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The Effect of Bonus Compensation and Leverage on Earnings Management with Financial Performance as Intervening Variable

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ABSTRACT

The purpose of this study was to analyze the effect of bonus compensation, and leverage to earnings management and financial performance as an intervening variable in the manufacturing companies listed in Indonesia Stock Exchange (BEI) in 2014-2015. This study using method purposive sampling with 102 unit analysis of a population of 150 manufacturing companies. While the sample in this research there are 51 manufacturing companies. The analysis technique used in this research that Path Analysis. The analytical tool used was SPSS 21. The results showed that the bonus compensation significantly negative effect on earnings management. Leverage has no effect on earnings management and financial performance. Financial performance significantly has a positive effect on earnings management. Bonus compensation significantly has a positive effect on financial performance. The conclusions from the results of this study showed that the variable of financial performance positively and significantly is able to mediate the relationship between compensation bonuses to earnings management. However, the financial performance variables cannot mediate the relationship between leverage to earnings management.

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INTRODUCTION

The presence of profits in a company is expected to get the attention of investors and creditors in evaluating a management performance of a company and can predict corporate earnings in the future. Earning is also a component in the financial statements which are very concerned, because the company's earnings are expected to be a reference for the company in presenting the performance in a company as a whole in achieving corporate goals. One way that management does when preparing financial statements that affect the level of profit is earnings management which expectation can increase the value of the company itself.

Large companies are in great demand by analysts and brokers because published financial reports are transparent, so it can reduce the incidence of information asymmetry that can support the emergence of earnings management. One of the actions of earnings management that is often used by management is income smoothing or income smoothing practice. According to Khafid(2012) said that income smoothing is an action to reduce the variability of reported earnings so that investors can use profit as a signal to predict future earnings of the company which is relatively appropriate.

Ironically, there are some cases of companies that practice earnings management for example in Toshiba companies, where in www.tribunnews.com (2015) there are 21 cases of bookkeeping as of March 31, 2014, especially related to construction work, calculation and bookkeeping of Toshiba has been forged so the company's revenue increases. Toshiba has officially announced a miscalculation of 54.8 billion yen. However, many observers and experts estimate the bookkeeping fraud is estimated at 150 billion yen. From the phenomenon due to the practice of earnings management that can harm the operational activities of the company itself for the long term and can harm the company so that it can lead to the company goes bankrupt.

Based on the research of Wijaya & Christiawan (2015) on the effect of bonus compensation, leverage, and tax on earning management in companies listed on the Indonesia Stock Exchange shows that only leverage and taxes have a positive effect on earnings management of manufacturing companies. Research by Elfira (2014) on the effect of bonus compensation and leverage on earnings management at manufacturing companies listed in BEI for years 2009-2012 shows that only bonus compensation has a significant effect on earnings management. Guna & Herawaty (2010) in their research on

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the influence of good corporate governance mechanism, auditor independence, audit quality and other factors to earnings management has result that leverage, audit quality and profitability (financial performance) influence to earnings management. Sesotyaningtyas (2012) in her research on the effect of leverage, legislative size, intergovernmental revenue and local tax revenues on local government financial performance simultaneously show independent variables of leverage, legislative measures, intergovernmental revenues, and local tax revenues, together have an influence on the financial performance of local governments.

Mehran(1995) said that one way to reduce the conflict of interest between managers and shareholders in a company is to provide compensation to managers which purpose in order to motivate managers in order to improve their performance to achieve corporate objectives. According to Werther Jr & Davis (1985) compensation is a remuneration received for the work they do in the form of hourly wages or periodic pay. Corporate management has an incentive to use increased profits through discretionary accruals to maximize bonus-based income. Another factor mentioned by Azlina (2012) is leverage. In companies that have a high leverage ratio because there is a large amount of debt compared to assets owned by the company, then it can motivate the company to do earnings management practices. According to Saraswati (2013) financial performance is an analysis conducted to see how far a company has implemented by using the rules of financial implementation properly and correctly.

Based on the description above, it underlies this research to analyze the effect of compensation bonus and leverage to earnings management with financial performance as mediation. With the aim to know the influence of each independent variable that is bonus compensation and leverage. The role of the intervening variable is the financial performance (ROA) in the relationship between bonus compensation, and leverage on earnings management.

