

## **The Effect of Bonus Compensation and Internal Control on Target Achievements (Case Study: Bank in Indonesia)**

\*Dwi Ekasari Harmadji

*University of Wisnuwardhana, Malang, Indonesia*

*Corresponding Author: Dwi Ekasari Harmadji*

---

**Abstract:** *Every company is competing to get employees who have a good attitude quality with adequate rewards or bonuses, so that the welfare of employees can be realized. All of these can affect the achievement of targets and progress of the company, because the compensation bonuses in return for employees is one of the incentive for employees to work more effectively and efficiently, but still pay attention to internal control in the company so that the achievement of targets achieved by minimizing risk fraud. This study aims to analyze the differences in the effect of bonus compensation and internal control on the achievement of targets, which are more influential for the achievement of targets effectively.*

**Keywords:** *bonus compensation, internal control, target*

---

Date of Submission: 28-09-2017

Date of acceptance: 10-10-2017

---

### **I. INTRODUCTION**

Implementation of Internal Control in the Standard Operating Procedures (SOP) in order to avoid errors (fault) or fraud. The agency theory says bonus compensation is one way to convince agents to act on behalf of the principal and to reduce agency conflict because there is always a difference between an agent's decision and a decision that should maximize the principal's prosperity (Jensen & Meckling, 1976). In banking companies, the agents are all employees from top level executive / top management (Smith & Watts, 1992), middle management level employees (Gerhart & Milkovich, 1990) and nonmanagement level (Drake, Wong, & Salter, 2007). Achieving targets that serve as a valuation control tool for agency business is also a principal expectation (shareholder), created with a certain number. Often theoretically generated targets create a slack when executed in reality. The target set can serve as a tool for evaluating performance and payroll, and serves as a tool to motivate employee attitudes in achieving targets (Sprinkle, 2003). According to Budisantoso (2006) bank has the following functions:

a) Agent of trust

Fundamentals of banking activities are trust, both in fund raising and fund distribution. The desire of the community to deposit funds in the bank is an element of trust. The public believes that their money will not be misused by the bank, their money will be managed appropriately, the bank will not go bankrupt and at the time needed the deposit funds can be withdrawn from the bank. The bank itself will also channel public funds that have been collected for use by the debtor in the form of business credit which is also based on trust. The bank believes the debtor will not abuse the funds, the debtor has good intention to return the loan along with other obligations when the maturity period.

b) Agent of development

Economic activities of the people in the monetary sector and the real sector are two sectors that are inseparable and mutually influential. The real sector needs the monetary sector in order to maximize economic activity for development. Banks as monetary authorities should help the real sector ie the economic activities of the community (consumption, production and distribution) in order to smooth in the economic development of society.

c) Agent of services

Banks, as well as collecting and channeling agencies also provide other banking services to the public. Offering bank services is closely linked to broad economic activity. Services provided by banks include transfer, clearing, bank order, current accounts, deposits and others. Pressure for achieving targets, enabling bank employees to take an attitude using a variety of ways to achieve them, so that sometimes violate internal control procedures. Bank Maju is more applying bonus compensation schemes than penalties, since penalties are not always giving better results on performance than bonus systems. High target setting and not offset by a good payroll system can also cause problems with Bank Maju. At a low gap level, employees will feel dissatisfied with their work (Drake et al., 2007). Based on the background and focus of the research mentioned above, it is necessary to test the influence between variable compensation bonus and internal control towards the

achievement of target (case study in Bank Maju, Government Bank in Indonesia). The main issues in this research are as follows: (a) How does bonus compensation affect the achievement of targets? (b) How does internal control affect the achievement of targets? (c) How does bonus compensation and internal control affect the achievement of the target?

## **II. LITERATURE REVIEW**

### **2.1 Bonus Compensation**

The existence of a good compensation scheme will improve performance. The agency theory actually suggests that bonus compensation schemes will reduce agency costs, and in accordance with the theory of utilities the greater the bonus the better the performance for achieving the target (Jensen and Meckling, 1976). The agency theory states that there is a separation between the principal and the agent. Agents are assumed to maximize their own needs (utility maximize) so that agency costs are required to ensure that agents act in accordance with the principal's wishes. In the end the agency theory seeks to obtain an efficient contract between principal and agent, one of them with bonus compensation (Eisenhardt, 1989).

