THE FACTORS WHICH INFLUENCE EARNINGS MANAGEMENT WITH GOOD CORPORATE GOVERNANCE AS MODERATING VARIABLE IN MANUFACTURE COMPANIES LISTED IN BEI

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Abstract: The objective of the research was to find out some factors which influenced earnings management consisted of Information asymmetry, firm size, leverage, institutional ownership, and profitability with good corporate governance proxied with independent board of commissioners and audit committee as moderating variable in manufacture companies listed in BEI in the period of 2013-2015. The research used hypothetical test or explanatory research method. The population was 144 manufacture companies listed in BEI, and 106 of them were used as the samples, taken by using proportional random sampling technique. The result of the research showed that, simultaneously, Information asymmetry, firm size, leverage, institutional ownership, and profitability influenced earnings management. Partially, Information asymmetry and profitability influenced earnings management, while firm size, leverage, and institutional ownership did not have any influence on earnings management. Good corporate governance which proxied with independent board of commissioners and audit committee was moderating variable in this research in which independent board of commissioners and audit committee were not the variables which could moderate the influence of Information asymmetry, firm size, leverage, institutional ownership, and profitability on earnings management.

Keywords: Information asymmetry, Firm Size, Leverage, Institutional Ownership, Profitability, Earnings management, Good Corprate Governance

I. INTRODUCTION

Information from financial statements ie profit information is often the target of engineering through opportunistic management actions to maximize satisfaction. If a condition in which the management fails to achieve the specified profit target, management will utilize the flexibility allowed by accounting standards in preparing financial statements to modify reported earnings.

The case of PT Indofarma occurred when BAPEPAM found indications of concealment of important information regarding losses for two consecutive years suffered by PT Indofarma Tbk. From the research results, also found evidence in between, the value of Goods In Process rated higher than the value that should (overstated) in the presentation of the value of inventory in the process in the year 2001 amounted to Rp 28.87 billion. In addition to these cases there are several other cases of earnings management revealed in Indonesia such as cases that occurred at PT. Ades Alfindo, PT. Bank Lippo Tbk, PT. Perusahaan Gas Negara, and others (Sulistiawan, Januarsi and Alvia, 2011). Financial scandals also occur in developed countries, such as the United States (US), such as Enron, Merck, World Com and the majority of other companies in the United States (Cornett, Saunders and Tehranian, 2006).

The phenomenon of earnings management often occurs when the initial public offering or IPO. When companies conduct IPOs, there is often an imbalance of information between investors and firms that offer shares (issuers). The Managers can prepare financial statements by choosing accounting or accrual methods that will increase profits, and high profits are expected to be highly valued by investors in the form of high bid prices (Assih, Hastuti and Parawiyati, 2005).

Earnings management occurs when management uses certain decisions in financial reporting and the preparation of transactions that alter financial statements, it aims to mislead the stakeholders about the conditions of the firm's economic performance, as well as to influence the contractual income that controls the reported accounting figures. The impact of earnings management is earnings management proven to result in a decrease in the relevance of earnings values but has no impact on book value of equity, when firms make earnings management through total discretionary accruals (Kusuma, 2006).

According to agency theory, to overcome the problem of nonconformity of interest between principal and agent can be done through good corporate governance (Midiastuty & Machfoedz, 2003). As revealed by Veronica and Bachtiar (2004) good corporate governance is one way to control opportunistic actions undertaken by management.

II. LITERATURE REVIEW

Earnings management

Earnings management can be interpreted as an act of determining profit in such a way as to play out the revenue and expense items in the profit and loss statement either through the use of alternative election methods or through operations and other actions as long as it does not violate the existing standard provisions. In this research the ratio used in determining earnings management is discretionary accruals calculated using Modified Jones Model.

Information Asymmetry and Bid-ask Spread Theory

Information asymmetry is a situation in which managers have access to information on prospects companies in the future compared to shareholders or other stakeholders. Bid-ask Spread is the difference between the bid price that causes the investor to be willing to buy a certain stock with the lowest asking price that causes the investor to sell their shares. The use of bid-ask spreads as a proxy for information asymmetry due to capital market mechanisms, capital market actors also face agency problems (Komalasari 2001).

Firm Size

Mukhlasin (2002) states the size of the company is the proxy of operational volatility and inventory controlability that should be in economies of scale the size of the company shows the achievement of current operations and inventory control. The size of the company can be classified by: total assets, stock market value, total sales and others.

Leverage

Leverage is the ability of a company to use assets or funds that have a fixed burden (debt) effectively so as to obtain an optimal level of business income (Arrita, 2004).

Institutional ownership
Institutional ownership is the ownership of shares of companies owned by institutions or institutions such as insurance companies, banks, and other institutional ownership (Tarjo, 2008).