The agency theory also discusses the differences in interests between the principal (owner) and the agent (manager) that causes the emergence of a conflict called the conflict of agency. The difference between the interests of the owners and management have a negative impact, the negative impact is the presence of flexibility of corporate management in order to maximize corporate profits (Jensen & Meckling, 1976). While the bonus plan hypothesis is a hypothesis relating to the giving of bonuses to employees of the company and is the election of accounting methods associated with positive accounting theory (Watts & Zimmerman, 1990).

High bonus compensation given by the corporate owner to the manager of the company, the higher the manager also in doing the practice of earnings management to maximize corporate profits. In positive accounting theory proposed by Watts & Zimmerman(1990) states the existence of bonus plan hypothesis which is a hypothesis related to the provision of compensation to the corporate management which goal can improve management performance. Almadi & Lazic (2016) stated that incentive compensation, CEO has a positive relationship to earnings management. Meek, Rao, & Skousen (2007) said that there is a positive relationship between CEO stock option compensation with earnings management, in which stock options are part of CEO. compensation In Kwon (2012) stated that executive bonus compensation has a positive effect on earnings change. From the pinion above o, it means that if the bonus compensation given by the company is high, then the manager's effort in the practice of earnings management will be higher as well.

H_1 Bonus compensation has a significant positive effect on earnings management.

High leverage is due to lack of supervision and can also increase opportunistic action such as earnings management to maintain its performance in the eyes of shareholders. Where the higher leverage owned by the company to fund the asset / investment then the higher the manager to practice earnings management. Positive accounting theory of Watts & Zimmerman (1990) which stated high debt indicates that managers are managing their profits at a certain leverage ratio whereas with small debts the less earning management practices will be. Jones & Sharma (2001) said that leverage has a significant effect on earnings management. Chan, Farrell, & Lee(2008) in their research stated that leverage variable correlates positively and significantly to earnings management using discretionary accruals. Research conducted by Caramanis & Lennox (2008) stated that leverage coefficient has a positive effect on earnings management, so it is consistent with previous findings that firms are more likely to manage their profits when leverage is high.

H_2 Leverage has a significant positive effect on earnings management.

High financial performance done by managers in gaining profits, then the higher the earning management practices done by the corporate managers. Agency theory states that in maximizing a corporate earnings management needs an effort made in evaluating, efficiency and effectiveness of a company's activity that has been done in a certain period of time that is financial performance. If performance in a company is bad, then there will be incentives for managers to take earning management action. Research of Kumari & Pattanayak (2017) states that the financial performance measured by using ROA has a significant impact on earnings quality. Al-Halabi (2014) stated that there is an impact of the financial performance indicator (ROE) on the earnings management process at manufacturing companies listed on the Amman stock exchange. Cornett, Marcus, & Tehranian (2008) stated in their research that there is positive influence of financial performance to earnings management as measured by discretional accrual.

H_3 Financial performance has a significant positive effect on earnings management.

The higher the bonus compensation given by the company owner to the manager of the company, the higher the manager in doing earnings management. The Bonus Plan Hypothesis in positive accounting theory states that where in this hypothesis a corporate manager with a certain bonus will be more likely to favour a methods that can increase earnings during the current period. With the expectation, it will increase the value of the bonus that will be received, if in the committee, compensation of the director cannot adjust the method chosen. Subekti & Sumargo (2015) said that in the results show that compensation has a positive effect on financial performance. Davis & Shelor(1995) in their research said that there is a significant relationship between executive compensation and measures of financial performance. Gerhart & Milkovich(1990) said that in the research results show bonus form compensation and long-term incentives have a positive influence on financial performance.

H_4 Bonus compensation has a significant positive effect on financial performance.

In the condition of a company that has high leverage, then a manager can do profit practices that aim to attract creditors and show to the market that the financial performance in the company under its management run well, although in fact the company under management has a big risk due to the emergence of adequate big debt. The agency theory predicts that a firm that has a higher leverage ratio will reveal more information obtained. Rehman (2013) in his research stated that leverage measured by using DER positively affects the company's financial performance as measured using ROA. Akhtar, Javed, Maryam, & Sadia (2012) stated that the result of their research showed a positive relationship between financial leverage and financial performance. Gweyi & Karanja (2014) stated that in their research results showed a perfect positive correlation between leverage measured by debt equity ratio (DER) and financial performance as measured by return on equity (ROE) and return on assets (ROA).

