The Effect of IFRS Convergence on Accounting Pay For Performance Sensitivity with the Role of Audit Committee as Moderate Variable

1st Shinta Megawati Sitorus
Postgraduate of Accounting Sciences University of Indonesia
Depok, Indonesia
shintamegawati@gmail.com

2nd Vera Diyanty
University of Indonesia
Depok, Indonesia
vera.diyanti@ui.ac.id

***Abstract*—This research aims to investigate the impact of IFRS convergence on accounting pay for performance sensitivity. This research uses samples 515 firm-years of non-financial public companies listed in Indonesia Stock Exchange for the period 2012-2016. For comparability with previous studies which using only dummy variable for pre and post IFRS adoption as a measurement of IFRS convergence, we use a more reliable measurement in the degree of convergence by looking at three types of difference in adopting IFRS standards such as differences in terms of transition, difference in effective date, and difference on text-based on Mita (2015). The result of this study is that IFRS convergence can positively influence accounting pay for performance sensitivity. This positive effect is likely due to a principle-based IFRS framework that raises the chance of directors to improve their compensation through earnings management. The result of this study is also that the effectiveness of the Audit Committee does not influence the positive effect of IFRS convergence on accounting pay for performance sensitivity. This may be because the audit committee oversight is less able to limit management actions at the time of IFRS implementation.**

Keywords*—*IFRS convergence, accounting pay for performance sensitivity, audit committee

I. Introduction

Accounting performance can be reflected in the achievement of earning reported in the financial statements. Core [1] suggests that earning provide useful information about the managerial effort, in which earning can be used as measures of accounting performance to improve their efficiency in compensation contracts. This suggests that the performance improved so that management will affect the improvements in management compensation. Hou [2] state that accounting performance in the form of corporate earnings can be attributed to the provision of compensation to management (pay-performance sensitivity). The research is supported by Lin, Yeh, and Shih [3] suggesting that the higher the sensitivity indicates, the greater the compensation responds to the improvement of company performance. Since accounting performance can be used as a basis for determining management compensation, earning becomes an important role that management can use to improve their compensation. According to agency theory by Widamunti [4], who stated that management tends to have the interest to benefit themselves. It certainly can indicate that management can do various ways to manage earnings to increase their compensation.

One alternative used by management in managing earning to increase their compensation is by using the flexibility of IFRS standards (International Financial Accounting Standards), where IFRS initially as an international accounting standard are expected by the standard-setter to provide benefits for improved accounting quality (EC Regulation No. 1606/2002) in particular the quality of earnings. However, based on Capkun [5] and Ball [6] research, they argue that the adoption of International Financial Reporting Standards (IFRS) can reduce the quality of earnings. According to Capkun [5] IFRS is an accounting standard with a principle-based conceptual framework and fair value accounting measurement which provides excellent flexibility for firms to conduct accounting judgment, where this judgment flexibility can lead to misuses of accounting information by management. This is supported by Shao [7] and Chen and Tang [8] who suggests that the use of fair value accounting in IFRS can increase management flexibility to do earnings management actions in order to increase executive compensation, the higher the managerial level of power, the more asymmetric the sensitivity of executive compensation to CFV (changes in fair value). One of the managerial power is to apply earnings management, such as through income increasing by revaluing asset value or selling available for sale securities, so that the earning figure contains in the company's performance will increase so that the management compensation will be high.

Hou [2] also researches how IFRS adoption in China affects accounting performance in terms of executive compensation. They found that there is a positive and significant effect between IFRS adoption and the sensitivity of accounting performance on management compensation. Analysis of Hou [2] findings that such influence occurs through earnings management due to the discretion of accounting judgment through the use of fair value. Hou [2] provides evidence that earnings management is made through the use of fair value evidenced from the results of the research he referred that is from He [9]. He [9] finds that firms in China tend to sell available-for-sale securities so that firms earn a profit when the fair value of securities in trading is negative, and earnings management occurs in the companies with extra incentives to avoid loss. By doing earnings management managers can make the earning figures in the financial statements good, so that the earning figures contains in the performance of the company will increase and also the compensation of management will be high.

Based on the above explanation, the first objective of this research is to see if IFRS convergence in Indonesia affects accounting pay for performance sensitivity [2]. This research is essential because Indonesia, as a G-20 country and the 16th largest economy in the world, also had been converting IFRS in 2008. When Indonesia decided to adopt IFRS gradually in 2008, the accounting standards of companies in Indonesia changed from rule-based standards to a principle-based standard and changed from historical-cost-basis to fair value basis [10]. With the principle-based and fair value characteristics of IFRS, it is expected that IFRS may affect accounting pay for performance sensitivity in Indonesia, as evidenced by Hou [2] in China.