Profitability
Profitability is the ratio used in measuring the effectiveness of management based on the profit obtained from a company from its operational activities. Agustina (2014) argues that profitability is a company's ability to generate profits in an effort to increase shareholder value.

Good Corporate Governance
Independent Board of Commissioners
Independent Board of Commissioners are members of the board of commissioners who are not affiliated with the management, other members of the board of commissioners and controlling shareholders and are free from any business relationship or other relationship that may affect their ability to act independently or act solely for the benefit of the company (KNKG, 2006).

Audit Committee
The audit committee is the additional organs required for performing the functions of the directors in carrying out the management of the company and performing important tasks related to the financial reporting system (KNKG, 2006).

CONCEPTUAL FRAMEWORK
The form of conceptual framework can be described as follows:

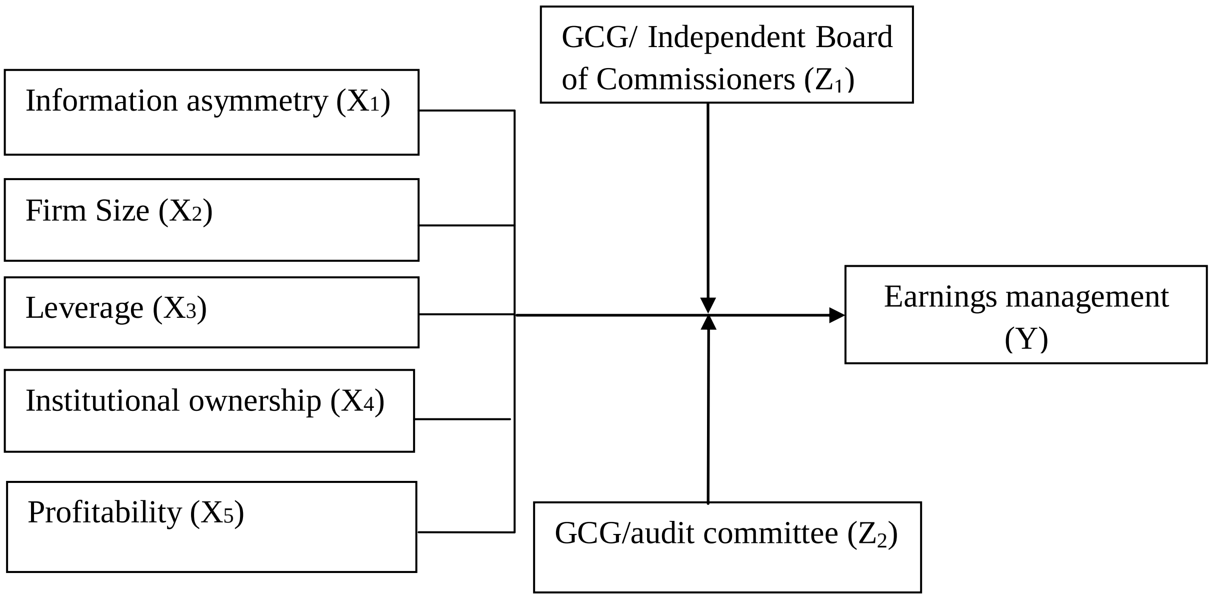

Figure 2.1. Conceptual framework

From the conceptual framework above, the researcher intends to examine the effect of information asymmetry (AI), firm size (UP), leverage (LEV), institutional ownership (KI) and profitability (PR) to earnings management (M) with good corporate governance proxied with independent board of commissioners (DKI) and audit committee (KA) as moderating variable so the hypothesis in this research is as follows:

1. Information asymmetry, firm size, leverage, institutional ownership and profitability affect simultaneously and partially toward earnings management.
2. Good corporate governance mechanisms with Independent Board of Commissioners indicators are able to moderate the relationship of information asymmetry, firm size, leverage, institutional ownership and profitability with earnings management.
3. Good corporate governance mechanisms with audit committee indicators able to moderate the relationship of information asymmetry, firm size, leverage, institutional ownership and profitability with earnings management.

Research Methods

This research is more specifically intended as research of hypothesis testing or explanation research to test the hypothesis that explain the phenomenon in the form of relationship between variables so that it can give answer to the problem (Indriantoro and Supomo, 2002). This research is conducted on Indonesia Stock Exchange which provides audited financial report data by accessing and downloading the official website of Indonesia Stock Exchange through www.idx.co.id and ICMD website. The population in this research are all manufacturing companies listed on the Indonesia Stock Exchange (BEI) amounted to 144 are grouped by sector of the company. Sampling technique using proportional stratified random sampling method. The research data was processed using SPSS support.

