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Effect of Earning Management on Incentive Compensation Moderated by Women Executive Director on Board

Serly[1], Melani[2]

[1,2]Universitas Internasional Batam

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ABSTRACT

This study aims to determine the Effect of Earning Management on Incentive Compensation Moderated by Female Executive Director On Board in Manufacturing Companies Listed on the Indonesia Stock Exchange. The design in this study is quantitative in nature with an emphasis on how to study theory and things in measuring variables with numbers and how these data can follow statistical data or procedures. As well as in terms of the purpose of this study can be characterized as a theoretical characteristic in presenting the basics as well as whether there is an influence or linkage to a significant influence or not in the connected variables. In this study, annual data is collected from the financial reports of manufacturing companies listed on the IDX via the www.idx.co.id page from 2016 to 2021. The results of this study show that there is no effect of Earning Management on Incentive Compensation Moderated by the Female Executive Director on Board, there is no influence between Earning Management on Incentive Compensation. The Adjusted R Square test results obtained an Adjusted R Square value of 0.724708 so that it can be stated that the independent variables simultaneously have a significant effect on the dependent variable by 72.47%, the rest is influenced by other variables not used in this study.

Corresponding Author:

Melani,
Universitas Internasional Batam
Jl. Gajah Mada, Tiban Indah, Kec. Sekupang, Kota Batam, Kepulauan Riau 29426, Indonesia
Email: melanichen23@gmail.com

INTRODUCTION

One of the information that can influence investment decisions is earnings management. Management often takes advantage of the flexibility allowed by accounting standards in preparing financial statements by changing the accounting method so that it appears that the use of the method is inconsistent with PSAK, this is done in order to show the company's profits to be good in the eyes of investors. This condition causes investors in making decisions to be wrong with the information submitted by management. The existence of information asymmetry between the principal and the agent creates opportunities for agents to perform earnings management. This condition inspires management to do earnings management.

Scott (2012) earning management is the choice of accounting policies by managers to achieve specific goals. Schipper (1989) defines earnings management as interference in the process of

preparing financial statements with the aim of obtaining personal gain. Meanwhile, Badruzaman (2010) defines earning management as a method taken by management in managing financial statements using certain accounting methods with the aim of increasing company profits so that financial performance increases. Subramanyam & Wild (2010) stated that earnings management is a way for managers to prepare financial statements by changing accounting methods and Belkaoui (2008) states that earning management is the potential use of accrual management with the aim of obtaining personal benefits.

Real earnings management is difficult to identify because it occurs throughout the accounting period with specific goals in mind, such as meeting profit targets, avoiding losses, and matching analyst estimates targets. Graham et al. (2013) Managers prefer real earnings management activities over pure real earnings management, according to the study, because real earnings management activities are indistinguishable from optimal business choices and more difficult to detect, despite the fact that the costs involved are economically significant for the firm. Earnings management occurs because of a conflict of interest between management and owners, according to agency theory; in this situation, management might adopt earnings management tactics that maximize its utility. According to agency theory, strong corporate governance can reduce agency difficulties between managers and company owners. The increase in the number of female commissioners on the board of commissioners is one of them.

The composition of the board may have an impact on the success of the company. This is because the board of directors has the most influence over strategic decisions. The board also has an oversight function and is responsible for responding to risks and monitoring the value of the company. Through the gender component, women's participation diversifies the composition of the board (Abdullah et al., 2016). Women are more conservative, risk averse and cautious than men. These traits and attitudes cause women to be slow in making decisions. The presence of women in the corporate structure shows that the company is open and offers equal opportunities for men and women. The inclusion of women's board of directors is rather important, according to Richardson et al., (2016), with high levels of women's board of directors reducing the likelihood of engaging in earnings management. Women rated higher on surveillance than men, according to Richardson et al. (2016). The presence of a female board of commissioners as supervisors increases the likelihood of increased effectiveness, and the board of female commissioners is seen as having independence and transparency. Consequently, the presence of a female board of directors limited the ability to control earnings.

Earning management practices can be done by taking a bath, income minimization, income maximization, income smoothing. If the company carries out earnings management by means of income minimization, it means that the company decreases its profits, this is so that the profits do not appear too high in the eyes of investors. If the company carries out earnings management by way of income maximization, it means that the company increases its profits, this is so that the profits appear high in the eyes of investors. Bonus compensation is remuneration provided by the company to employees which can be financial or non-financial in a fixed period. As a manager who is paid to manage the company, the manager must try to manage his company optimally and try to improve the company's performance, so that in the eyes of the company owner the manager's performance is considered good. Usually the owner of the company provides compensation in the form of a bonus if the manager can increase company profits. With the existence of bonus compensation, managers try to pursue it by doing earning management when the company experiences a decrease in profits or a loss occurs. Managers always want their performance to be assessed as good or increasing in the eyes of investors. Thus the manager makes changes to the accounting method so that the company's profits increase.