The difference of this study with the study refers to Hou [2] is different in terms of measuring IFRS adoption rates. Hou [2] research with samples in China explained that the Chinese Accounting Standards of almost all topics substantially converge to IFRS effectively since January of 2007, which measures IFRS adoption rate using IFRS dummy variable indicator to indicate whether IFRS is adopted at once. Based on Hou [2] research the IFRS adoption rate variables are treated as categorical variables, which gives a value of one (1) full adoption, and two (2) others (adoption is not full or has not adopted). The categorization contains weaknesses because the countries that adopt IFRS partially categorized in the same group by not adopting IFRS [11]. Meanwhile, Indonesia, as a sample of this research, adopted IFRS gradually. The adoption of IFRS gradually conducted by Indonesia makes exceptions not to adopt specific standards. Exceptions not to adopt certain IFRS standards are conducted in Indonesia because based on the PWC publication in August 2013 there are similarities and differences between IFRS and PSAK (e.g., IAS 41 agriculture is not an equivalent standard under PSAK because the IAS 41 model is not compatible with agriculture activities in Indonesia) then also adopted at a slower time than IFRS come into force (e.g., IFRS 13 (2011) has not been adopted in Indonesia, and effective January 1, 2013, covering the measurement and disclosure of fair value), or modifying the differences in text or transitional provisions (e.g., for example, PSAK 62 on Insurance Contracts, i.e., PSAK 62 adopted from IFRS 4 except those contained in IFRS 4 concerning the measurement of insurance liabilities on a discounted basis as this is contrary to PSAK 28 concerning Accounting for Loss Insurance and PSAK 36 concerning Accounting for Life Insurance).

Therefore, a more appropriate measure used to measure IFRS adoption rate in Indonesia in this study is obtained from the percentage of IFRS/ IAS that has been adopted in Indonesia divided by the number of applicable IFRS/ IAS. For each difference (three types of differences in adopting IFRS such as differences in terms of transition, effective date differences, and text differences) in adoption will be calculated as a scorecard based on the calculation [11]. This measurement is reliable in measuring the degree of IFRS convergence in Indonesia, as it can show the progress of IFRS obligations as an ever-increasing trend through increasing scores annually [12].

Since IFRS convergence in Indonesia has an effect on accounting pay for performance sensitivity over subjective estimation of management, the mechanism of Good Corporate Governance (GCG) implementation can be one of the surveillance efforts that can harmonize management performance with the interests of shareholders. Based on research by Jiang [13] and Habib and Jiang [14] earnings management or financial statement manipulation can be reduced through the implementation of the effectiveness of good corporate governance (GCG) structure. This view is commonly held because good corporate governance within the company ensures the accountability of certain individuals in the company through one application of corporate governance, the oversight mechanism (OECD 2015, Financial Services Authority Regulation No. 33 / POJK.04 / 2014).

One of the oversight mechanisms in corporate governance (CG) is the effectiveness of the role of the board of commissioners. This is because Indonesia embraces a two-tier system of governance, which means that there is a separation of duties and functions between the board of directors and the board of commissioners. The duties of the directors are run the business operations of the company while the duty of the board of commissioners is to supervise the performance of the board of directors. In the corporate governance oversight mechanism, the board of commissioners has the power to oversee the performance of directors. The Board of Commissioners in conducting supervision pursuant to Article 66 paragraph 1 of Law Number 40 the Year 2007 is to review the annual reports prepared by the members of the Board of Directors before the annual report is submitted to the GMS. Such supervision can minimize the occurrence of opportunistic actions that may take by management, including minimizing the occurrence to increase the financial performance that may be through earnings management done by management in order to obtain high compensation.

In order to support the effectiveness of the implementation of the supervisory duties of the board of commissioners, especially in the process of financial reporting and internal control functions, the board of commissioners is required to establish an audit committee (Regulation of the Financial Services Authority No. 33 / POJK.04 / 2014). In Indonesia, the guidelines of the establishment as well implementation of audit committee duties are regulated in the Financial Services Authority Regulation No. 55 / POJK.04 / 2015. In performing its duties, the audit committee is required to act independently in reviewing the financial information issued by the company, as well as reviewing the company's compliance level with applicable laws and regulations. As an oversight and guarantor of the integrity and accuracy of the quality of the company's financial statements and accountability [15], the audit committee is expected to reduce the manipulation of accounting earnings reported as a measure of manager's performance with an active role to supervise management in the preparation of financial statements at the time of application of IFRS.

The effectiveness of the audit committee as supporting the functions and responsibilities of the board of commissioners in terms of independent monitoring on the financial reporting process as set forth in POJK No. 33 / POJK.04 / 2014 is evidenced in the research [16]. Marra [16] found that the effectiveness of the audit committee may limit management's ability to improve their performance through earnings management using accounting judgment discretion after the adoption of IFRS. The analysis of the research results is due to the audit committee carrying out its roles and responsibilities effectively based on codes of best practice governance, which performs its roles and responsibilities independently and is a financial expert, and works with external auditors to oversee management actions to manipulate earnings as a measure of performance in the preparation of financial statements to obtain high management compensation. Therefore, with the existence of an audit committee, the opportunistic motives of management to improve its performance in order to obtain increased compensation can be reduced. In other words, the role of the audit committee is assumed to weaken the effect of IFRS convergence on the accounting pay for performance sensitivity.

Based on the above explanation, the second purpose of this study wanted to prove that the role of the audit committee can moderate the positive influence of IFRS convergence on executive compensation based on accounting performance [16]. Earlier research by Hou [2] not include the role of moderation in his research. This study contributes to include the role of the audit committee as a moderate effect on the influence of IFRS convergence on accounting pay for performance sensitivity. The reason for the audit committee being included is to see whether the effectiveness of audit committee as supporting the functions and responsibilities of the board of commissioners in terms of independent monitoring of the financial reporting process as stipulated by POJK No. 33 / POJK.04 / 2014 can limit management to increase their compensation by improving their performance through earnings management.