Data Analysis Method

Data analysis is needed to answer the formulation of the problem and test the hypothesis that has been proposed, the data analysis technique used is a statistical analysis tool that is multiple linear regression analysis intended to see the relationship pattern of more than one independent variable to the dependent variable and its processing using SPSS program tools such as descriptive statistics, classical assumption test, multiple linear regression and hypothesis test.

III RESULTS AND DISCUSSIONS

Descriptive Statistics

Descriptive Statistics

Descriptive Statistics

	N	Minimum	Maximum	Mean	Std. Deviation
AI	318	.0000	1.9772	.597261	.3673182
UP	318	21.3225	33.1341	2.833715E1	1.6517603
LEV	318	.0219	3.0291	.511542	.3401642
KI	318	.1000	1.0000	.960597	.1280690
PR	318	-1.5970	1.6313	.073005	.2312895
M	318	-.3301	.3143	.021826	.0867595
DKI	318	.0000	1.0000	.409250	.1609891
KA	318	.0000	5.0000	2.795597E0	.9155403
Valid N (listwise)	318				

Sumber: Data diolah SPSS

The table above shows the measurement of variables from N as many as 318 (three hundred eighteen) in which all variables show varying data.

Normality Test

Normality Test

One-Sample Kolmogorov-Smirnov Test

		Unstandardized Residual
N		318
Normal Parameters[a]	Mean	.0000000
	Std. Deviation	.08394729
Most Extreme Differences	Absolute	.063
	Positive	.052
	Negative	-.063
Kolmogorov-Smirnov Z		1.128
Asymp. Sig. (2-tailed)		.157

a. Test distribution is Normal.

Based on the table can be seen that a significant value of 0.157 greater than 0.05 it can be concluded that the data is normally distributed.

Multicolinearity Test

Multicolinearity Test

Coefficients[a]

Model		Unstandardized Coefficients		Standardized Coefficients	T	Sig.	Collinearity Statistics	
		B	Std. Error	Beta			Tolerance	VIF
1	(Constant)	.061	.087		.698	.486		
	AI	.028	.013	.119	2.148	.032	.986	1.014
	UP	-.003	.003	-.062	-1.118	.264	.985	1.016
	LEV	.015	.014	.058	1.037	.301	.971	1.030
	KI	.035	.038	.052	.940	.348	.972	1.029
	PR	-.073	.021	-.194	-3.490	.001	.971	1.030

a. Dependent Variable: Earnings Management

From the above table it is found that all independent variables have Tolerance value greater than 0.1 and VIF value less than 10. Thus in the regression model not found multicolonierity problem.

Heteroscedasticity Test

Glejser Test

Coefficients[a]

Model		Unstandardized Coefficients		Standardized Coefficients	T	Sig.
		B	Std. Error	Beta		
1	(Constant)	.139	.056		2.471	.014
	AI	-.013	.008	-.084	-1.493	.136
	UP	-.002	.002	-.075	-1.324	.187
	LEV	.005	.009	.029	.513	.608
	KI	-.004	.024	-.008	-.148	.883
	PR	.021	.015	.078	1.371	.171

a. Dependent Variable: AbsRes_1

From the table above can be seen that the significant value of all independent variables above 0.05, it can be concluded that there is no heterokedaktisitas in this research.

Autocorrelation Test

Autocorrelation Test

Model Summary[b]

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Durbin-Watson
1	.253[a]	.064	.049	.0846173	2.042

a. Predictors: (Constant), PR, AI, UP, KI, LEV
b. Dependent Variable: Earnings Management

From the autocorrelation test, the DW value of 2,042 values will be compared with the value of the table using the significance value of 5%, the sample number 200 (n) and the number of independent variables 5 (k = 5) then du = 1.820 so that 1.820 <2.042 <2.180 (4 - du) and it can be concluded there is no autocorrelation.

Multiple Linear Regression Analysis

Multiple Linear Regression Analysis

Coefficients[a]

Model		Unstandardized Coefficients		Standardized Coefficients	T	Sig.
		B	Std. Error	Beta		
1	(Constant)	.061	.087		.698	.486
	AI	.028	.013	.119	2.148	.032
	UP	-.003	.003	-.062	-1.118	.264
	LEV	.015	.014	.058	1.037	.301
	KI	.035	.038	.052	.940	.348
	PR	-.073	.021	-.194	-3.490	.001

a. Dependent Variable: Earnings Management

Based on the above table can be made regression equation as follows:

$$Y = 0.061 + 0.028AI - 0.003UP + 0.015LEV + 0.033KI - 0.073PR + ei$$

The First Hypothesis Testing

Determination Coefficient Test

Determination Coefficient Test

Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.253[a]	.064	.049	.0846173

a. Predictors: (Constant), PR, AI, UP, KI, LEV

Based on the above table obtained Adjusted R Square number of 0.049 or (4.9%). This means that as much as 4.9% of the dependent variable (earnings management) can be explained by independent variables while the rest of 95.1% is explained by other variables not included in this research.