The higher the bonus compensation, the more earnings management is carried out by managers. Likewise earning management will affect bonus compensation. Several studies on the effect of earning management on bonus compensation are Guidry et.al (1999), Elfira (2014) and Pujiningsih

(2011), in their research showing that there is a significant positive effect between earning management on bonus compensation. While Aprina and Khairunnisa (2015) there is no significant effect between earning management on bonus compensation.

RESEARCH METHOD

This research is quantitative in nature with an emphasis on how to study theory and things in measuring variables with numbers and how the data can follow the rules or statistical data. As well as in terms of the purpose of this study can be characterized as a theoretical characteristic in presenting the basics as well as whether there is an influence or linkage to a significant influence or not in the connected variables. An object that characterizes the problem in research to compare whether the object is causal or comparative (Sugiyono, 2017). In this study, researchers used panel data regression with the help of the E-Views software tool. The regression findings are based on panel data, and are used to test the previously proposed hypotheses. The following are some of the benefits of using panel data: 1) The amount of observation data is very large. 2) A large number of degrees of freedom. 3) Collinearity between explanatory variables is reduced. 4) Improved efficiency of econometric assessment. 5) Parameter estimation is more accurate and stable than other methods (Gujarati & Dawn, 2012).

Panel data analysis combines cross-sectional and time-series data. Data that is based on a specific time period, such as annually, quarterly, or monthly, is known as time series data. While cross section data is data collected from many places, companies, and people at the same time. Only one regression equation is used in panel data regression. Since combining cross-sectional data with time series results in more degrees of freedom, it can solve the difficulty of eliminating variables, panel data regression will yield statistically superior analytical findings. (committed variable) (Widarjono, 2015).

RESULTS AND DISCUSSIONS

1. Statistic Descriptive

Table 1. Descriptive Statistical Test Results

Variable	N	Minimum	Maximum	Average	Standart Deviasi
Incentive Compensation	774	0.073475	146072047	3165628	1.17323
Earning Management	774	0.000248	3.8636622	0.360969	0.77943
Firm Size	774	11.79927	2130.8375	175.0606	0.21283
Firm Performance	774	-54.85	140.62877	7.100877	0.60723
Annual Stock Return	774	-0.607	4.5659522	0.538713	0.32193
Investment Opportunities	774	0.000200	17.781402	22946599	0.59373
Firm Risk	774	-79.3	11.82816	5251865	0.33242
Real Earning Management	774	-137.125	281.07609	10.52929	0.77313
Firm Leverage	774	-31.72	8.9701172	12770077	0.31003
Female Executive Director On Board	774	2.000000	10.6731	7.017891	1.17323

Incentive Compensation has a minimum value of 0.073475. The maximum value is 146072047. The average value is 3165628 which is greater than the standard deviation of 1.17323. This indicates that the capital expenditure variable has a poor distribution of data. Earning Management has a minimum value of 0.000248 Maximum value of 3.863662 The average value of 0.360969 is greater than the standard deviation of 0.77943 indicating that the capital expenditure variable has poor data distribution. Firm Size has a minimum value of -54.85, a maximum value of 140.62877. The average value is 7.100877 which is greater than the standard deviation of 21283 indicating that the capital expenditure variable has poor data distribution. Firm Performance has a minimum value of -54.85,

a maximum value of 60.45, the average value of 5.0564 is greater than the standard deviation of 9.60385 indicating that the capital expenditure variable has poor data distribution.

Annual Stock Return has a minimum value of -0.607 Maximum value of 4.5659522. The average value of 0.538713 is greater than the standard deviation of 0.4260 indicating that the capital expenditure variable has poor data distribution. Investment Opportunities have a minimum value of 0.000. The maximum value is 2.30. The average value is 0.1548 which is greater than the standard deviation of 2.2024 indicating that the capital expenditure variable has poor data distribution. Firm Risk has a minimum value of 0.000. The maximum value is 22285. The average value is 2304806 which is greater than the standard deviation of 12018 indicating that the capital expenditure variable has poor data distribution. Real Earning Management has a minimum value of 0.153. The maximum value is 0.643750. The average value is 0.114934 which is greater than the standard deviation of 0.104866 indicating that the capital expenditure variable has poor data distribution. Firm leverage has a minimum value of -17.36000. The maximum value is 1763.790. The average value is 5.710332 which is greater than the standard deviation of 89.05936 indicating that the capital expenditure variable has poor data distribution. Female Executive Director On Board has a minimum value of -32.72 The maximum value is 1.76372, the average value is 5.6294 which is greater than the standard deviation of 0.844471 indicating that the capital expenditure variable has poor data distribution.

