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THE EFFECT OF CORPORATE GOVERNANCE MECHANISM ON EARNINGS MANAGEMENT ACTIVITIES (Empirical Study in Manufacturing Companies of Food and Beverage Sub Sectors Listed On Stock Exchange of Indonesia 2012-2016)

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ABSTRACT

The phenomenon of the manipulation of earnings management raises a sense of distrust of investors against financial statements presented by the company. The number of cases concerning earnings management in Indonesia based on the balance sheet (2012) the financial services authority suspect the manipulation of financial statements on 2012 conducted management of Bakrie group, PT Bakrie Bumi Resources Tbk (BUMI).This research aimed to examine the effect of corporate governance mechanism on earnings management activities. Corporate governance mechanism used in this research are the structure of managerial ownership, institutional ownership structure, the proportion of independent board, audit committee.Types of research used in this study is verificative research. The object of this research is corporate governance mechanism. The datas are collected by using literature study methods and documentation. The data sources of this research used datas of manufacturing firms listed on the Indonesia Stock Exchange (IDX). And the datas are taken from financial statements report and annual report 2012-2016. The results showed that : (1) partiallymanagerial ownership structure has no significant effect on earning management, (2)partiallyinstitutional ownership structure has no significant effect on earning management, (3) partiallyproportion of independent board has no significant effect on earning management, (4) partial, audit committee has a significant positive effect on earning management, (5) simultaneouslythe structure of managerial ownership, institutional ownership structure, proportion of independent board and audit committee, have a significant effect on earnings management.

Key Words: Corporate Governance, The Structure of Managerial Ownership, Institutional Ownership Structure, Proportion of Independent Board, Audit Committee, Earning Management

1. INTRODUCTION

The financial statements are summaries of the recording of financial transactions occurring during a period. Chariri and Ghozali (2007) stated that one of the objectives of financial reporting is to provide financial information that can show the achievement of the company in generating profit (earning per share).The Profit / Loss Report is a report that measures the success of a company's operations over a period of time (Kieso and Weygandt, 2002. This profit information is often the target of opportunistic management's action engineering to maximize its satisfaction.) The opportunist act is done by choosing specific accounting policies, regulated, raised or lowered in accordance with his wishes Management behavior to manage earnings in accordance with the wishes is known as earnings management (earnings management).

The company's earnings management emerged because of the agency between shareholders and managers. The relationship between shareholders and managers described in agency theory. The agency theory is a theory that explains that agency relations arise when one or more people hire another agent to provide one service and then delegate decision-making authority to the agent (Jens en and Meckling, 1976).

According to Boediono (2005), profit management action has caused some cases of accounting reporting scandal in the business world in Indonesia as happened in PT Kimia FarmaTbk. In 2002 found the inflation net profit on the financial statements of PT. Kimia Farma book year 2001. It started from the findings of public accountant Hans Tuanakotta and Mustofa (HTM) about mismatch in the financial statements of the first semester of 2001. Mark up worth Rp 32.7 Billion, because in the financial statements that should earn Rp 99, 6 Billion is written Rp 132.3 Billion, with net sales of Rp 1.42 trillion. The phenomenon of a case of earnings management practices raises a sense of investor distrust of the financial statements presented by the company. This research replicates the research conducted by Restie (2010), with the object of research of manufacturing companies listed on Indonesia Stock Exchange (BEI). This study seeks to investigate the practice of earnings management and reexamine factors that influence such as ownership concentration and corporate governance mechanisms.

2. LITERATURE REVIEW

2.1. Corporate Governance

As for some understanding of good corporate governance from experts and institutions Good Corporate Governance (GCG), namely:

1. According to Sutedi (2012: 1), good corporate governance is:

   "a process and structure used by company organs (Shareholders / Capital Owners, Commissioners / Supervisory Board, and Board of Directors) to improve business success and corporate accountability in order to keep the interests of other stakeholders based on legislation and ethical values"

2. According to Daniri (2014: 5), good corporate governance is:

   "The structures and processes (Rules of Systems and Procedures) to ensure the Principles of Travel migrate into culture, direct and control the company to achieve sustainable growth, increase added value while maintaining a balance of stakeholder interests in accordance with sound corporate principles and applicable legislation ".

