



The Influence of Good Corporate Governance on Earning Management on Manufacturing Company Listed In Indonesia Stock Exchange

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ABSTRACT

This study aims to analyze the effect of good corporate governance on earning management in manufacturing company listed in Bursa Efek Indonesia for the period 2015 to 2020. The variables used in this study are managerial ownership, independent board of commissioners, institutional ownership, audit committee size and expertise. audit committee finance as an independent variable. Sampling using purposive sampling method, obtained a sample of 34 companies from 193 company populations with a total of 204 observations. The data used are the financial statements of each sample company, which are published through www.idx.co.id and www.invesnesia.com. The analytical method used in this study is a quantitative method, with classical assumption testing, as well as statistical analysis, namely multiple linear analysis. The results of the analysis show that simultaneously good corporate governance mechanisms, including managerial ownership, independent board of commissioners, institutional ownership, audit committee size and audit committee financial expertise have an effect on earning management. The results of the partial analysis show that the independent board of commissioners and the size of the audit committee have no effect on earning management, while managerial ownership, institutional ownership and financial expertise of the audit committee have a positive and significant effect on earning management.

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1. INTRODUCTION

Earning management is not a new practice in the scope of the accounting world, but it has become a culture within companies, both companies that have gone public and have not gone public (Lisboa, 2017). Some research evidence that has been carried out by Gu and Lee (2002), DeAngelo (1988), Holthausen and Sloan (1995) argues that earning management practices can appear in all financial reports, both quarterly and annually. This phenomenon can also indicate that earning management practices can occur throughout the accounting period.

Furthermore, empirical data conducted by Rangan (1998), Teoh (1998), Shivakumar (2000) and Ducharme (2000) explains that companies practice accrual earning management around additional stock offerings. Some of these practices are carried out in countries such as Brazil, where banking companies in 2012 experienced a financial crisis and had an impact on investors so that management carried out earning management by using loan loss allowance account management because it is the main discretionary account of financial institutions, and at that time banks have high leverage, which makes them vulnerable to asset price volatility and requires them to make constant adjustments to loan loss allowance accounts to maintain adequate coverage of their loan portfolios (Sani, Dhamari and Latif, 2019).

Thus, the credit allowance account is closely related to the income account and has an important influence on bank profitability so that income smoothing occurs (Sani et al., 2019). Earning management has also become a common phenomenon in Indonesia (Leuz, Dhananjan & Wysocki, 2003). This has become part of the company's culture, seeing that the practice is very influential on the value of the company by using generally accepted accounting principles. With the aim of stabilizing profit figures through the selection of accounting models or policies that can be allowed in Financial Accounting Standards (Wysocki, Nanda, Christian & Leuz, 2003).

Earning management practices have given rise to various pros and cons perspectives, even though earning management techniques themselves are regulated in accounting standards (Shazad, 2016). Some researchers including, Dechow and Skinner (2000) explain that there is an attitude that agrees that earning management practices can be carried out, and are not a form of manipulation behavior. As long as the practice remains within the limits of generally accepted accounting principles. On the other hand, those who do not agree that earning management is the same as earning manipulation (Riduwan, 2010).

Therefore, Positive Accounting Theory from the perspective of efficient contracting explains that earning management practices are considered good as a legitimacy tool, namely the management has the ability to manage earning. When dealing with incomplete or rigid contracts, with the aim of protecting the interests of management and stakeholders involved in the contract (Agung and Dewi, 2020). Under these conditions, the application of managers' performance-based management practices for incentive bonuses, debt covenants, and political costs must be carried out with caution. Because this practice can result in opportunistic behavior (Denies, 2016).

Sulistiyowati and Yuniati (2018) confirm that the practice of income management is a legitimate action. Although there are no regulations that explain the validity of earning management in the preparation of financial statements. Only refers to accounting principles, especially financial accounting standards (SAK). According to signaling theory (Ross, 1977), earning management is a form of manager behavior in managing earning with the aim of conveying internal information, related to the company's future potential. It also functions as a market information process (signaling mechanism).

Through these practices, management will be able to influence market prices, which in turn can generate balanced profits and show business growth over time (Priantinah, 2016). Earning management practices can be a signal where the company's internal information can be communicated to the company's external parties. Some empirical evidence by a number of researchers has shown that earning management practices are a signal in facilitating efficient communication between management and information users. Among others, Ronen and Sadan (1980), Demski, J (1998), Lambert (1984), Dye (1988), Trueman and Titman (1988), Suh (1990), Wang and Williams (1994), Chaney and Lewis (1995), Hunt, Moyer & Shevlin (1997), Bartov, Givoly & Hayn (2002) and Lev (1989).