2. Outlier Test Results

The outlier test is carried out in order to detect data that has deviating values that are far from the average. The SPSS version 25 program is the program used to perform the outlier test. To detect outliers, testing is done using the z score. The test results have illustrated that there are 19 data outliers from the 793 sample population data.

a. Panel Regression Test Results

a) Chow test

Table 2 Chow Test Results

Variable	Effects Test	Statistic	d.f.	Prob.	Model
Incentive Compensation	Cross-section Chi-square	2915.119206	108	0.0000	Fixed Effect Model

Based on the results of the Chow test, the Probability F value is less than 0.05, meaning H0 is rejected, then the panel data regression test uses the fixed effect model, followed by the Hausman test to determine between the Fixed Effect or Random Effect model to be performed to perform the panel data regression test.

b) Hausman Test

Table 3 Hausman Test Results

Variable	Effect Test	Prob.	Result
Incentive Compensation	Cross-section random	0.5061	Fixed Effect Model

In the Hausman test, statistical tests will be carried out to select the best model between the fixed effect model and the random effect model. Based on table 3, it shows a probability number of 0.5061 which indicates that the model that is more suitable for testing data is the fixed effect model.

b. Hypothesis Test Results

a) F Test

Table 4. F Test

Nilai F	**Prob.**	**Result**	**Information**
16.9212	0.000000	Significant	Accepted

Based on the results of the F test calculation in Table 4. shows a probability value of 0.0000 which means <0.05 so it can be concluded that the independent variables simultaneously have a significant effect on the dependent variable.

b) T Test

Table 5. T Test Hypotesis 1

Variable	Koefisien	Prob.	Result	Information
C	2.09981	0.3513	Not Significant	Accepted
Incentive Compensation	3.94652	0.0000	Significant (+)	Accepted
Earning Management	3.94638	0.9652	Not Significant	Accepted
Firm Size	6.1104	0.0000	Significant (+)	Accepted
Firm Performance	1.8202	0.0000	Significant (+)	Accepted
Annual Stock Return	3.0802	0.0000	Significant (+)	Accepted
Investment Opportunities	11.8988	0.0000	Significant (+)	Accepted
Firm Risk	1.0671	0.9987	Not Significant	Accepted
Real Earning Management	0.0272	0.9081	Not Significant	Accepted

Based on the results of the t-test listed in table 5, there are 4 control variables that show a significant effect on the dependent variable and 4 other independent variables that show an effect on the dependent variable. The results that have no effect and are not significant are designated by Earning Management, Firm Performance, Investment Opportunities and Firm Leverage. As for the results with a significant effect, it is shown by the Real Earning Management variable and the variable that has no significant effect is Firm Risk. Based on the results of the t test, it was found that the t value was 3.94638 > t table 2000 and the probability value was 0.000 so it can be stated that there is no influence between Earning Management on Incentive Compensation, this is in accordance with research conducted by Nurbach et al., (2019) not There is a significant effect between Earning Management on Incentive Compensation and contrary to research conducted by Jampar (2019). The results show that earning power has a positive effect on earnings management and bonus compensation strengthens the effect of earning power on earnings management.

Table 6. T Test Hypotesis 2

Variable	Koefisien	Prob.	Result	Information
C	1.115959	0.1261		
Earning Management	7.920820	0.0000	Significant	Terbukti
Incentive Compensation	8.01229	0.0000	Significant	Terbukti

Based on the results of the t test in table 6, it was found that the t value was 7.920820 > t-table 2000 and a probability value of 0.000 <0.05 so that it can be stated that there is an effect of Earning Management on Incentive Compensation Moderated by the Female Executive Director On Board. This is in line with research that carried out by Meanwhile, according to Tang & Lili (2021) there is no significant effect between the Female Executive Director On Board moderating the effect of Earning Management. However, contrary to the results of research conducted by the Female Executive Director On Board, it moderates the influence of Earning Management on Incentive Compensation according to research from Harakeh et al., (2019).

c) Koefisien Determinant

Table 7. Coeficient Determinant Test

R-Square	0.785017	Mean dependent var	1909186
Adjusted R-Squared	0.724708	S.D dependent var	4949610

Based on the results of the Adjusted R Square test, the Adjusted R Square value is 0.724708 so it can be stated that the independent variables simultaneously have a significant effect on the dependent variable of 72.47%, the rest is influenced by other variables that are not used in this study.

CONCLUSION

There is an influence of Earning Management on Incentive Compensation Moderated by the Female Executive Director On Board. There is no influence between Earning Management on Incentive Compensation. The Adjusted R Square test results obtained an Adjusted R Square value of 0.724708

so that it can be stated that the independent variables simultaneously have a significant effect on the dependent variable by 72.47%, the rest is influenced by other variables not used in this study.

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