II. Literature Review and Hypothesis

Agency theory

Agency theory is a concept that explains the relationship between the principal and agent formed in the contract of agreement about the authority of business decision-making delegation from principal to agent [17]. The basic assumption of agency theory is that each individual, whether agent or principal has their own interest and in achieving that interest, they maximize their utility using the resources they possess [18]. The existence of these differences of interests between principals and agents leads to an imbalance of information between agents who has more information than principals called information asymmetry. This asymmetry information and the interest differences is a condition where Jensen and Meckling [17] called it agency problems.

Agency problems can occur in a condition where management can achieve their interest through the presentation of accounting information using the option and management consideration of accounting transactions to manipulate earning with the purpose to misleading stakeholders regarding the company performance and affecting the contract. According to Umobong [19] such action can be done because of the discretion given by accounting standards for a company doing accounting judgment. Such actions make accounting information disclosed to be distorted and leads to information asymmetry (agency problems) [20].

To minimize agency problem, the principals design the right incentives for an agent and also incorporate specific cost called agency cost. The purpose of the agency cost is to limit and ensure that an agent performs/actions align principal interest [17]. In addition, another way to minimize agency problems is through the implementation of Good Corporate Governance (GCG) in the form of internal control mechanism by the board of commissioner and audit committee [21]. Laux and Laux [22] argue that audit committees can detect and prevent management actions from manipulating financial statements, especially monitoring financial reporting and internal audit function.

IFRS Convergence

IFRS adoption is a consequence of business and economy globalization, which making regulators, investors, large corporations, and KAP aware of the need for harmonization of accounting standards and the use of Internationally Accepted Accounting Standards. The Harmonization of Accounting Standards is a process to improve the compatibilities of accounting practices by accommodating some differences in a country local standards. Harmonization of International Accounting can benefits in increasing comparability [23], so that accounting statement be more reliable [24]. The benefits of accounting standards harmonization make international standards adoption (IFRS) is highly expected by companies in many countries [15].

From the milestone of international financial reporting harmonization in Indonesia, IASB (international accounting standard board) and DSAK (Dewan Standar Akuntansi Keuangan) as an institution that establishing accounting standards in Indonesia under IAI agree to cooperate or making public commitment to eliminate the difference between International Financial Accounting Standards (IFRS) and GAAP Indonesia/ IFAS (Indonesian Financial Reporting Standards)/ PSAK by converging SAK into IFRS. Indonesia formally began implementing IFRS convergence to PSAK in 2008 where this IFRS implementation showed by the enactment of IAS-based PSAK.

IFRS is a principle-based accounting standard [25]. Nobes [26] in [5], state that in principle-based standards IFRS, which provides more flexibility is permitted management towards subjective judgment. This principle-based standard emphasizes that all accounting treatments are not by rules rigid and detail, so companies need to make the best accounting judgment of managerial to choose between a limited set alternative for measuring and reporting economic situation [25], [27]. This subjective judgment is likely to be in a condition where a manager can potentially use underlying principle-based flexibility and discretion under principle-based standards to manipulating earnings by deliberately choosing accounting methods which do not always reflect underlying economic situations in order to achieve personal goals, such as promotion, bonuses, and so forth [28].

Based on the explanation above, this study will look at the weaknesses of the IFRS framework, namely, flexibility. This flexibility encourages the misuse of accounting information by management [5]. This situation is an opportunity for management to practice earnings management through a level of compensation that continues to increase every year, which can maximize CEO wealth.

Accounting Pay for Performance Sensitivity

Pay performance sensitivity, according to Jensen dan Murphy [29] is a change of wealth of Chief Executive Officer (CEO) associated with the change of one dollar of shareholder wealth. That explanation means that sensitivity level about a harmonious relationship between the interest of shareholder and executive incentives [29], [30]. The higher the level of sensitivity indicates the amount of compensation as a response to the improvement of company performance [3]. Previous research from Horton [31] shows that executive compensation positively significant with accounting performance [32] shareholder value [33] and sales growth [34].

Paul [35] state that the performance measure that can relate between directors performance and payments are accounting performance measure (earnings) and market performance (stock prices) [27]. Core [1] suggest that earnings provide useful information about the managerial effort, where earning can be used as performance measures to improve efficiency in compensation contracts. Compensation in management compensation contracts also related to accounting performance in the form of stock prices (Singh and Yeramili, 2014). The higher the stock price will reflect the company productivity generated by management. Paul [35] states that high productivity reflects more an increasing effort of managers, which affecting the amount of compensation received. That explanation indicates the sensitivity between accounting performance in the form of earnings and stock prices associated with the amount of managers compensation.