The signals provided by earning management are used to increase the value of financial information and strengthen investors' ability to predict future company performance (Alexander and Hengky, 2017). Earning management is a topic that is widely

studied, especially in the field of accounting. However, previous research has only focused on earning management metrics in an accrual-based earning management framework (Cohen & Zarowin, 2010; Mc Vay, 2006 & Roychowdhury, 2006). Meanwhile, according to the results of research conducted by Zang (2006) that earning management can be done by various techniques.

The Good Corporate Governance mechanism strongly supports signaling theory in earning management practices which are believed that management will provide certainty for stakeholders and shareholders to be able to realize a clean, healthy, responsible business, and can manage the company well (Hamid, 2017). The structure of Good Corporate Governance also provides facilities in determining the company's goals. And as a means to determine work monitoring techniques (Lutfi and Nazwar, 2016).

Theoretically, management holds a high percentage of shares, automatically creating a sense of belonging to the company. Management holding shares in the company will be considered by the contracting parties, such as the selection of the audit committee which creates the need for quality financial reports by shareholders, owners, debtors and users of financial statements to ensure the effectiveness of the signed contracts. This will motivate management to prepare quality financial reports.

The topic of earning management practices has been widely carried out by researchers using various methods and models to examine the effect of various variables on earning management, and the results of their research are varied. Thus, researchers want to focus on measuring earning management with two methods, namely accruals and real, because there are still few previous studies that use the real method in testing earning management variables. And want to see earning management from the perspective of efficient contracting from signaling theory, because previous research has always focused on earning management actions as opportunistic behavior.

2. RESEARCH METHOD

2.1 Research Place

This research was conducted in manufacture sector companies listed on IDX in 2015-2020.

2.2 Population and Sample

The population used in this study is the manufacturing sector companies listed on the Indonesia Stock Exchange, totaling 34 companies.

2.3 Research Variables

The variable used in this study is the dependent variable (Y), namely Earning Management in Manufacturing Companies listed on the Indonesia Stock Exchange, while the independent variables consist of Effect of managerial ownership (X1), independent board of commissioners (X2), institutional ownership (X3), audit committee size (X4) and audit committee financial expert (X5)

2.4 Data Analysis Method

Data analysis technique is a method used in analyzing data to find out the results of research. The analytical method used is descriptive statistical test, classical assumption test, and multiple linear regression analysis with statistical data processing software, namely SPSS.

2.5 Earning Management

Earning management is an activity carried out by managers to choose accounting policies in order to achieve certain accounting policies and objectives, including the use of accrual accounting in the preparation of financial statements. Earning management is a practice where managers are given flexibility in determining financial policies to protect the company in anticipating unexpected events. With the aim, for the benefit of the parties involved in the contract. for example by making income smoothing so that it will show the company's profit growth over time (Scott, 1997).

2.6 Managerial Ownership

According to Widyasari (2015) managerial ownership is a number of shares owned by management, which has the same rights as other shareholders, to make decisions on the company. Managers who are also business owners will bear all risks in the form of profits or losses caused by inappropriate decisions.

2.7 Independent Board Of Commissioners

According to the National Committee on Governance Policy (2006), members of the independent board of commissioners are members of the supervisory board who are not under management, other members of the supervisory board and the majority shareholder. Having a relationship that can affect the ability of the board of commissioners to act independently. The independent Board of Commissioners has the function to independently evaluate the company's activities. The existence of an independent board of commissioners in a company supports a supervisory system to account for the company's operating activities (Midiastuty and Machfoedz, 2003).

2.8 Institutional Ownership

Institutional ownership is ownership of company shares owned by organizations or institutions such as insurance companies, banks and other institutional assets (Tarjo, 2008). A high level of institutional ownership will lead to an increase in supervisory efforts by institutional investors, to reduce the manager's desire to behave opportunistically (Tarjo, 2008).

2.9 Audit Committee Size

According to Arrens (2010), the definition of an audit committee is a number of members of a company's board of directors who are elected with the responsibility to assist independent auditors. Most audit committees consist of three to five or sometimes up to seven non-managerial directors of the company. The statement explains that in general, the audit committee consists of three to five or even seven people who are not part of the company's management and whose members are independent (Arrens, 2010).