2.1.1. Principles of Good Corporate Governance

The principles of good corporate governance according to Daniri (2014: 25) are:

1. Transparency

   Openness in carrying out the process of decision making and openness in bringing material and relevant information about the effective.

2. Accountability

   Clarity of functions, implementation and accountability of corporate organs so that the management of the company implemented effectively.

3. Responsibility
   Compliance in the management of the company against the prevailing laws and regulations and the principles of healthy corporations.
4. Independency
   situation in which the company is professionally managed without conflict of interest and influence / pressure from any party that is inconsistent with applicable legislation and sound corporate principles.
5. Fairness
   Justice and equity in fulfilling the rights of stakeholders arising under the applicable laws and regulations.

2.1.2. Corporate Governance Mechanism

Mechanisms are the way things work systematically to meet certain requirements. There are four corporate governance mechanisms that are often used in various studies on corporate governance that aim to reduce agency conflicts:

a. Managerial ownership

Ownership structure is the percentage of shares owned by insider shareholder and percentage of shares owned by outsider shareholder.

b. Institutional ownership

Institutional ownership is the ownership of shares owned by parties in the form of institutions, such as investment companies, banks, insurance companies and other institutions (Gideon, 2005).

c. Independent Commissioner

The term independent commissioners indicate their existence as representatives of independent shareholders (minorities) and also represents the interests of investors (Surya and Yustiavandana, 2008).

d. Audit Committee

The audit committee is formed by the board of commissioners to perform the necessary inspection or research on the implementation of the functions of the board of directors in carrying out the management of the company and performs important tasks related to the financial reporting system.

2.2. Earnings Management

Sugiri (1998) in Ubadah et al. divide the definition of earnings management into two, namely:

1. The definition is narrow

earnings management in this case is only related to the selection of accounting methods, earnings management in this narrow sense is defined as the behavior of managers to "play" with the discretionary accrual component in determining the amount of earnings.

2. Broad definition

earnings management is the actions of managers to increase (decrease) current reported profits on a unit in which managers are responsible without causing an increase (decrease) of long-term economic profitability of the unit.

2.2.1. Factors Drivers Manajamen Profit

In positive accounting theory, there are three hypotheses behind themanagement of earnings, Watt and Zimmerman (1986) in Rahmawati et al (2006), namely:

1. Bonus Plan Hypothesis
2. Debt Covenant Hypothesis
3. Political Cost Hypothesis

2.2.2. Profit Management Technique

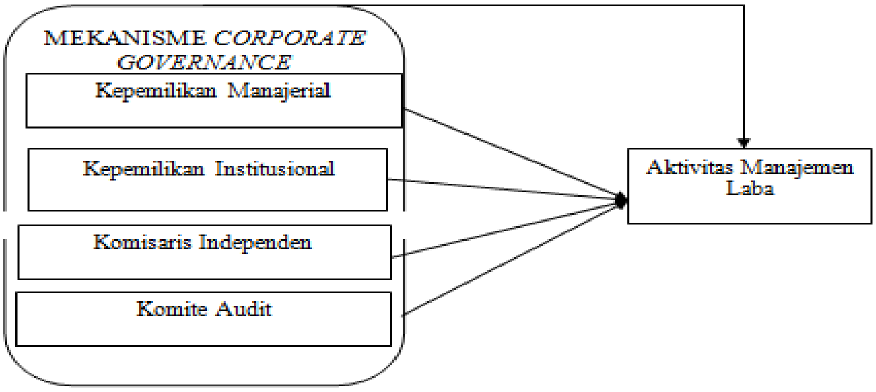
Techniques and patterns of earnings management according Ujiyantho (2007) can be done with three techniques, namely:

1. Leverage opportunities to make accounting estimates
2. Change the accounting method

3. Shift the cost or income period

2.3. Hypothesis

Gambar 1
Model Penelitian



H_1. Kepemilikan manajerial berpengaruh terhadap aktivitas manajemen laba
H_2. Kepemilikan institusional tidak berpengaruh terhadap aktivitas manajemen laba
H_3. Proporsi dewan komisaris independen tidak berpengaruh terhadap aktivitas manajemen laba
H_4. Keberadaan komite audit tidak berpengaruh terhadap aktivitas manajemen laba
H_5. Kepemilikan Manajerial, Kepemilikan institusional, proporsi dewan komisaris dan Keberadaan komite audit sama-sama (simultan) berpengaruh positif terhadap aktivitas manajemen laba

3. RESEARCH METHODOLOGY

3.1. Types of research

Type or form of research used in this research is verificative which aims to test the truth of something (science) that already exist. The object of this study is corporate governance mechanisms that include institutional ownership, managerial ownership, the proportion of independent board of commissioners, and audit committees.