Paligorova [37] report that pay-performance sensitivity strengthened after the adoption of the Sarbanes-Oxley Act (SOX) in companies where the company's board of directors is less dependent on SOX. In addition, Perry and Zenner [38] show that pay-performance sensitivity as measured by the total annual compensation or associated with a wealth of the CEO/ commissioner of the company has increased for firms affected by Segment 162 (m) regulation of the Internal Revenue Code. From the above findings, which explains that financial and accounting regulations can affect pay-performance sensitivity, this study also wants to see if IFRS as a financial regulation adopted in Indonesia can affect pay-performance sensitivity.

Audit Committee

In Peraturan Otoritas Jasa Keuangan No. 56/ POJK.04/ 2015 about Pembentukan dan Pedoman Pelasanaan Kerja Komite Audit as an Audit Committee describe that audit committee was established by and responsible to the Board of Commissioners in assisting and carrying out the duties and functions of the Board of Commissioners. The audit committee is tasked or acting independently in carrying out its duties and responsibilities to oversee of the financial reporting process independently, as well as undertaking a review of the company's compliance level with laws and regulations.

In Indonesia, any public company is required to have an Audit Committee appointed and dismissed by the Board of Commissioners (POJK no. 56 / POJK.04 / 2015). In relation to the composition, the audit committee consists of 3 (three) members who are from independent commissioners and outside parties of publicly-listed companies and shall be chaired by an independent commissioner.

Previous studies from Klein [41], Myers [42], Xie, DaDalt, and Davidson [43] in [16] examined the governance oversight function through the role of the Audit Committee to examine accounting discretions by management in the financial statements. Klein [41] found that firms with less independent Audit Committees had greater abnormal accruals. Myers [42] found that the audit committee is more effective in reducing other discretionary charges when firms have at least one audit committee member with accounting or financial expertise. Dhaliwal [44] and DeFond [45] in [15] report that firms with audit committees with accounting expertise experience high financial quality reports in the US. Xie, DaDalt, and Davidson [43] in [16] argue that earnings management is less likely to occur in companies where the Audit Committee is active, and the Audit Committee members have a corporate or investment banking background. Some of the results of this study proves that when CG is less effective, (eg., audit committee is not independent) then management has the opportunity to dress up financial statements, for example, shown by big abnormal accrual, but if CG is effective for example through the existence of accountancy expert of Audit Committee can reduce management discretion to manipulate financial reporting and improve the quality of accounting.

Hypotheses

Hou [2] conducted a study related to the effect of IFRS convergence on executive compensation based on accounting performance in China, where the obligation to adopt IFRS was found to have a positive effect on executive compensation based on accounting performance (pay for performance sensitivity). This happens because the IFRS standard does not regulate all recognition and disclosure in detail/ rigid (principle-based) as in US GAAP standards. Therefore IFRS requires management judgment in the assessment of accounting transactions.

Based on research by Capkun [5] states that principle-based IFRS allows flexibility so that it decreases the quality of financial information. The decrease in the quality of financial information can be seen from the increase in management taking earnings management actions. Capkun [5] said that earnings management is done by utilizing the flexibility of accounting policies and methods regulated in IFRS. One that is regulated in IFRS is using fair value accounting assessments, where Chen and Tang [8] states that the use of fair value accounting in IFRS can increase management flexibility to do earnings management actions in order to increase executive compensation. From the results of their research, it was found that the measurement of the fair value of fixed assets which resulted in gain revaluation could increase management compensation, but if the measurement of the fair value of the fixed assets resulted in loss revaluation did not affect management compensation.

This research will look at the importance of managers' efforts to improve accounting performance in determining executive compensation by utilizing the flexibility contained in the IFRS framework, which is principle-based through earnings management. With the flexibility in doing accounting judgment to be used in earnings management, then the manager will use the existing standard flexibility in managing earnings to increase compensation from the previous year. Shuto [46] states that earnings management causes an increase in corporate earnings so that compensation for executives is high.

From some of the previous studies above [2] and [8] which found a positive effect of IFRS adoption on accounting for pay-performance sensitivity, therefore it is stated that IFRS convergence can increase directors compensation.

H1: IFRS convergence has a positive effect on the sensitivity of accounting based-performance on directors compensation

Based on the previous explanation, Hou [2] found that with the adoption of IFRS, managers have incentives to do earnings management to influence executive compensation contracts through accounting policies and methods issued. This earnings management shows that the earnings reported by management in the financial statements do not reflect the company's actual performance, which causes internal users who evaluate management performance to be wrong in making decisions.

The decline in the quality of accounting information makes the results of accounting performance based on IFRS does not really reflect the economic substance of the company. Capkun [5] states that IFRS with a principle-based conceptual approach and fair value accounting measurement provides great flexibility for the company to carry out accounting judgment, in which this judgment flexibility can lead to misuse of accounting information by management including in determining management compensation.

The earning generated is precisely the result of subjective manipulation of management accounting judgment. This causes the determination of compensation based on the number of accounting earnings listed in accounting information is possible is the result of subjective manipulation of management that is not based on actual company performance. Therefore, there needs to be supervision in the company's financial reporting process so that it can improve the quality of financial reporting or reduce earnings management so that the determination of compensation is truly reflected in the actual performance of the company. One of the main keys is the existence of audit committees as corporate governance oversight in assisting the board of commissioners in overseeing financial statements [22].