H_5 Leverage has a significant positive effect on financial performance.

Bonus plan hypothesis according to Watts & Zimmerman (1990) which states in the positive accounting theory that a company's manager with a certain bonus will be more likely to favour a method that can increase profits during the current period because hope will be able to increase the value of the bonus will be received. In an effort to improve the company's earnings management, it is required bonus compensation from the company's owner to the company's manager or employee. After gaining maximum earning management for the company and providing bonus compensation to managers and employees for their services to the company, then see how far a manager's performance in carrying out his obligations properly and correctly in accordance with existing regulations / laws.

According to Aniktia & Khafid (2015) said that the company with high performance is certainly better known to the public. Thus, if the compensation given by the company to the manager high, it will affect high performance performed by managers in gaining profit. In addition, high compensation provided and the high performance of managers to earn profits will also provide an opportunity for managers to practice earnings management. Direct influence according to Cornett, Marcus, & Tehranian (2008), Almadi & Lazic (2016) and Subekti & Sumargo (2015) stated that there is a positive direct influence between bonus compensation, financial performance and earnings management.

H_6 Financial performance is positively and significantly able to mediate the relationship between bonus compensation to earnings management.

According to Andriyani & Khafid (2014) leverage is the debt of the funds source used by the company to finance its assets outside the source of capital or equity funds. The larger the leverage ratio, the higher the company's debt value. Which means also the proportion of its debt is higher than the proportion of its assets, so it will tend to manipulate in the form of earnings management. The company expects to conduct management with a health debt policy that will be able to manage with increasing corporate profit levels. In addition, measurements are made to show to investors, customers, or the public generally if the company gets good credibility, so it needs a financial performance to show the company's financial condition. Thus, high leverage will have an impact on high financial performance performed by managers in gaining profit. In addition, high leverage and high performance of managers in earning profits will have an impact on earnings management practices undertaken by corporate managers.

This research is in line with positive accounting theory of Watts & Zimmerman (1990) which states that high debt shows managers are managing profits at a certain leverage ratio whereas with small debt will be less profit management practices. In this condition can be done by the management in committing a deviation such as committing earnings management which goal is the performance will be reported on the creditor will be good. A direct influence according to Akhtar, Javed, Maryam, & Sadia(2012), Cornett, Marcus, & Tehranian (2008) and Chan, Farrell, & Lee (2008) stated that there is a positive direct influence between leverage, financial performance and earnings management.

H_7 Financial performance is positively and significantly able to mediate the relationship between leverage to earnings management.

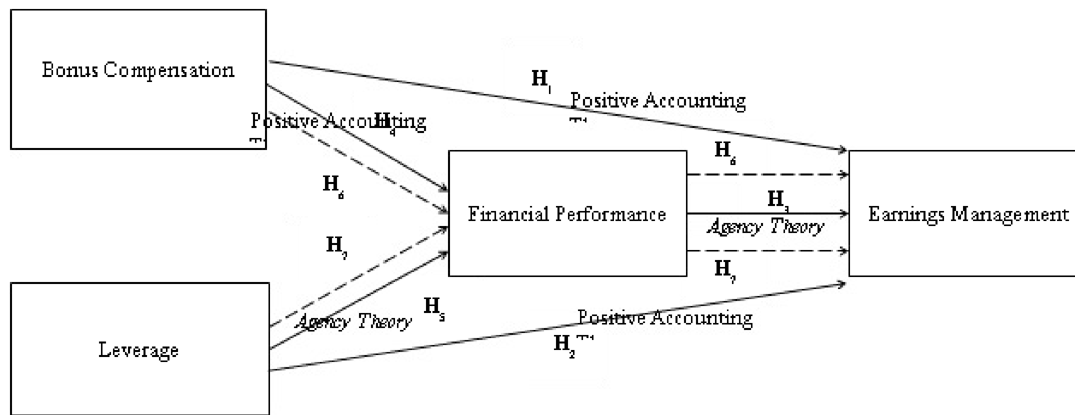

Fig.1. Figure of the Research Model

RESEARCH METHODS

The type of research used was quantitative research. The data used in this study was secondary data in the form of financial statements of manufacturing companies listed on the Indonesia Stock Exchange in 2014-2015. The population in this study was manufacturing companies listed on the Indonesia Stock Exchange (IDX) in 2014-2015 as many as 150 companies. 1. The sample selection in this study was chosen by using purposive sampling technique, that was the determination of sample which was done based on the criteria made by the researchers. Samples in this research were 102 units of analysis. The sample selection was seen in the annual report of the manufacturing companies based on the criteria. The criteria for the sample in this study can be seen in table 1.