The unit of analysis used in this study is a group, ie data source whose unit of analysis is a response derived from the issuer listed in the research location in Indonesia Stock Exchange food and beverage sub sector. this study is secondary data, data obtained from pre-existing sources using company data listed on Indonesia Stock Exchange (IDX), such as financial report and annual report year 2012-2016.

3.2. Variable Research and Operational Variables

3.2.1. Dependent Variables

Earnings management is a condition in which management intervenes in the process of preparing financial statements for external parties so as to level, raise, and lower earnings reporting. Measurement of earnings management using discretionary accrual (DAC). In this study discretionary accrual is used as a proxy because it is a component that can be manipulated by managers such as credit sales.

3.2.2. Independent Variables

Independent variables used in this research are corporate governance mechanism with proxy of institutional ownership concentration, managerial ownership concentration, proportion of independent board of commissioner, and existence of audit committee.

Table 3.1. Variable Operationalization

Operasionalisasi Variabel

NO	Variabel	Indikator	Satuan Ukuran	Skala
1	Mekanisme Corporate Governance	Kepemilikan manajerial	$= \frac{jumlah\ saham\ yang\ dimiliki\ manajemen}{jumlah\ saham\ yang\ dikelola}$	Rasio
		Kepemilikan institusional	$= \frac{jumlah\ saham\ institusi}{jumlah\ saham\ yang\ beredar\ di\ pasar}$	Rasio
		Proporsi dewan komisaris independen	$= \frac{jumlah\ dewan\ komisaris\ independen}{jumlah\ dewan\ komisaris}$	Rasio
		Proporsi Komite audit	$= \frac{anggota\ komite\ audit\ dari\ luar}{seluruh\ anggota\ komite\ audit}$	Rasio
2	Manajemen laba	*Discretionary accruals*	$= (TAC_t / A_t - 1) - NDA_t$	Rasio

Source: secondary data 2017, processed

3.3. Sample Determination Method

Population in this research is manufacturing company of food and beverage sub sector which listed in Indonesia Stock Exchange (BEI) year 2012-2016. This study uses the financial statements as of December 31, 2015 until December 31, 2016 as a sample.

Year 2012-2016 was chosen because it describes the relatively new conditions in the Indonesian capital market.Sample method applied is purposive sampling method. The use of purposive (judgment) sampling method is based on the consideration that the selected data sample meets the criteria to be tested.The sample companies are selected with the following criteria:

1. A manufacturing company of food and beverage sub sector that has gone public or listed in Indonesia Stock Exchange for period 2012-2016.
2. The Company has a positive equity book value for the year 2012-2016, since issuers with negative book value of equity means insolvent, which may result in the sample condition being not homogeneous.
3. The available data is complete (overall data is available for publication period 31 December 2012-2016), both data on indicators of corporate governance mechanisms used in this study and data needed to detect earnings management.

3.4. Data Collection and Analysis Methods

Data were collected using literature study method and documentation. The literature study is done by processing literature, articles, journals or other written media relating to collecting documentary data sources such as the company's annual report into the research sample. Data analysis of this research is quantitative analysis. Quantitative analysis is a form of data analysis in the form of numbers and by using statistical calculations to analyze a hypothesis. Quantitative data analysis is done by collecting the required data, then processing it and presenting it in the form of tables, graphs, and other outputs of analysis used to draw conclusions as the basis for decision making. To facilitate the analysis used

SPSS software (Statistical Package for Social Science).