The audit committee as a supporting organ of the board of commissioners is formed by and is responsible to the board of commissioners to assist the duties and responsibilities of the commissioners to supervise the financial reporting process (Regulation of the Financial Services Authority Number 55 / POJK.04 / 2015). The duties and responsibilities of the audit committee are to oversee the accuracy and integrity of the financial reporting process [15].

To be able to perform its duties effectively, the audit committee must have certain characteristics that are stated in the charter of the audit committee. The audit committee's characteristics in the audit committee charter are as follows have at least one financial expert, the size or composition, the frequency of meetings, chaired by an independent commissioner, and provides recommendations to the board of commissioners regarding the appointment of accountants (POJK No. 55/POJK.04/2015 on the Establishment and Implementation Guidelines of the Audit Committee). The ability of financial and accounting analysis of audit committee in order for the audit committee to be able to assess the selection of accounting policies used by management so that they can produce a truly transparent financial report [43]. Audit committees must also be very knowledgeable about finances in order for an audit committee to be able to analyze financial reports and can effectively monitor the company's financial reporting process [44]. In addition, the frequency of meetings of more regular members of the audit committee can limit earnings management and ensure earnings quality [15]. Furthermore, Chen and Zhou [47] found that the size of the audit committee has an important role in reducing earnings management in banks that undergo high earnings management. Furthermore, the existence of an independent board in the composition of the audit committee will be more expected to reduce collusion with top management and may reduce agency problems [16]. Finally, the recommendation KAP done by audit committee determines the effectiveness of the audit committee's task, the better the KAP recommend by audit committee such as the Big Four KAP, the higher the quality of the financial statements. From these explanations, it can be concluded that the effectiveness of audit committees is proven to oversee the financial reporting process developed by management and can reduce earnings management so that the determination of pay based on performance can properly reflect the actual performance of the company.

Marra [16] proves that the audit committee's oversight role can reduce earnings management at the time of IFRS implementation. Further, Laux and Laux [22] also found that the effectiveness of oversight by the audit committee may limit earnings management. Laux and Laux [22] found that by conducting oversight by the audit committee on the financial reporting process prepared by management, the CEO can not set his own salary through earnings management. In short, with the effectiveness of the audit committee, CEO compensation is really based on accounting performance because the audit committee can limits management to determine its compensation through earnings management.

Based on the above explanation, the role of the Audit Committee in overseeing the financial reporting process effectively may limit the occurrence of earnings management actions done by management to determine their compensation due to the flexibility when implementing IFRS. Thus the second hypothesis of this study is:

H2: The role of the Audit Committee weakens the positive influence of IFRS convergence on the sensitivity of accounting performance on directors compensation.

III. METHOD

The population used in this study are all public companies listed on the Indonesia Stock Exchange (IDX) with the period from 2012 until 2016. Companies listed in Indonesia Stock Exchange are selected because it is an entity or company that requires accountability using PPSAK-IFRS in drafting the financial statements. The selection period is done to see the difference in the quality of financial statements, which is due to IFRS adoption obligations started in 2012. Sample determination is done with purposive sampling method which is determined based on several criteria, including (1) Exclude samples of financial industry firms, because the financial industry firms have a regulation that is quite tight (high regulated) so it has special characteristic and can not be compared with other type firms (2) Exclude companies with the compensation disclosed not separately, (3) Exclude companies which are not consecutively listed on the IDX, (4) Exclude companies which have negative equity, (5) Exclude companies which have no financial reporting period for a full year or not ending on 31 December. Based on those criteria, the total sample for five years is 515 years of firm-years. This proportion shows balanced panel criteria.

Models for testing hypothesis:

The model for testing the first hypothesis is to see the effect of IFRS convergence on accounting pay-performance sensitivity in this study as follows: :

$$\Delta DIRCOMPit = \alpha0 + \alpha1IFRS + \alpha2\Delta ROA + \alpha3IFRS*\Delta ROAit + \beta1\Delta ROA\_1it + \beta2RETit + \beta3IFRSRETit + \beta4SIZEit + \beta5\ LEVit + \beta6GROWTHit + \beta7VOLit + \beta8LOSSit + \varepsilon it \quad ....(1)$$

Where, the coefficient of interest is α3 in equations 1 and 2, which capture the change in the accounting-based performance sensitivity on executive compensation during the IFRS convergence period 2012-2016. Then, the model for testing the second hypothesis is to see the effect of the Audit Committee as moderate on the effect of IFRS convergence on accounting pay-performance sensitivity in this study as follows:

$$\Delta DIRCOMPit = \alpha0+\alpha1IFRS+\alpha2\Delta ROA+\alpha3AC+\alpha3IFRS*\Delta ROAit+ \alpha4IFRS\Delta ROA*ACit + \beta1\Delta ROA\ \_1it + \beta2RETit + \beta3IFRSRETit + \beta5SIZEit + \beta6LEVit + \beta7GROWTHit + \beta7VOLit + \beta8\ LOSSit + \varepsilon it.....................(2)$$

Where, the coefficient of interest is α4 in equation 2, which capture the effect of the Audit Committee on the change in the accounting-based performance sensitivity on executive compensation during the IFRS convergence period 2012-2016.