Variables to be used include earnings management, bonus compensation, leverage, and financial performance. For research variables, variable definitions, and variable indicators are summarized in Table 2.

How to measure the accrual discretionary of Jones Model was the total accruals in the company in current period divided by total assets in the previous period minus the non discreationary accrual of the company in the current period. Meanwhile, to measure bonus compensation was by using dummy the method was

Table 1. Population and Sample

No	Criteria	Pass	Not Pass
1.	The number of manufacturing companies listed on the Indonesia Stock Exchange during the period 2014-2015	150	0
2.	The number of manufacturing companies which publish financial statements for 2 years in a row	117	33
3.	The number of manufacturing companies using the rupiah currency in reporting	128	22
4.	The number of manufacturing companies whose financial statements have profits	106	44
	Total of Research Sample	51	99
	Year of Observation	2	
	Number of Unit Analysis	102	

Source: Data processed, 2017

Table 2. Operational Definition of Variables

No	Variables	Definition of Variables	Measurement
1.	Earnings Management	Manager's interference in private financial reporting (Scoot, 2012)	*Accrual Discretionary Model DAit = (TAit/ Ait-1)-NDAit*
2.	Bonus Compensation	Any material or non-material granting of any party (Elfira, 2014)	Dummy
3.	Leverage	A ratio used when measuring the extent to which assets in a company are financed by debt (Sartono ,2001:120 in Anisa Elfira,2014)	*Debt to Equity Ratio= Total Liabilities / Total Equity* x 100%
4.	Financial Performance	The ratio to measure a company's dependence on creditors (Kasmir, 2008)	ROA = EBIT / Total Asset x 100%

Source: Writer's summary, 2017

score 1 if there was a bonus compensation to management and score 0 if there was no bonus compensation to management. Data collection technique in this study used documentation technique. Data analysis technique used in this research was multiple regression analysis technique with SPSS version 21.0 with significance level of 5% (0.05). Before testing the research hypothesis, it was first done some classical assumption tests consisting of normality test, multicollinearity test, autocorrelation test, and heteroscedasticity test. Besides, it was conducted hypothesis testing using path analysis and sobel test to examine intervening variable by using 2 equations (Ghozali, 2013).

RESULTS AND DISCUSSIONS

Based on the results of descriptive statistical test using SPSS 21:

Table 3. Descriptive Statistical Analysis

	N	Minimum	Maximum	Mean	Std. Deviation
Dait	102	-0.2063	0.3857	0.038988	0.0977030
Bonus Compensation	102	0	1	0.14	0.346
Leverage	102	0.1392	5.3953	0.965793	0.7713174
ROA	102	0.0039	0.4253	0.104192	0.0899101
Valid N (listwise)	102				

Source: Data processed, 2017

In this study, earnings management is proxied by using discretionary accrual (Dait) where the average of companies that have become sample in this study have high earnings management as it approaches the maximum value. Bonus compensation variable, which in this research companies that use direct or indirect compensation. Judging from the average value of the research sample, the average companies that have been listed on the Indonesia Stock Exchange which provide bonus compensation is relatively little. This can be seen from the mean value of 0.14 which is between the minimum and maximum values.

In leverage variable, by looking at the average variable greater than the standard deviation indicates that the leverage data is clustered or not varied. Variable of financial performance is symbolized by ROA (Return on Assets). By viewing the average variable which is greater than the standard deviation indicates that the data financial performance is clustered or not varied (homogeneous).

Based on the results of the classical assumption test, the variables in this study have normal distribution seen from the significant value of alpha above 5% (0.05). This research is free from multicollinearity which can be seen from tolerance value> 0.1 and VIF <10. Furthermore, this study is free from autocorrelation test seen from run test with alpha significance value above 5% (0.05). Last, this study is free from heteroscedasticity test seen from white test result which shows C^2 count < C^2 table that is 12.342 <124.342.

