

The Effect of Bonus Plan, Political Cost and Earning Management toward Social and Environment Disclosure Quality

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Abstract

This research examines whether bonus plan, political cost, and earning management have influence to the social and environment disclosure quality or corporate social responsibility. This research is important due to the increasing level of public awareness to the social and environmental disclosures that in turn, it can be used as part of the corporate strategy to attract the market as well as the stakeholder. There are 45 companies used as samples and are taken from the manufacturing companies listed in Indonesia Stock Exchange for the period of 2013-2017. Using multiple linear regression, the finding from this research shows that both earning management and political cost have positive significant effect towards social and environment disclosure quality, while bonus plan has insignificant effect towards social and environment disclosure quality.

Keywords: *bonus plan; political cost; earning management; social and environment disclosure quality*

Abstrak

Penelitian ini bertujuan untuk melihat apakah bonus plan, political cost dan earning management berpengaruh signifikan terhadap social and environmental disclosure quality atau corporate social responsibility. Penelitian ini penting untuk dilakukan karena adanya peningkatan level kesadaran masyarakat terhadap social and environmental disclosure, yang pada gilirannya, hal dapat digunakan sebagai bagian dari strategi korporasi untuk menarik perhatian pasar dan pihak-pihak lain yang berkepentingan. Sebanyak 45 perusahaan digunakan sebagai sampel yang diambil dari populasi perusahaan manufaktur yang terdaftar di Bursa Efek Indonesia untuk periode tahun 2013 – 2017. Dengan menggunakan regresi linear berganda, diperoleh hasil penelitian bahwa earning management dan political cost memiliki pengaruh yang signifikan terhadap social and environmental disclosure quality. Sedangkan bonus plan memiliki pengaruh yang tidak signifikan terhadap social and environmental disclosure quality.

Kata kunci: *bonus plan; political cost; earning management; social and environment disclosure quality*

INTRODUCTION

Public awareness on the social and environmental issues brings forces to the companies to put more attention in doing their business. Social and environmental cases done by PT Lapindo Brantas and PT Newmont Minahasa Raya in Indonesia have already drive a need to reveal or disclose the information transparently, comprehensively and timely that the stakeholder will be well-informed and can take necessary actions. Thus, it is so, especially when the impact of the cases is quite significant such as PT Lapindo Brantas and PT Newmont Minahasa Raya. PT Lapindo Brantas did the environmental issues when they fail to do the mining and causing unstoppable mud flood. The damage was really dramatical since the inundation covering 12 villages with 11,241 buildings, 10,641 household and 362 hectares of rice field (Farida, 2014). The impact of this disaster is that the company went bankrupt and still have the financial issues currently (Hanifa & Kahar, 2015). Another big case was Teluk Buyat pollution with the toxic hazardous waste done by PT Newmont Minahasa Raya, brought damages to the environment and public health (Lutfillah, 2011). This was not an easy case since it went to the international arbitrage trial (Nuraida, 2012).

Knowing that tremendous impact, stakeholders need to have the qualified information on how the company doing their business with respect to the social and environmental issues and how they communicate it to the public. One of the valuable things to be considered is the existence of qualified social and environment disclosure in company's annual report. Social and environment disclosure quality becomes a way to be the environmental management strategy to communicate with stakeholders. Social and environment disclosure also indicates that the company must be involved in the activities of social responsibility that provides benefits to many parties.

Preparing the annual and financial reports, the company always required to choose the accounting method choices that might bring conflict of interest between agent and principal. As positive accounting theory stated, there are two hypotheses that can explain why the company choose or change any accounting methods (Watts & Zimmerman, 1990). This hypotheses usually called as bonus plan hypothesis and political cost hypothesis. Bonus plan hypothesis is the condition when manager with profit-based bonus plan has a tendency to use accounting methods that are likely increase the profit for the reporting year to attract the interested parties (Watts & Zimmerman, 1990). Meanwhile, political cost hypothesis has been used to explain a phenomenon about why the larger the firm has bigger pressure to disclose their activities. Bonus plan hypothesis will give the insentive to manager who has good performance. In order to boost their performance, managers will always try to increase the company's profit. They can achieve it by choosing the accounting methods that better off, or trying to attract the public attention by doing social and environment activities and communicate it through the disclosure. Earning management sometimes becomes an alternative to increase the manager or company performance in order to get the bonus. Hence, this research aims to explore whether bonus plan, political cost and earning management has significant influence toward social and environmental disclosure quality.