Dependent variable: (DELTADIRCOMP)

The aims of this study are to analyze the effect of IFRS convergence on the sensitivity of accounting performance on company directors compensation. If you look at the research model, the director's compensation variable is the dependent variable where this variable is measured through the logarithm of compensation changes given to the directors. However, seeing from the framework and also the hypothesis development, this study wants to analyze the sensitivity of accounting performance which is seen from the coefficient of change in ROA and the interaction coefficient between IFRS and changes in ROA on directors compensation. An explanation of the coefficients of the two variables will be explained later after this variable. This study is measuring the level of compensation change of directors from year to year refers to the research of Hou [2] with the following calculations:

$$\mathrm{DELTADIRCOMP} = \log(\mathrm{DirComp})t - \log(\mathrm{DirComp})t - 1 \quad ....(3)$$

Independent variable: interaction between IFRS convergence with a change in return on assets (IFRSDELTAROA)

This independent variable measures the interaction through multiplication between IFRS convergence and change of ROA [2]. Based on this research model, this interaction variable between convergence IFRS and change of ROA is a moderation variable that will affect the director compensation changes. However, by the framework and development of the hypothesis, this variable is the independent variable that will be seen the coefficient on the amount of the change of directors compensation. The effect of this interaction variable on compensation changes reflects the sensitivity of accounting based-performance sensitivity that determines the amount of compensation of the board of directors. This interaction variable is expected to have a positive impact. Each of the interaction variables, which is the IFRS convergence variable and the changes of financial performance variable (DELTAROA) is operationalized as follows:

The variable of IFRS convergence in this research is measured by using IFRS adoption rate measurement [11] study by way of giving different score for non-full adoption of IFRS (differences in transitional provision), adoption with valid year delays (differences in effective date), and adoption with text differences, where this different scores refer to HKFRS and IFRS comparisons in Hong Kong which published by KHCPA every 6 months http://www.hkcpa.org.hk/.

Each standard adopted will be given 1 point, while the standard which is not adopted will be worth 0. Furthermore, for the standard adopted which having 1 type of difference in adopting IFRS standard, then the adoption value will be minus 1 point with the weight of each 0.251 for each type of difference.

$$IFRSt = \frac{\sum_{i=1}^{n}[(SAit) - 0,25*(STit + SDit + SKit)]}{\sum_{i=1}^{n} SIFRSit} \quad ....(4)$$

where: IFRSt : IFRS score in year t for each company; SAit : The standard i adopted in year t; STit : The standard i adopted in year t with different transitional provisions; SDit: The standard i adopted in year t with different in effective date; SKit : The standard i adopted in year t with different in text; n: Total standard, and; SIFRSit: Total IFRS standard applicable in year t

This study measures the company's financial performance using a ROA ratio that describes the company's ability to generate profits by utilizing company assets. According to many previous studies [29], [48], [34], [49], the board of directors compensation has a positive effect on company performance.

$$DELTAROA = \frac{\text{Net Income}}{Total\ Assett} - \frac{\text{Net Income}}{Total\ Assett - 1} \quad \text{..........................(5)}$$

Moderate variable: Audit Committee (AC)

Companies with qualified audit committee tend to improve accounting quality because it can ensure the integrity of accounting figures, including earnings as a measure of accounting performance. Audit committee in this study was measured using the index of ASEAN CG Scorecard in accordance with best practice in Indonesia. Those statement proved by the use of ASEAN CG Scorecard criteria in Annual Report Award assessment held annually once a year. There are six items of questions which have been adjusted accordingly to Peraturan Otoritas Jasa Keuangan Nomor 56/POJK.04/2015 regarding the Audit Committee in Indonesia.

Given the questions contained in ASEAN CG Scorecard are based on the one-tier system, the questions from ASEAN CG Scorecard used in this study was adjusted into two-tier system adopted in Indonesia. Six (6) items of questions of the Audit Committee are contained in Part E-Board Duties and Responsibilities in ASEAN CG Scorecard, that is: (1) Does the company have an Audit Committee?; (2) Is the chairman of the Audit Committee and independent commissioner?; (3) Does the company disclose the terms of reference/ governance structure/ charter of the Audit Committee; (4) Does at least one of the Audit Committee have accounting expertise (accounting qualification/experience)?; (5) Is the meeting attendance of the Audit Committee disclosed and if so, did the Audit Committee meet at least four times during the year?; (6) Does the Audit Committee have primary responsibility for a recommendation on the appointment, and removal of the external auditor?. All item gets 1 point, where point 1 is obtained if the company disclosed the item quite clearly and completely. The total point obtained is then summed; the maximum score of AC is 6. Laux and Laux [22] suggest that compensation for the board of directors is positively related to the effective role of the audit committee. Therefore, with the effectiveness of the audit committee, then CEO compensation is really based on accounting performance because the audit committee can limits management to determine its compensation through earnings management.

This study uses several control variable namely firm lagged delta ROA (DELTAROA_1), Stock Return (RET), the interaction between IFRS convergence and stock return (IFRSRET), size (SIZE), debt ratio (LEV), the change of net sales percentage (GROWTH), stock risk (VOL), firm loss (LOSS).