Based on the result of equation path analysis test, it shows the result of adjusted value of R square for equation 1 is 0.124. This shows the variables of bonus compensation, leverage and financial performance (ROA) in explaining profit management variable (Dait) is only 12.4%. Meanwhile, the remaining of 87.6% is influenced by other factors outside the variables studied. While if seen from adjust R square for equation 2 that is 0.106 it shows the ability of variables of bonus compensation and leverage in explaining ROA variable is only 10.6%. Meanwhile, the remaining of 89.4% is influenced by other factors outside of the research.

If the significant value shows lower than the alpha value (α = 0.05 or 5%), then the hypothesis is supported or accepted. It also see the result of the coefficient direction on the beta column which means if in accordance with the hypothesis statement then the hypothesis is also accepted.

Table 4. The Result of Classical Assumption Test

Variables	Normality Test		Multicollinearity Test		Autocorrelation Test	Heteroscedasticity Test
	Kolmogorov Smirnov	Sig	Tolerance	VIF	Run Test (Sig)	Uji White
Bonus Compensation (X_1)			0.897	1.115		R^2= 0.121 N= 102 C^2table = 124.342 C^2count= = 12.342
Leverage (X_2)	1.096	0.181	0.958	1.044	0.842	
Financial Performace (X_3)			0.876	1.141		

Source: Data processed, 2017Source: Research data processed, 2017

Table 5. Recapitulation of Hypothesis Test Result

	Hypothesis	Beta	t count	Sig / t table	Result
H_1	Bonus compensation has a positive effect on earnings management significantly.	-0.077	-2.761	0.007	H1 rejected
H_2	Leverage has a positive effect on earnings management significantly.	-0.016	-1.357	0.178	H2 rejected
H_3	Financial performance has a positive effect on earnings management significantly	0.356	3.297	0.001	H3 accepted
H_4	Bonus compensation has a positive effect on financial performance significantly	0.077	3.118	0.002	H4 accepted
H_5	Leverage has a positive effect on financial performance significantly.	-0.018	-1.667	0.099	H5 rejected
H_6	Bonus compensation has a positive effect on earnings management through financial performance significantly	0.027	2.25	1.65993	H6 accepted
H_7	Leverage has a positive effect on earnings management through financial performance significantly	-0.006	-1.500	1.65993	H7 rejected

Table 6. Test Results of Equation Path Analysis 1

Test Results of Equation Path Analysis 1	Earnings Management	
Significance Test (t-Test)		
	B	Sig
(Constant)	0.028	0.153
Bonus Compensation (X_1)	-0.077	0.007
Leverage(X_2)	-0.016	0.178
ROA (X_3)	0.356	0.001
R – Square Adjusted R Square		0.124

Source: Research data processed, 2017

Dait = $\alpha + \beta_1$ Bonus Compensation + β_2*Leverage* +β_3ROA + e_1 .... (1)

DAit = 0.028-0.077 Bonus Compensation – 0.016 Leverage + 0.356 ROA + 0.922 .... (1)

Table 7. Test Results of Equation Path Analysis 2

Test Results of Equation Path Analysis 2	Financial Performance (ROA)	
Significance Test (t-Test)		
	B	Sig
(Constant)	0.111	0.000
Bonus Compensation (X_1)	0.077	0.002
Leverage (X_2)	-0.018	0.099
R – Square Adjusted R Square		0.106

Source: Research data processed, 2017

ROA = $\alpha + \beta_1$ Bonus Compensation + β_2 *Leverage* + e_2 .... (2)

ROA = 0.111+ 0.077 Bonus Compensation -0.018 *Leverage*+ 0.936 .... (2)

Bonus compensation has a positive and significant effect on earnings management

Based on the research result, bonus compensation has a negative and significant effect on earnings management. This study is in contrary to research conducted by Kwon (2012), Meek, Rao, & Skousen (2007), and Almadi & Lazic (2016) which state that bonus compensation has a significant effect on earnings management. The result of this study is also inconsistent with the bonus plan hypothesis according to Watts & Zimmerman (1990) which state in a positive accounting theory that a corporate manager by getting a certain bonus will be more likely to favour a method that can increase earnings. Thus, given the high bonuses, the earnings management practices done by managers are also high.