### **2.2 Internal Control**

Definition Internal Control is a coordinated organizational structure, methods, and measures to safeguard organizational wealth, check the accuracy, and reliability of accounting data, encourage efficiency and encourage compliance with management policies set forth in the Standards Operating Procedures (SOP). The purpose of the internal control system: (a) maintaining the organization's wealth (b) checking the accuracy and reliability of accounting data, (c) encouraging efficiency, (d) encouraging compliance with management policies. Based on the definition of internal control that has been stated above, it can be understood that Internal Control is a system consisting of various elements and not limited to control methods adopted by the accounting and finance section but includes budget control, standard cost, training / training and socialization of SOP (Standard Operating Procedures) of employees at all levels, including staff of internal auditors.

SOP is defined as the main guideline in running the operational management. implementation of marketing, sales of bank products and services to customers. Definition of service is an activity that the company does to customers who have purchased the product (Tjiptono, 2004). A service will be formed due to a certain service delivery process from the service provider to the party served (Barata, 2004). Customer service is an absolute necessity for Bank Maju to win the competition for new customers and retain existing customers, by improving the quality of service. The quality of customer service / customer has at least five dimensions (Tjiptono, 2006), namely: (1) Tangible (physical evidence) that is the appearance of supporting facilities, officers and communication facilities that accompany the product; (2) Reliability, ie the ability to provide promptly, accurately and satisfactorily promised services; (3) Responsiveness is the desire of staff and employees to assist consumers and provide responsive services; (4) Assurance includes the knowledge, competence, courtesy and credentials of staff, free of danger, risk or doubt; (5) Emphaty (Empathy) includes the ease of making good communication connections, personal attention and understanding the needs of consumers.

### **2.3 Target Achievements**

Target Achievements is the achievement of the implementation of tasks according to standards of work or targets or criteria that have been determined in advance and has been mutually agreed. The targets associated with performance are the work that can be achieved by a person or group of people within a company in accordance with the authority and responsibility of each in an effort to achieve corporate objectives legally, not violating the law, not against moral and ethical (Rivai&Basri, 2005). Performance is the result or output of a process (Nurlaila, 2010). If target can finally be reached, then it can be said that the activity is effective but if the consequences are not sought activity assessing the important of the results achieved so as to result in satisfaction although effectively called inefficient. Conversely, if the consequences are sought is not important or trivial then the activity is efficient (Prawirosentono, 1999). Effectiveness is the level of use of organizational resources (energy, money, technology, raw materials) maximized with the intention of increasing the yield of each unit in the use of resources (Robbins, 2006). Attitudes to achieving targets are a subjective possibility for a person to behave with a motivational factor that demonstrates the willingness and effort to display the behavior. Human behavior is initiated by the desire. Desire is a form of human feeling or hope for certain conditions. Some understanding of intentions behaves is an indication someone has the ability to reach the target.

## **III. METHODOLOGY**

Conduct an assessment of the effect of bonus compensation and internal control on the achievement of targets with a quantitative approach. The location of the research in Bank Maju which is the underwriting name of the Government Bank under study. This is due to bank secrecy.

#### IV. RESULTS

Variables Entered/Removed<sup>b</sup>

Model	Variables Entered	Variables Removed	Method
1	INTERNAL CONTROL, BONUSCOMPENSATION <sup>a</sup>		Enter

a. All requested variables entered.

b. Dependent Variable: TARGET ACHIEVEMENT

This output explains the independent variables included in the model are internal control and bonus compensation. The variable dipendennya is the achievement of the target.

Model Summary<sup>b</sup>

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Durbin-Watson
1	.790 <sup>a</sup>	.625	.618	.62796	2.196

a. Predictors: (Constant), INTERNAL CONTROL, BONUS COMPENSATION

b. Dependent Variable: TARGET ACHIEVEMENTS

The value of R obtained 0.790 means the correlation between internal control variables and bonus compensation against the achievement of the target of 0.790. This verifies a very close relationship (value close to 1). R2 value of 0.625 means the percentage contribution of internal control variables and bonus compensation to the achievement of the target of 62.5% while the remaining 37.5% influenced by other variables not included in this model. Adjusted R Square is adjusted R Square, its value is 0.618. Standard Error of the Estimate is a prediction error measure, its value is 0.62796. This means that errors can occur in predicting the target achievement of 0.62796.