LITERATURE REVIEW

Disclosure quality can be described as completeness, reliability, accuracy, precision and also timeliness of the annual report (Alzoubi, 2016). From that disclosure, the user of accounting report will know about the company information and how well the company runs the business (Muttakin, Khan, & Azim, 2015). User also can see the voluntary social and environment activities done by company to support the company sustainable development.

That is why social and environment disclosure quality can be a tool for stakeholder as a monitoring aspect to develop the company. Gibbins, Richardson and John (1990) also describe that social and environment disclosure quality can be measured as the degree of non-financial reporting.

Based on Setayesh and Kazemnezhad (2010) disclosure has three concepts such as adequate disclosure, fair disclosure, and full disclosure. First, adequate disclosure is the most common used term, which means the disclosure must be low and non-misleading (Karbasiyazdi, 2007). The adequate disclosure is providing the minimum required information to avoid the users be misled by the financial reporting (Setayesh & Kazemnezhad, 2010). Second, fair disclosure is the condition where the disclosure should be identical for all potential users of financial statements, considers all aspect in information provided for users equally (Karbasiyazdi, 2007). This type also emphasizes on identical deal with all potential users of financial statements so it would be fair for all parties and not maximize one party of the company (Arab & Mohammad, 2007). The last is full disclosure, providing all relevant information needed by other parties which is financial and non-financial activities.

Bonus plan happened when manager wants to get incentive or bonus by choosing certain method to increase current period reported income. Managers get incentive if they can achieve the target (Sentyorini & Ishak, 2012). In order to get bonus or incentives, manager should make their stakeholder satisfy with their economic and non-economic performances. One of aspect that highly valued by financial analysts, investors and market authorities is the social and environmental activities. In order to get attention and incentives from investors, managers will disclose social and environmental and show that they are more meaningful and value relevant for the company (Throop, 1993).

Sentyorini & Ishak (2012) also found when manager wanted to get bonus or incentives; they would disclose any action to the society and environment that could help to enhance company performance. Bonus plan has significant effect to social and environment disclosure level. This is because managers want more reward and incentives by company, and they will more expose the corporate social and environmental disclosure (Banwarie, 2011). Based on the previous researches were being mentioned, the researcher conclude that bonus plan is positively related to company disclosure quality, especially in disclosing social and environment activities. The first hypothesis of this research is:

H₁: The bonus plan affects positively the social and environment disclosure quality.

Sentyorini and Ishak (2012) found if the company is bigger, then company will get more attention from stakeholders and high political visibility. Political attention usually happens because of the size, capital intensity, and market share of the company. Attention from public made company wants to reduce their political and social pressure. This condition made the bigger company that has higher political cost also have more willingness to disclose their social and environmental activities (Iatridis, 2013).

Banwarie (2011) stated that company tends to manage a firm's relation with the community by doing CSR to minimize the political cost. One of management strategies by chose more environmentally friendly technology. So they tend to disclose more on their social and environment activities (Sarumpaet, 2005). Belkaoui and Kaprik (1989) found a positive significant association between social and environment disclosure and political cost. As measured by sized, if company is bigger, they will get more attention from public. They might fully disclose their social and environment activities in order to get a good image from public and stakeholders. This condition also help companies to handle social expectation based on the size of companies. The researcher concludes that there is an effect between

political cost and social and environment disclosure quality. The second hypothesis of this research is:

H₂: Political cost affects positively the social and environment disclosure quality.