The result of this study also does not support the hypothesis and not in accordance with the framework of thinking which states that the more bonus compensation given to the owner, the greater the action of earnings management by regulating and maximizing profit. Thus, the higher the bonus compensation given by the company, the lower the company's decision to practice earnings management. This is due to the presence of external parties (investors) who always supervise the policies made by the manager of the company. So that corporate managers do not arbitrarily commit high earning management practices. The result of this study is supported by research conducted by Pujiati & Arfan (2013) and Wijaya & Christiawan (2015) which state that bonus compensation has a negative and significant effect on earnings management.

Leverage has a positive and significant effect on earnings management

Based on the results of research, leverage has no effect on earnings management. This study is not in line with the studies conducted by Chan, Farrell, & Lee (2008), Caramanis & Lennox (2008) and Jones & Sharma (2001) state that leverage has a positive effect on earnings management, which means that higher leverage can trigger an increase in earnings management. This study is not in line with the positive accounting theory which states that high debt indicates managers are managing their profits at a certain leverage ratio whereas with small debt will be less the earning management practices as well.

The result of this study also does not support the hypothesis and not in accordance with the frame-

work of thinking which states that the higher the leverage the higher the action of earnings management by regulating and maximizing profit. The reality in this study, that the large or small debt owned by the company will not affect the decision of managers in doing earnings management. If the company has a high profit then high also the taxes received. Therefore, the external party will always oversee the policies undertaken by the corporate managers. This is not only based on high-low debt owned by the company but more focused on taxes received or its external parties (investors). The result of this study is supported by studies of Suriyani, Yuniarta, AK, & Atmadja (2015) and Jao & Pagalung (2011) which state that there is no influence between leverage to earnings management.

Financial performance has a positive and significant effect on earnings management

Based on the result of research, financial performance has a positive effect on earnings management significantly. This study is in accordance with the studies conducted by Cornett, Marcus, & Tehranian(2008), Kumari & Pattanayak (2017) and Al-Halabi (2014) state that financial performance has an effect on earnings management. In this research supports agency theory which states that in maximizing corporate earnings management need an effort done in evaluating, efficiency and effectiveness of a company's activity that has been done on a certain period of time that is financial performance. If performance in a company is bad, then there will be incentives for managers to do earning management.

The result of this study supports the hypothesis and the framework of thinking which states that high financial performance will be high also the manager to practice earnings management. A corporate agent should also be able to know how to increase share price earnings and how to enlarge dividends in companies which goal is to achieve the goals of the companies they manage. Financial performance is an effort that has been done by companies that can measure the success of the company in generating profit, so it can view the prospects, growth, and development potency of the company by relying on the existing resources.

Bonus compensation has a positive and significant effect on financial performance

Based on the result of the study, compensation has a positive effect on financial performance significantly. This research supports research conducted by Subekti & Sumargo (2015), Davis & Shelor (1995) and Gerhart & Milkovich (1990) which said that in the results of the studies showed bonus compensation has a positive effect on financial performance. In this study supports the bonus plan hypothesis according to Watts & Zimmerman(1990) who stated in positive accounting theory is where in this hypothesis a corporate manager by getting a certain bonus will be more likely to like a method that can improve the profit that is by improving its performance in order to get profit according to target.

The result in this study supports the hypothesis and the framework of thinking which states that high compensation will affect high financial performance. The owner of the company compensates managers for managers to perform well. With the compensation is expected the manager can improve its performance so as to achieve the target for the company.

Leverage has a positive and significant effect on financial performance

Based on the result of the research, leverage does not affect on the financial performance. This study does not support the research conducted by Rehman (2013), Akhtar, Javed, Maryam, & Sadia (2012) and Gweyi & Karanja (2014) state that leverage has a significant effect on the financial performance of the company. In this study does not support agency theory, where agency theory predicts that a firm that has a higher leverage ratio will reveal more information obtained. In the condition of a company that has high leverage, a manager can practice earnings which purpose can attract creditors and show to the market that the performance of the company runs well, although in fact the company he manage has a big risk due to the emergence of large debt.