2.10 Audit Committee Financial Expert

The quality of financial reporting can be influenced by the quality and characteristics of the audit committee (Kamarudin, Khairul and Ismail, 201). The ability of audit committee members is very important, seeing the role and function of the audit committee is to oversee financial reporting and accounting processes within the company (Kamarudin et al., 2014). The Security and Exchange Committee explained that the audit committee is an expert in finance, if the audit committee has training or experience in working in the accounting, audit, chief and financial supervisory fields (Abernathy and John, 2013).

3. RESULTS AND DISCUSSIONS

3.1 Descriptive Statistics

In this study, the instrument used to collect data was data from the financial statements of 34 manufacturing companies from 2015-2020 published by www.idx.co.id which were then processed by researchers.

Table.1 Descriptive Statistics

Variable	Min	Max	Mean	Std. Deviation
earning management	-0,95151603	0,956941533	0,00795186	0,486390
managerial ownership	0,00002740	0,627340	0,08247054	0,167258
Independent board of commissioners	0,200000	0,666667	0,36939458	0,084604
institutional ownership	0,050975	0,995518	0,65366425	0,222184
audit committee size	2,000000	5,000000	3,07	0,365
audit committee financial expert	0,20000	1,000000	0,605882	0,188941

Source: IBM SPSS Statistics V27 questionnaire data processing results

3.2 Results

Effect of Good Corporate Governance on Earning Management.

Table 2 Result of Multiple Analysis

Model		Coefficients ^a			t	Sig.
		Unstandardized Coefficients		Standardized Coefficients		
		B	Std. Error	Beta		
1	(Constant)	-.757	.323		1.852	.066
	KM (X1)	.592	.153	.246	2.966	.003
	DKI (X2)	.387	.282	.082	1.174	.242
	KI (X3)	.742	.107	.267	3.222	.001
	UKA (X4)	-.014	.097	-.081	-1.154	.250
	KKKA (X5)	.014	.114	.061	2.861	.030

Source : Primary data processed, 2022

Table 3. Result of Coefficient of Determination

Model	Model Summary ^b		
	R	R Square	Adjusted R Square
1	.266 ^a	.464	.457

Source : Primary data processed, 2022

Table 4. F / Simultaneous Test Results

Model	Sum of Squares	df	Mean Square	F	Sig.	
1	Regression	1.937	5	.387	3.004	.012 ^b
	Residual	25.528	198	.129		
	Total	27.465	203			

Source : Primary data processed, 2022

3.3 Partial Significance Test (Statistical Test-t)

- The significance value of Managerial Ownership which is 0.003 is smaller than the sig t value of 5%. Indicating that managerial ownership has a positive and significant effect on earning management.
- The significance value of the Board of Independent Commissioners, which is 0.242, is greater than the sig t value of 5%. Indicating that the Independent Board of Commissioners has no effect on earning management.
- The significance value of Institutional Ownership which is 0.001 is smaller than the t value of 5%. Indicating that institutional ownership has a positive and significant effect on earning management.
- The significance value of the Audit Committee Size, which is 0.250, is greater than the sig t value of 5%. Shows that the size of the audit committee has no effect on earning management.
- The significance value of the Audit Committee's Financial Expertise, which is 0.030, is smaller than the sig t value of 5%. Indicating that the Audit Committee's Financial Expertise has a positive and significant effect on earning management:

3.4 Coefficient Of Determination

F statistical test was conducted to determine whether managerial ownership, independent board of commissioners, institutional ownership, audit committee size and audit committee financial expertise simultaneously affect earning management. Based on table 4. it is known that the probability value (F-statistics) is $0.012 < 0.05$, it can be concluded that all independent variables, namely managerial ownership, independent commissioners, institutional ownership, audit committee size and audit committee

financial expertise simultaneously have a significant effect on earning management variables.

4. CONCLUSION

Managerial ownership, independent board of commissioners, institutional ownership, audit committee size and audit committee financial expertise simultaneously or jointly affect earning management practices. Based on the test results and statistical analysis partially managerial ownership, institutional ownership, financial expertise of the audit committee have a positive and significant effect on earning management. Based on the test results and partial statistical analysis, the independent board of commissioners variables and the size of the audit committee have no positive and significant effect on earning management..

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