ANOVA<sup>b</sup>

Model		Sum of Squares	Df	Mean Square
1	Regression	76.788	2	38.394
	Residual	46.137	117	.394
	Total	122.925	119	

Significance value is 0.000 < 0.05. In conclusion there is a mutual influence between bonus compensation and internal control

a. Predictors: (Constant), INTERNAL CONTROL, KOMPENSASI BONUS

b. Dependent Variable: TARGET ACHIEVEMENTS

Coefficients<sup>a</sup>

Model		Unstandardized Coefficients		Standardized Coefficients	T	Sig.	Collinearity Statistics	
		B	Std. Error	Beta			Tolerance	VIF
1	(Constant)	1.269	.206		6.146	.000		
	BONUS COMP.	.364	.072	.436	5.051	.000	.430	2.323
	IC	.363	.077	.408	4.723	.000	.430	2.323

a. Dependent Variable: TARGET ACHIEVEMENTS

The value of significance for the bonus 0.000 variable compensation means that there is a partial influence between bonus compensation and target achievements. While for the internal control variables the significance of 0.000 means there is a partial influence between the internal control with the achievement of the target. The tolerance value of 0.43 greater than 0.1 and VIF is 2.323 < 10 so there is no multicollinearity. (according to Hair et al.1992)

Scatterplot



From the diagram above there is no clear pla, such as dots that spread above and below the number 0 on the Y axis, then there is no heteroskedastisitas in the regression model.

Multiple linear regression equation:  $Y = 1,269 + 0,364 X1 + 0,363X2$

Hypothesis: (Test the coefficient of regression together / Test F)

Ho: Compensation bonus and internal control together do not affect the achievement of targets

Ha: Bonus compensation and internal control together affect the achievement of targets

The result of Fhitung is  $97.364 > 3.074$  (Ftabel), then Ho is rejected

Conclusion: F arithmetic > F table then Ho rejected, so bonus compensation and internal control together to influence the achievement of targets.

Hypothesis based on significance:

Ho: Compensation bonus and internal control together do not affect the achievement of targets

Ha: Bonus compensation and internal control together affect the achievement of targets

The value of significance is  $0.000.0.000 < 0.005$ , then Ho is rejected

Conclusion: bonus compensation and internal control together affect the achievement of targets.

Partial regression coefficient test (t test)

Tests of bonus compensation bonus coefficients (b1)

Hypothesis

Ho: Bonus compensation partially does not affect the achievement of the target

Ha: Bonus compensation partially affects the achievement of targets

t calculate  $5.051 > t$  table 1,980 then Ho is rejected. So it can be concluded that bonus compensation partially effect on the achievement of targets

Testing coefficient of internal control variable (b2)

Hypothesis

Ho: Internal control compensation partially does not affect the achievement of targets

Ha: Internal control compensation partially affect the achievement of targets

t arithmetic  $4,723 > t$  table 1,980 then Ho rejected. So it can be concluded that the internal control partially affect the achievement of targets.

**Validity Test**

**Correlations**

		KOMPENSASI BONUS	INTERNAL CONTROL	PENCAPAIAN TARGET
KOMPENSASI BONUS	Pearson Correlation	1	.755**	.744**
	Sig. (2-tailed)		.000	.000
	N	120	120	120
INTERNAL CONTROL	Pearson Correlation	.755**	1	.737**
	Sig. (2-tailed)	.000		.000
	N	120	120	120
PENCAPAIAN TARGET	Pearson Correlation	.744**	.737**	1
	Sig. (2-tailed)	.000	.000	
	N	120	120	120

\*\* . Correlation is significant at the 0.01 level (2-tailed).

The value of significance  $0.000 < 0,05$  then item / data is valid.

**Test Reliability**

**Case Processing Summary**

		N	%
Cases	Valid	120	100.0
	Excluded <sup>a</sup>	0	.0
	Total	120	100.0

a. Listwise deletion based on all variables in the procedure.

This output explains that valid and reliable data amounts to 120 percentage of 100% and no data is excluded.

**Reliability Statistics**

Cronbach's Alpha	N of Items
.895	3

The output value of Cronbach's Alpha value is 0.895. According to Sekaran (2002) for values above 0.8 is good. So it can be said that these data are reliable.