In preparing financial statement, there are some accounting policies or methods. Manager might choose accounting method that influencing the total numbers of reporting profit to follow management own-self interest. This is called as earning management (Scott, 2009). Earning management practice happened when stakeholders wants to get profit and give pressure to manager to achieve the target. Managers also want to get reward or benefit for their own interest (Sunarsih, 2017). This condition make managers might fully disclose their social and environment activities and affect the disclosure quality of the report. This strategy might help manager to satisfy the external parties and give managers indirect benefit. Managers who do earning management is affected the transparency of their disclosure practice and vice versa (Cormier, Magnan, & Morard, 2000).

Social and environment disclosure also become a good strategy to keep the relation between stakeholder, society, and companies. Because when companies need capital from stakeholder, they have to get attention from public. When they get those attentions, they tend to fully disclose their social and environmental activity. Researcher concluded that there is a significant effect between earning management and disclosure quality. Thus the third hypothesis is:

H₃: The earning managements affect positively the social and environment disclosure quality.

Hence the research framework for this research is

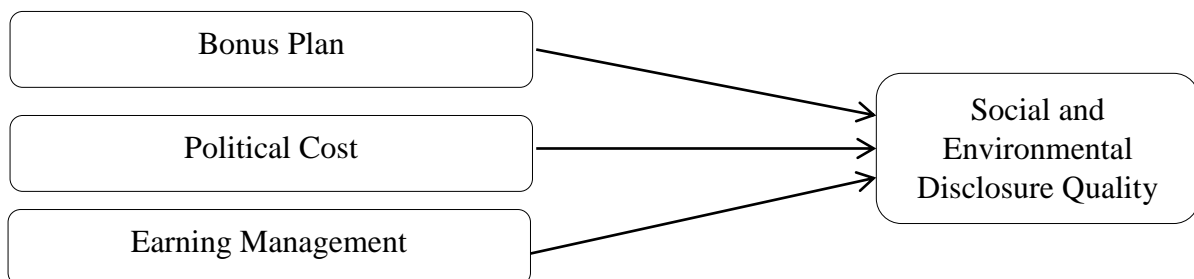


Figure 1. Research Framework

RESEARCH METHOD

To find out the effect of bonus plan, political cost, earning management towards social and environment disclosure quality, this research used manufacturing companies listed in IDX for the period 2013-2017. After considering the data availability and the positive sales growth, this research used 43 out of 131 companies as samples. Multiple linear regression is used to do the analysis. Operational definition of the variables is as follows:

Dependent Variable

Social and Environment Disclosure Quality

The dependent variable for this research is social and environment disclosure quality. Measurement of social and environment disclosure quality use scoring index by GRI-G4

guidelines (Alzoubi, 2016). GRI-G4 consist of 34 environmental aspects that need to be disclosed in order to have a good social and environment disclosure quality. Score of 1 given if there is any disclosure and 0 if otherwise. According to Alzoubi (2016), social and environment disclosure quality index (DQ) is derived from the total disclosure made by the company, then compared to maximum disclosure as follows:

$$DQ = Total\ disclosure / Maximum\ disclosure \quad (1)$$

Independent Variables

Bonus Plan

Bonus plan is a way to motivate employee when the company target has been achieved. Firm profitability is usually being used in arranging compensation contracts (Astami E. , 2006). Therefore, the researcher chose to use return on asset (ROA) as the measurement tool for bonus plan, and this is in line with Sentyorini and Ishak (2012). Return on asset is measuring how effective a company could generate profit from its assets. It is measured by divided income before extraordinary items (net income) at the end of reporting period by its total assets in the same year.

$$ROA = NI / TAt \quad (2)$$

Whereas :

ROA = Return on Assets

NI = Net Income

TAt= Total Assets for year t

Political Cost

In this research, political cost in this research is measured by firm size, since politically visible company is directly related to size of the company (Milne, 2002).The bigger the company, the bigger political cost should be paid to meet the expectation of society. To measure political cost, this research uses natural logarithm of total assets (Nurdiniah & Herlina, 2015).

$$Size = Ln\ TAt \quad (3)$$

Whereas :

Size = the firm size

Ln = natural logarithm and

TAt = total assets of year t .

