115X1 + 369657038X2 - 3.554 + e

1. Hypothesis 1 Based on table 1, it is known that the regression coefficient of the Bonus Plan variable 9888.115 is positive with a significance value of 0.02 < (0.05) so it can be said that the Bonus Plan variable has a significant effect on Earnings Management. Thus the first hypothesis is accepted.
2. Hypothesis 2 Based on table 1, it is known that the regression coefficient value of the audit committee variable of 369657038 is positive with a significance value of 0.312 > (0.05) so it can be said that the audit committee variable does not have a positive effect on earnings management. Thus the second hypothesis is rejected.
3. Hypothesis 3 Based on table 1, it is known that the regression coefficient value of the Leverage variable of 3.554 is positive with a significance value of 0.998> (0.05) so that it can be said that the Leverage variable has no significant positive effect on Earnings Management. Thus the third hypothesis is rejected.

Discussion

In this discussion, the authors explain the results of research on each of the independent variables (financial literacy, lifestyle and income of parents) and dependent (financial management behavior).

1. Bonus Plan on Earnings Management

Based on table 1, it is known that the regression coefficient of the Bonus Plan variable 9888.115 is positive with a significance value of 0.02 < (0.05) so it can be said that the Bonus Plan variable has a significant effect on Earnings Management. Thus the first hypothesis is accepted The results of this study indicate that the Bonus Plan has an effect on Earnings Management in manufacturing companies in the basic and chemical industry sub-sectors. The results of this study are in line with the research results of Vina Yupita *et al*. 2017 (19) but the results of this study are not in line with the research of Naomi Nababan in 2018 (20) with the results of the Bonus plan research having no effect on earnings management.

2. Audit Committee on Earnings Management

Based on table 1, it is known that the regression coefficient of the audit committee variable of 369657038 is positive with a significance value of 0.312 > (0.05) so it can be said that the audit committee variable does not have a positive effect on earnings management. Thus the second hypothesis is rejected. The results of this study indicate that the value of the audit committee has no effect on the company's earnings management. The results of this study indicate that the audit committee has no effect on earnings management in basic and chemical industry subsector manufacturing companies. The results of this study are in line with the results of research by Ajie Satrio *et al* in 2018 [21]. However, in the research conducted by Sudjatna and Muid, 2015 [11] and Susanto's research, 2016 [12] the results of the audit committee have a positive effect on earnings management.

3. Leverage on Earnings Management

Based on table 1, it is known that the regression coefficient value of the Leverage variable of 3.554 is positive with a significance value of 0.998> (0.05) so that it can be said that the Leverage variable has no significant positive effect on Earnings Management. Thus the third hypothesis is rejected The results of this study indicate that Leverage has no effect on Earnings Management in manufacturing companies in the basic and chemical industry sub-sectors. The results of this study are in line with the results of research by Novi Lidiawati and Nur Fadjrih Asyik in 2016 [22]. The results of this study are not in line with the results of research by Yanti and Setiawan, 2019 [13], Nalarreason *et al*. [14] and S. abbadi *et al* [15] leverage has a positive effect on earnings management.

Conclusion

From the results of the analysis that have been discussed previously, it can be concluded that there is an effect of the bonus plan (Variable X1) on earnings management (Variable Y). This kind of relationship implies that the higher/better the variable X1 (bonus plan), the higher the development of variable Y (earnings management) in manufacturing companies in the basic and chemical industry sub-sectors. So that the first hypothesis (H1) in this study is accepted. Meanwhile, the audit committee (variable X2) has no effect on earnings management (variable Y). This kind of relationship implies that the variable X2 (audit committee) and has no effect on the variable Y (earnings management) in manufacturing companies in the basic and chemical industry sub-sectors. Thus, the second hypothesis (H2) in this study is rejected. Likewise, leverage (variable X3) has no effect on earnings management (variable Y). This kind of relationship implies that the variable X3 (leverage) and has no effect on the variable Y (earnings management) in manufacturing companies in the basic and chemical industry sub-sectors. So the third hypothesis (H3) in this study is rejected.

Study Limitations

This study is based solely on secondary data, and the time spent on it is insufficient, and the use of nonstatistical techniques to evaluate and interpret the data may not be relevant for the entire sector.

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