## REFERENCES

### Journal

- [1]. Barata, A. A. (2004). *Dasar-Dasar Pelayanan Prima*. Penerbit: PT. Elex Media Komputindo, Jakarta.
- [2]. Budisantoso, T. (2006). *Bank dan Lembaga Keuangan Lain* (2nd ed.). Jakarta, Salemba Empat.
- [3]. Drake, A. R., Wong, J., & Salter, S. B. (2007). Empowerment, Motivation, and Performance: Examining the Impact of Feedback and Incentives on Nonmanagement Employees. *Behavioral Research in Accounting*, 19, 99.
- [4]. Fishbein, M., & Ajzen. (1988). *Attitude, Personality, and Behavior*. Addison-Wesley, Reading, Mass.
- [5]. Fredericson, J. R., & Waller, W. (2005). Carrot or Stick? Contract Frame and Use of Decision-Influencing Information in a Principal-Agent Setting. *Journal of Accounting Research*, 43, 733.
- [6]. G.B. Sprinkle. (2003). Perspectives on Experimental Research in Managerial Accounting. *Accounting, Organizations and Society*, 28, 318.
- [7]. Gerhart, B., & Milkovich, G. T. (1990). Organizational Differences in Managerial Compensation and Financial Performance. *Academy of Management Journal*, 33, 691.
- [8]. Ghozali, I. (2011). *Aplikasi Analisis Multivariate dengan Program SPSS*. Semarang: Badan Penerbit Universitas Diponegoro.
- [9]. Hannan, R. ., Hoffman, V. B., & Moser, D. V. (2005). Bonus versus Penalty: Does Contract Frame Affect Employee Effort? *Experimental Business Research*, 12, 156.
- [10]. Jensen, M. C., & Meckling, W. H. (1976). Theory of The Firm: Managerial Behavior, Agency cost and Ownership Structure. *Journal of Financial Economics*, 3, 360.
- [11]. K.M. Eisenhardt. (1989). Agency and Institutional Theory Explanations: The Case of Retail Ssales Compensation. *Academy of Management Journal*, 31, 512.
- [12]. Luft, J. (1994). Bonus and Penalty Incentives: Contract Choice by Employees. *Journal of Accounting and Economics*, 18, 207.
- [13]. Machrus, H., & Purnomo, U. (2010). Pengukuran Perilaku Berdasarkan Theory of Planned Behavior. *INSAN*, 12(01), 12.
- [14]. Navid, B. J., & Arad, H. (2010). A Clear Look at Internal Controls: Theory and Concepts. *Social Science Research Network*, 29, 235.
- [15]. Nurlaila. (2010). *Manajemen Sumber Daya Manusia I*. Penerbit: LepKhair, Jakarta.
- [16]. Prawirosentono, S. (1999). *Kebijakan Kinerja Karyawan*. Yogyakarta: BPFE.
- [17]. Ramadhanti, Wita. (2012). *Pengaruh Skema Kompensasi Terhadap Kinerja Pegawai Nonmanajemen, disertai tidak dipublikasikan*, Universitas Brawijaya, Malang
- [18]. Rivai, V., & Basri. (2005). *Performance Appraisal: Sistem Yang Tepat Untuk Menilai Kinerja Karyawan Dan Meningkatkan Daya Saing Perusahaan*. Jakarta: PT. RajaGrafindo Persada.
- [19]. Robbins, S. P. (2006). *Perilaku Organisasi Terjemahan*. Penerbit: PT. Indeks, Kelompok Gramedia, Jakarta.
- [20]. Schiffman, L., & Kanuk, L. (2008). *Consumer Behavior*. Prentice-Hall, Inc., englewood Cliffs, New Jersey.
- [21]. Smith, J. C. W., & Watts, R. L. (1992). The Investment Opportunity Set and Corporate Financing, Dividend, and Compensation Policies. *Academy of Management Journal*, 38, 292.
- [22]. Sprinkle, G.B. (2003). Perspective on Experimental Research in Managerial Accounting. *Accounting, Organizations and Society* Vol.28, pp.287-318
- [23]. Sugiyono. 2011. *Metode Penelitian Kuantitatif, Kualitatif dan R&D*. Bandung: Alfabeta
- [24]. Tjiptono, F. (2004). *Manajemen Jasa*. Penerbit: Andi, Yogyakarta.
- [25]. Tjiptono, F. (2006). *Pemasaran Jasa*. Penerbit: Bayu Media, Malang.
- [26]. Watts, R. L., & Zimmerman, J. L. (1986). *Positive Accounting Theory*. Prentice-Hall, Inc., englewood Cliffs, New Jersey.

Dwi Ekasari Harmadji. "The Effect of Bonus Compensation and Internal Control on Target Achievements (Case Study: Bank in Indonesia)." *International Journal of Business and Management Invention (IJBMI)*, vol. 6, no. 9, 2017, pp. 54–58.