Earning Management

Based on modified Jones Model (Dechow, Sloan, & Sweeney, 1995), total accruals are calculated as follows:

$$TAcc = NI_t - OCF_t \quad (4)$$

Whereas TAcc is total accruals, NI_t is the net income after extraordinary items of year t and OCF_t is the cash flow generated from operating activities of year t . The next step is

calculating non-discretionary accruals (NDAcc). To calculate this, NDAcc equation from modified Jones model should be regressed using Ordinary Least Square (OLS) regression analysis, to obtain coefficient α_1 , α_2 and α_3 . Non-discretionary accruals in the regression is represented by $TAcc / TA_{t-1}$. The formula is as follows:

$$\frac{TAcc}{TA_{t-1}} = \alpha_1 \left(\frac{1}{TA_{t-1}} \right) + \alpha_2 \left(\frac{\Delta RVN_t - \Delta RCV_t}{TA_{t-1}} \right) + \alpha_3 \left(\frac{PPE_t}{TA_{t-1}} \right) + \varepsilon \quad (5)$$

Whereas TA_{t-1} is total assets of year $t-1$, RVN_t is the revenue of year t , RCV_t is the net receivables for year t , and PPE_t is plant, property and equipment for year t . At the end, discretionary accruals can be calculated by using formula belows:

$$DAcc = (TAcc/TA_{t-1}) - NDAcc \quad (6)$$

RESULTS AND DISCUSSION

From 215 firm-year data, 195 data are used for further analysis after excluding the outlier. The descriptive statistic is revealed in Table 1.

Table 1. Descriptive Statistics

	N	Minim um	Maxim um	Mean	Std. Deviation
DQ	195	.15	.44	.2648	.06271
EM	195	-.00	.47	.0664	.06985
Political Cost	195	13.00	33.62	23.2409	5.24883
Bonus Plan	195	.07	.35	.0107	.70244
Valid (listwise)	N 195				

Source: output result

Classical assumption tests have already been done and showed the good results. The data is normally distributed since the the value based on Kolmogrov-Smirnov the significance is 0.054 above 0.05 as shown in Tabel 2.

Table 2. Normality Test

One-Sample Kolmogorov-Smirnov Test		
N	195	Unstandardized Residual
Normal Parameters ^{a,b}	Mean	-.0013183
	Std. Deviation	.05945123
Most Extreme Differences	Absolute	.078
	Positive	.078
	Negative	-.062
Test Statistic		.078

Asymp. Sig. (2-tailed) .054^c
 a. Test distribution is Normal.
 b. Calculated from data.
 c. Lilliefors Significance Correction.

Source: output result

The data also pass autocorrelation test. The result shows that the value of Durbin-Watson statistic is 1.807, as revealed in Table 3.

Table 3. Durbin-Watson Autocorrelation Test Results

Model Summary ^b					
Model	R	R Square	Adjusted Square	R Std. Error of the Estimate	Durbin-Watson
	.075 ^a	.006	-.010	.05934	1.858

a. Predictors: (Constant), Bonus Plan, Political Cost, EM
 b. Dependent Variable: DQ

Source: output result

The Durbin-Watson statistic result is $du < dw < 4 - du$. If $Du: 1.807$, then $1.807 < 1.858 < 4 - 1.28$ then the models are free from autocorrelation problem.

Based on the result presented in Table 4. The data used in this research is free from multicollinearity problem because all of tolerance values are greater than 0.10. All of VIF values also are smaller than 10.

Table 4. Multicollinearity Test

Coefficients ^a			
Model		Collinearity Statistics	
		Tolerance	VIF
1	EM	.963	1.038
	Political Cost	.976	1.025
	Bonus Plan	.987	1.013

a. Dependent Variable: DQ

Source: output result

Since all the classical assumption tests show good results, the next step is to do the hypothesis testing. F-test is used to check how significant all independent variables affect the dependent variable. The regression model should have probability of F-statistic less than 0.05 to confirm that all independent variables are having simultaneous effect towards dependent variable. The results for both model 0.049, which less than 0.05 or 4.9% significant level, then the F-test is valid. F-test is shown in Table 5.