The DELTAROA_1 variable is measured by the value of DELTAROA in the previous year. This variable is expected to have a positive effect. In this study, RET is used to control market performance and measured using a market-adjusted stock return [5]. The higher stock return earns by firms will increase the compensation rates since the high return rates reflect the executive's efforts to increase the value of the company that benefits shareholder value. Therefore, as directors effort in increasing company value that benefits shareholder value, then there is a reward that is expected more. From that explanation, the RET variable is expected to have a positive impact. The multiplication between IFRS and RET is used to see the interaction of IFRS convergence and stock return that indicate the sensitivity of market performance to the compensation of directors [2] states that the higher these interaction will reduce the level of compensation, because market performance is strongly influenced by volatile market environment, so it is very risky as the basis for determining director compensation. Thus, this variable is expected to have a negative impact.

SIZE is measured though the natural logarithm of total assets owned by the company where this measurement refers to [51]. The greater the total assets will reflect the larger size of the company. Waddock dan Graves [52] point out that assets are resources used by the company to gain sales and profit. The greater the total assets will be directly proportional to the greater sales and profit received. The larger the company will be more complex and more difficult to manage [53]. By that explanation, directors or management require considerable effort to manage the enterprise, and the higher the compensation will be paid compared to the fewer size companies or less complex companies. This variable is expected to have a positive impact. Leverage in this study measured using total debt to total assets [2] by comparing all companies debt to total assets owned by the company. The ratio of total debt to total assets measures how much the percentage of corporate financing comes from debt, the greater the Debt to Asset ratio, the greater the percentage of debt financing and riskier. Penman [54] states that the level of financial risk or leverage with compensation has a negative relationship, and therefore, this variable is expected to have a negative impact. Conditions where the company in high sales growth, companies will be more able to pay compensation. As from Hou [2] research which predicted that growth opportunities variable has a positive effect on directors compensation. Stock return volatility is used as one of the control variables, representing the standard deviation of the daily stock price that is annualized. Companies with those facing a high level of risk will reduce payment performance-based [55]. The LOSS of company is dummy variable for the current year's loss, if in that year the company suffers losses then the value given is 1, and if company experiencing no loss, then the value given is 0. The prediction of LOSS variable direction toward directors compensation is negative because companies that do not experience loss or profit will be able to pay more compensation to executive [2].

IV. RESULT AND DISCUSSION

Prior to the regression of the research data, all research data have been tested on multicollinearity and heteroscedasticity. The summary of regression results for the research model is shown in table 1. Table 1 reports the OLS regression result of equation (1) and equation (2).

Based on table 1, IFRSDELTAROA variable as IFRS convergence proxy were correlated with changes in firm performance proved to have a significantly positive effect on directors compensation (DELTADIRCOMP). So it can be concluded, the model used in the study obtained empirical evidence that IFRS convergence has a positive effect on the sensitivity of accounting based-performance on directors compensation. Thus, the first hypothesis in this study is accepted because there is empirical evidence that IFRS convergence has a positive effect on the sensitivity of accounting based-performance on directors compensation. This evidence in accordance with the agency theory that has been elaborated earlier, that the principle-based IFRS convergence provides the flexibility of accounting methods and choices for the firms or compilers of financial statements in presenting accounting figures, especially earning as a measure of management performance. This flexibility has the potential to provide an opportunity for management to determine the compensation of managers that are not aligned with the interest of the owner by managing to earn, which is the condition of the agency problem.

The result of this test is in line with Hou [2] findings that IFRS adoption has a positive effect on management compensation with accounting based-performance in China. The principle-based IFRS adoption encourages management to improve accounting judgment based on the manager's personal information to improve earnings. With the firms reported earnings increasing, then the compensation received by the company's management will also increase. Manager's effort to be not optimal to achieve corporate goals but looks maximal due to the performance of being enhanced by dress up earnings in the financial statement.

The second hypothesis of this study is that the audit committee's role is predicted to weaken the interaction effect between IFRS convergence and the changes of accounting performance on directors compensation. Based on table 1, the regression results show that this IFRS*DELTAROA*AC variable has a coefficient value for -0.1919326 with p-value 0.2235. The greater the role of audit committees on IFRS convergence that is interacted with the changes in financial performance (ROA) does not affect the scale of directors' compensation becomes lower. So, it can be concluded that the results of this regression are not in line with the previous assumptions that refer to Marra [16] research that the influence of the audit committee can weaken the positive influence of IFRS convergence on management's ability to improve its performance through earnings management. Thus, the second hypothesis in this study is rejected, because there is no empirical evidence that audit committee can weaken the positive influence of the interaction between IFRS convergence and the changes of accounting performance on directors compensation.

Based on these findings indicates that the audit committee has no influence on lower management compensation based on accounting performance, which is conducted through earnings management due to IFRS implementation. This finding is similar to Siregar and Utama's findings [56] that the existence of the audit committee has no significant effect on earnings management in Indonesia. In addition, [57] and [58] also supports the results of this study. Peasnell [57] found that the audit committee unable to influence earnings management; however, the one which can affect the reduction of earnings management is through the role of outside independent board oversight. The independent outside board has the authority to fire CEOs who harm shareholders. They explained that with the proportion of larger outside independent boards are abler and free to report a loss so that they can sanctioning by firing the CEO and reducing earnings management. In addition, Rainsbury [58] as well got the same result that the audit committee is unable to suppress aggressive accounting choices by management. Based from Peasnell [57] and Rainsbury [58] arguments can support the results of this study that the aggressive of management actions on financial reporting to improve management compensation at the time of IFRS implementation is not proven to be reduced if only relying on audit committee functions. There should also be a role of the board of commissioners/ independent who has authority in dismissing the CEO if they are doing earnings management in order to increase compensation.