F Test

F Test

ANOVA[b]

Model		Sum of Squares	Df	Mean Square	F	Sig.
1	Regression	.152	5	.030	4.251	.001[a]
	Residual	2.234	312	.007		
	Total	2.386	317			

a. Predictors: (Constant), PR, AI, UP, KI, LEV
b. Dependent Variable: Earnings Management

Based on the table obtained the value of F arithmetic of 4.251 greater than F table 2.26 and significant value of F test of 0.001 smaller than alpha 0.05 so it can be concluded that simultaneously asymmetry information (AI), firm size (UP), leverage (LEV), institutional ownership (KI) and profitability (PR) have a significant effect on earnings management (M).

t Test

t Test

Coefficients[a]

Model		Unstandardized Coefficients		Standardized Coefficients	T	Sig.
		B	Std. Error	Beta		
1	(Constant)	.061	.087		.698	.486
	AI	.028	.013	.119	2.148	.032
	UP	-.003	.003	-.062	-1.118	.264
	LEV	.015	.014	.058	1.037	.301
	KI	.035	.038	.052	.940	.348
	PR	-.073	.021	-.194	-3.490	.001

a. Dependent Variable: Earnings Management

Based on the test results in the above table, the partial variable asymmetry of information (AI) and variable profitability (PR) has a significant value smaller than alpha 0.05 so it can be concluded that information asymmetry and profitability have a significant effect on earnings management (M). The firm size (UP), leverage (LEV) and institutional ownership (KI) have significant value greater than alpha 0,05 so it can be concluded that firm size of leverage and institutional ownership have no effect on earnings management (M).

The Second Hypothesis Testing

First Residual Test Results

Coefficients[a]

Model		Unstandardized Coefficients		Standardized Coefficients	T	Sig.
		B	Std. Error	Beta		
1	(Constant)	.102	.007		14.860	.000
	M	.014	.077	.010	.176	.860

a. Dependent Variable: AbsRes_1

From the above equation the coefficient value of the parameter is positive 0,014 and not significant because significant value of earnings management 0,860 bigger than alpha 0,05, hence concluded that independent board is not a variable that can moderate influence between information asymmetry, firm size, leverage, institutional ownership and profitability to earnings management. The board of independent commissioners is considered a moderating variable if the value of negative coefficient and significant value is less than alpha 0.05.

The Third Hypothesis Testing

Second Residual Test Results

Coefficients[a]

Model		Unstandardized Coefficients		Standardized Coefficients		
		B	Std. Error	Beta	T	Sig.
1	(Constant)	.531	.041		12.809	.000
	M	-.321	.464	-.039	-.692	.490

a. Dependent Variable: AbsRes_1

From the above table, the coefficient value of the parameter is negative 0,321 and not significant because significant value of earnings management 0,490 bigger than alpha 0,05, hence concluded that audit committee is not a variable that can moderate influence between information asymmetry, firm size, leverage, institutional ownership and profitability to earnings management. The audit committee is considered a moderating variable if the value of negative coefficient and significant value is less than alpha 0.05.

Conclusions and Recommendations

Conclusions

Based on the results of research that has been described previously it can be concluded as follows:

1. Information asymmetry, firm size, leverage, institutional ownership and profitability simultaneously affect earnings management. Partially information asymmetry and profitability have an effect on earnings management while firm size, leverage and institutional ownership have no effect to earnings management.
2. Independent board of commissioners is not a variable that can moderate the relationship of information asymmetry, firm size, leverage, institutional ownership and profitability with earnings management.
3. The audit committee is not a variable that can moderate the relationship of information asymmetry, firm size, leverage, institutional ownership and profitability with earnings management.

Limitations of Research

Some limitations in this study, among others:

1. The sample of this study is only manufacturing companies listed on the BEI period of 3 years ie 2013 - 2015. This causes the results of research can not be generalized to other types of companies.
2. The moderating variable of good corporate governance uses only 2 proxies ie independent board of commissioners and audit committee, so it may not reflect good corporate governance as a whole.

Recommendations

1. For further research it is advisable to use samples from other types of companies such as banking, communications, services and others.
2. In subsequent research using good corporate governance as moderating it is recommended to use other proxies such as managerial ownership, audit quality and others.
3. Further research is suggested to use different proxies to measure firm size such as total sales and others to know the results obtained when using different proxies.

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