Table 5. Simultaneous Test (F-Test) Result

ANOVA ^a						
Model	Sum Squares	of Df	Mean Square	F	Sig.	

1	Regressi on	.004	3	.001	.364	.049 ^b
	Residual	.673	191	.004		
	Total	.676	194			

a. Dependent Variable: DQ

b. Predictors: (Constant), Bonus Plan, Political Cost, EM

Source: Output result

t-test is used to check the significant effect of each independent variables towards dependent variable with the directions of the relationship. The result of the analysis is shown in Table 6 below.

Table 6. t-Test Result

Coefficients ^a		Unstandardized Coefficients		Standardize d Coefficients		
Model		B	Std. Error	Beta	T	Sig.
1	(Constant)	.257	.020		12.772	.000
	EM	.078	.080	.072	.976	.030
	Political Cost	.010	.001	.011	.156	.006
	Bonus Plan	-.011	.034	-.023	-.323	.47

a. Dependent Variable: DQ

Source: output result

The significant value of bonus plan is 0.47 which is greater than 0.05, therefore hypothesis 1 is not supported. Which means bonus plan does not affect the social and environment disclosure quality. The significant value of political cost is 0.006 which is smaller than 0.05, therefore hypothesis 2 is supported. Thus, it means political cost affected social and environment disclosure quality. The significant value of earning management is 0.03 which is smaller than 0.05, therefore hypothesis 3 is supported. It means, earning management affected social and environment disclosure quality.

Bonus plan usually is used by the company to stimulate the agent (top executives) to achieve certain targets, one of them is fulfilling the target disclosure principle. However, this research shows that bonus plan does not have any significant effect towards disclosure quality (Astami E. , 2006). It means that the agent might uses other ways or have other reasons to keep their social and environmental quality disclosure exist. Other reasons are that manufacturing companies might not use profit as the base for calculating bonus plan due to instability industry condition from 2013-2017. The similar argument was also suggested by Alsaeed (2006) stating that company profitability performance might not the best option to calculate incentive plan. The result is not in line with positive accounting theory, which suggest to give incentives for improving reporting of social and environment disclosure in order to fulfill stakeholder interest. The finding also against the several previous researches which stated that bonus plan could affect the quality disclosure (Sun, Salama, Hussainey, & Habbash, 2010).

Bigger companies might consider to disclose all company information based on full disclosure principle, since violating accounting principles could cause additional cost, and

then resulting higher taxes should be paid. The political cost has positive significant effect to disclosure quality. The researcher argues that politically visible companies attract a lot attention from stakeholders. The society pressure and high demand for acquiring capital appear to be the reasons why manufacture sector prefers to disclose more information in the annual report, especially, disclosing social and environment activities. This argument is in line with previous researches conducted by Sentyorini & Ishak (2012).

Earning management is condition when manager chose the accounting policies or method that intentionally will influence their own-self interest. Based on this research, the earning management has positive effect to disclosure quality. This argument is in line with the previous research by Healy (1985) that earning management is affected social and environment social disclosure quality. When managers have intention to get their own benefit, they might fully disclose some activities such as social and environment activities. This might help manager to get attention from stakeholder and got incentive, reward, and promotion.

CONCLUSION

After analyzing the 43 samples from manufacturing company listed in Indonesia Stock Exchange for the period 2013-2017, it can be concluded that political cost and earning management has positive significant relationship toward social and environmental disclosure quality, while bonus plan has insignificant effect towards social and environment disclosure quality. The manufacturing company might not use profit as the base for calculating bonus plan.

Political cost has positive significant effect towards social and environment disclosure quality. The society pressure and high information disclosure demand for acquiring capital appear to be the reasons for fully disclosing social and environment information. Earning management has positive significant effect toward disclosure quality. The pressure from investor can make manager do earning manipulation for their interest and make the financial report less/ full disclosure.

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