The result in this study does not support the hypothesis and the framework of thinking which states that high bonus compensation given by the company, the higher the financial performance of the manager in obtaining profit. In reality, companies in doing corporate operations usually do not use the results of corporate debt. The company could be doing corporate operational activities obtained from the wealth that has been gained by the company itself, for example existing inventory, tools already meet, owned cash, etc. Thus, the large or small debt (leverage) corporate finance then it will not affect financial performance. The result of this study supported by research of Isbanah (2015) and Primadanti(2011) which state that leverage has no significant effect on the company's financial performance.

Financial performance is positively and significantly able to mediate the relationship between bonus compensation to earnings management

Based on the result of the study, financial performance can mediate the relationship of bonus compensation to earnings management significantly. This research supports direct influence according to Cornett, Marcus, & Tehranian (2008), Subekti & Sumargo (2015) and Almadi & Lazic (2016) who state that there is a positive direct influence between bonus compensation, financial performance and earnings management. The result of this study supports the positive accounting theory by Watts & Zimmerman (1990) has explained that the existence of the relationship between the corporate management with the accounting policy that will be done. A corporate manager with a certain bonus will be more likely to like a method that can increase earnings during the current period because his expectation will be able to increase the value of the bonus he will receive. If

this in the compensation committee of the director cannot adjust the method chosen. The provision of compensation that has been promised by the company can improve the performance of the company, but the business done by managers in getting bonus every year is by doing earning practice.

The higher bonus compensation received by a corporate manager will have an effect on the financial performance in order to achieve the desired profit target which impact on earnings management practices undertaken by the manager. Financial performance is an effort that has been done by a company that can measure the success of the company in generating profit, so that it can see the prospects, growth, and potential development of the company by relying on existing resources. With high financial performance done by the company will have an impact on the compensation given to the company's company. And also will also impact on the high practice of earnings management done by the company in gaining maximum profit and to attract investors to buy shares sold by the company.

Financial performance is positively and significantly able to mediate the relationship between leverage to earnings management

Based on the result of the research, financial performance is not able to mediate the relationship between leverage on earnings management. This study is not in line with direct influence according to Akhtar, Javed, Maryam, & Sadia (2012), Cornett, Marcus, & Tehranian (2008) and Chan, Farrell, & Lee (2008) who state that there is a positive direct influence between leverage, financial performance and earnings management. The result of this study is not in line with positive accounting theory by Watts & Zimmerman (1990) which stated high debt indicates that managers are managing their profits at a certain leverage ratio whereas with small debts the less profit management practices will be.

The result of this study is not in accordance with the hypothesis and framework of thinking which states that financial performance can mediate the relationship between leverage to earnings management. The inability of financial performance in mediating the relationship between leverage to earnings management due to the absence of influence between leverage to earnings management. In a corporate condition which has a high or low leverage, it will not affect the decision of managers in the practice of earnings management. Large or small financial performance (ROA) of a company will not affect the amount of debt (leverage) owned by the company. So, the size of the debt (leverage) owned by the company will not affect the manager's decision to practice earnings management. In this case, due to the ability of the management in guaranteeing good debt so that high or low debt does not affect on the financial performance.

The weakening effect of leverage on earnings management is due to large or small debt (leverage) of corporate finance will not affect the decision of managers in practicing earnings management. The company will be able to repay the debt used to finance the company's assets, then the manager feels uninterested / unmotivated to practice earnings management because the company does not need to take actions that can help the company in certain situations. Companies that are in good condition and secure will be able to pay the debt used to pay or finance the company's assets. High debt policy can also cause the company to be monitored by a third party.

CONCLUSIONS AND SUGGESTIONS

Based on the results of the hypothesis test, the conclusions in this study are that bonus compensation has a negative and significant effect on earnings management. Leverage has no effect on earnings management. Financial performance positively affects on earnings management significantly. Compensation has a positive effect on financial performance significantly. Leverage has a negative and insignificant effect on financial performance. Financial performance is significantly able to mediate the relationship between compensation to earnings management. While the financial performance is not able to mediate leverage to earnings management.

For companies, which have good financial performance are expected to disclose relevant and reliable corporate information to external parties (investors) without having to practice earnings management. For further researchers can substitute or reproduce the sample. For bonus and leverage compensation does not affect earnings management, and financial performance is not able to mediate the relationship between leverage to earnings management, it can be re-examined in subsequent research with other variables involving earning management factors.

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