4. RESULT AND DISCUSSION

4.1. Data Collection Results

4.1.1 Data analysis

Data analysis in this research using quantitative analysis method, by conducting statistical test verificative to see whether there is significant influence of independent variable Corporate Governance: Managerial Ownership, Institutional Ownership, Board of Commissioners and Audit Committee to dependent variable Earnings management through multiple linear regression test. Multiple linear regression analysis is used to determine the relationship or influence between two or more independent variables (X) with one dependent variable (Y) shown in the form of regression equation. Before passing multiple linear regression, test will be tested classical assumption and hypothesis testing.

4.2 Descriptive Statistics Analysis Results

Overall, the descriptive statistics of the research sample can be seen in table 4.1 below:

Tabel 4.1

Descriptive Statistics

	N	Minimum	Maximum	Mean	Std. Deviation
Kepemilikan Manajerial	35	1,00	1780,00	415,1143	582,34797
Kepemilikan Institusional	35	37,09	96,09	71,9540	19,16680
Dewan Komisaris	35	33,33	37,50	33,9257	1,48050
Komite Audit	35	33,33	66,67	54,2866	15,31190
Manajemen Laba	35	-13,00	26,00	12,1429	7,90437
Valid N (listwise)	35				

Normality test used is by one sample Kolmogorov smirnov, if the value of Sig. > 0.05 then the data is normally distributed.

Table 4.2

One-Sample Kolmogorov-Smirnov Test

		Unstandardized Residual
N		35
Normal Parameters^{a,b}	Mean	,0000000
	Std. Deviation	6,94775851
Most Extreme Differences	Absolute	,102
	Positive	,066
	Negative	-,102
Test Statistic		,102
Asymp. Sig. (2-tailed)		,200

a. Test distribution is Normal.

b. Calculated from data.

The significance value Kolmogorovsmirnov above shows the value> 0.05 then the data has been distributed normally.

4.3 Test Multicollinearity

Multicollinearity can also be seen from the tolerance and variance inflation factor (VIF). Multicollinearity does not occur if the tolerance value ≤ 0.10 or equal to the VIF value ≥10.

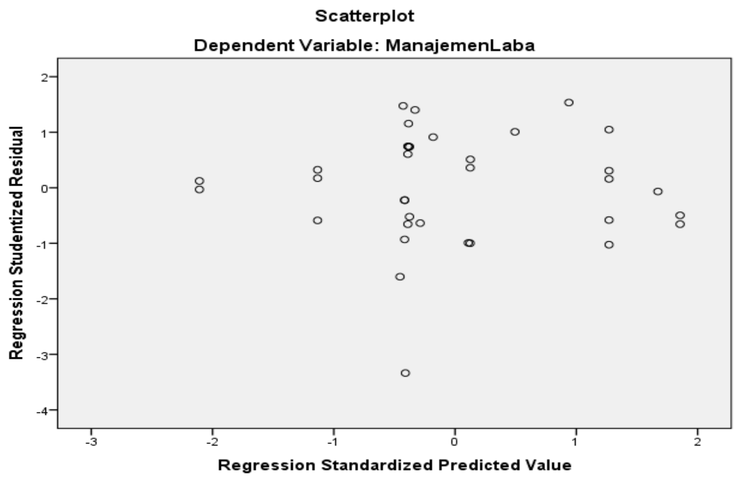
Table 4.3

Coefficients[a]

Model		Collinearity Statistics	
		Tolerance	VIF
1	(Constant)		
	Kepemilikan Manajerial	,403	2,483
	Kepemilikan Institusional	,344	2,904
	Dewan Komisaris	,469	2,134
	Komite Audit	,678	1,476

a. Dependent Variable: ManajemenLaba

4.3.1 Heteroscedasticity Test



Based on the above Scatterplots output note that:

1. Data points spreaders above and below or around the number 0.
2. Dots do not collect just above and below only.
3. The spread of data points do not form wavy patterns widen then narrow and widen again.
4. Distribution of patterned data points.

4.3.2 Auto Correlation

A good regression model is a regression independent of autocorrelation. Autocorrelation can be known through the Runs test.