Table 1.
Regression result from Ordinary Least Square Model to Testing H.1 and H.2

Variable	Pred	Model 1			Model 2		
		Coeff	Prob.	Sig.	Coeff	Prob	Sig.
IFRS	+	-1.26365	0.006	***	-1.239036	0.0075	***
DELTAROA	+	-6.34005	0.097	*	-4.635254	0.2325	-
AC	+				-0.0342572	0.012	**
IFRS*DELTAROA	+	7.65559	0.089	*	6.758967	0.144	-
IFRS*DELTAROA*AC	-				-0.1919326	0.2235	-
DELTAROA_1	+	0.31744	0.029	**	0.3148437	0.0325	**
RET	+	1.85390	0.035	**	1.832924	0.0425	**
IFRSRET	-	-2.0860	0.035	**	-2.064109	0.0425	**
SIZE	+	-0.0084	0.208	-	-0.00272	0.398	-
LEV	-	-0.0547	0.267	-	-0.0670182	0.2235	-
GROWTH	+	-0.0124	0.400	-	-0.025326	0.301	-
VOL	-	-0.6250	0.177	-	-0.5688594	0.201	-
LOSS	-	-0.06590	0.027	**	-0.0684619	0.022	**
R-squared		0.0604			R-squared	0.0699	
Prob>F		0.0037***			Prob>F	0.0010***	
*** Significance level at 1% ; ** Significance level at 5% ; * Significance level at 10%							

Where: DELTADIRCOMP = the change in nominal directors compensation; **IFRS**=the scores of IFRS convergence looking at differences in effective dates, transition differences, and differences in text based on Mita (2015) research; **DELTAROA** = the change from Net Income to Total Asset ratio; **AC**= the scores of audit committee based on Asean CG Scorecard V.2 2017; **IFRS*DELTAROA=** the intercation between IFRS convergence and DELTAROA; **IFRS*DELTAROA*AC=** the interaction between IFRS*DELTA and AC**; DELTAROA_1** = DELTAROA in previous year; **RET** = The percentage value of stock return through the calculation of market to book value; **IFRSRET**= the intercation between IFRS and RET **SIZE** = the nominal value of total asset; **LEV** = the ratio of total debt to total asset; **GROWTH** = the change of *net sales* percentage; **VOL** = stock risk calculated by the standard deviation of daily stock price that is annualized; **DUMMY** = *dummy* represent the loss facing by company viewed through *Net Income*

For the control variables in this study there were eight, namely firm lagged delta ROA (DELTAROA_1), Stock Return (RET), the interaction between IFRS convergence and stock return (IFRSRET), size (SIZE), debt ratio (LEV), the change of net sales percentage (GROWTH), stock risk (VOL), firm loss (LOSS). From the eight control variables used, four of them had a significant influence on both research models. The rest of the four variables not proven to have a significant effect on director compensation, as measured by VOL are GROWTH, LEV, and SIZE.

V. CONCLUSION

This research aims to examine the effect of IFRS convergence on accounting pay for performance sensitivity, with the role of the audit committee as a moderator variable. The empirical result shows that IFRS convergence has a positive effect on accounting pay for performance sensitivity. The result of this study is also that the effectiveness of the Audit Committee has no influence on the positive effect of IFRS convergence on accounting pay for performance sensitivity.

For the regulator, the result of this study which has empirical evidence that IFRS convergence affecting the increase in directors compensation. This is due to the efforts of managers to improve accounting performance in determining compensation by utilizing the flexibility contained within the principle-based IFRS framework. Due to the flexibility contained within the IFRS framework, managers will tend to behave opportunistically in order to receive an increase in compensation from the previous year. Management can perform discretionary accruals, so the company's earnings will be high, thus increasing the compensation for the management. This result can be an illustration to the regulator that IFRS can be used as an opportunity for management doing earnings management to increase their compensation. So the regulator which is the Financial Services Authority (Otoritas Jasa Keuangan/ OJK) is expected to make regulations regarding sanctions related to the existence of earnings management so that managers do not perform an indication of earnings management to increase their compensation. One of these sanctions is the manipulation cost in the form, such as reducing monetary incentives in the proportion of management compensation, which the sanctions are already applied in China is stated [59]. The purpose of this less monetary incentives is that manager incentives will be reduced if management performance is not good. Reducing this incentive will motivate managerial effort, and the manipulation will be reduced.

This research has some limitations. This research uses samples only from public companies in Indonesia except the financial industry listed on the Indonesia Stock Exchange (IDX) which discloses director's compensation from 2012 to 2016. Not all public companies in Indonesia have disclosed the compensation of directors separately from the commissioner in Indonesia. So the number of samples of this study is very limited. Further research suggested expanding the sample of this study by using a sample of open companies that provide data on directors compensation in a country other than Indonesia, such as ASEAN country.

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