Table 4.4

Runs Test

	Unstandardized Residual
Test Value[a]	,80336
Cases < Test Value	17
Cases >= Test Value	18
Total Cases	35
Number of Runs	18
Z	,000
Asymp. Sig. (2-tailed)	1,000

a. Median

Partial Test of Hypothesis (t test)

Partially, hypothesis testing is done by t-test.

Table 4.5

Coefficients[a]

Model	Unstandardized Coefficients		Standardized Coefficients	T	Sig.
	B	Std. Error	Beta		
1 (Constant)	91,280	48,744		1,873	,071
Kepemilikan Manajerial	,002	,003	,148	,584	,563
Kepemilikan Institusional	,030	,113	,074	,270	,789
Dewan Komisaris	-2,069	1,252	-,388	1,653	,109
Komite Audit	-,220	,101	-,427	2,189	,037

a. Dependent Variable: Manajemen Laba

In table 4.5 it can be seen that significant managerial ownership more than 0.05 (0.563> 0.05) where the value of t count <t table (0.584 <2.042), it can be concluded that the ownership of managerial partially has no effect on earnings management.

In table 4.5 it can be seen that significant institutional ownership is less than 0.05 (0789> 0.05) where the t count<t table (0.270 <2.042), it can be concluded that institutional ownership partially has no effect on earnings management.

In table 4.5 it can be seen that the significant proportion of the board of commissioners is less than 0.05 (0.109>0.05) where the value of t count <t table (1.563 <2.042), it can be concluded that the board of commissioners partially has no effect on earnings management.In table 4.5 it can be seen that significant audit committee is less than 0.05 (0.037 <0.05) where the value of t count>t table (2.189> 2.042), it can be concluded that the audit committee partially has a positive and significant effect on earnings management.

4.3.3 Simultaneous Test (F Test)

The results of the F test in this study can be seen in the following table:

Table 4.6

ANOVA[a]

Model		Sum of Squares	Df	Mean Square	F	Sig.
1	Regression	483,060	4	120,765	2,207	,092[b]
	Residual	1641,226	30	54,708		
	Total	2124,286	34			

a. Dependent Variable: ManajemenLaba

b. Predictors: (Constant), Komite Audit, Kepemilikan Manajerial, Dewan Komisaris, Kepemilikan Institusional

Based on table 4.6 it can be seen that the significance of the test is less than 0.05 (0.092 <0.05) and f count>f table (2.207> 2.92) it can be concluded that there is a significant influence between managerial ownership, institutional ownership, proportion of board of commissioners, the audit committee is equal to the management of the labapada Manufacturing Company Sub Sector Food and Beverage Period 2012-2016.

4.4 The Effect of Managerial Ownership on Profit Management

In table 4.5 it can be seen that significant managerial ownership more than 0.05 (0.563> 0.05) where the value of t count <t table (0.584 <2.042), it can be concluded that the ownership of managerial partially has no effect on earnings management.

No influence between managerial ownership of earnings management reinforces the hypothesis that has been prepared by the authors who stated that there is a positive effect of managerial ownership on earnings management in Manufacturing Company Sub Sector Food and Beverage Period 2012-2016.

This research is supported by Boediono (2005) for the result of research of variable of managerial ownership to earnings management show have no effect. This can be interpreted that the higher level of ownership of shares by the management, the higher the amount of earnings management on the report. The interpretation of these coefficients shows that the direct effect of the ownership mechanism on earnings management is very weak.

4.4.1 The Effect of Institutional Ownership on Earnings Management

In table 4.5 it can be seen that significant institutional ownership of more than 0.05 (0789> 0.05) where the value of t count <t table (0.270 <2.042), it can be concluded that institutional ownership partially has no effect on earnings management. This reinforces the hypothesis that has been compiled by the authors who stated that there is a positive influence of institutional ownership of earnings management in Manufacturing Company Sub Sector Food and Beverage Period 2012-2016. The results of this study is supported by research Boediono (2005) examines the influence of corporate governance mechanism as measured by institutional ownership, managerial ownership, and the composition of the board of commissioners of its impact on earnings management. This means that the higher level of stock ownership by the institution, the higher the amount of earnings management in the financial statements, the strength of this direct influence can be interpreted that the ownership of the institutional influence is weak.

4.4.2 The Effect of Proportion of Board of Commissioners on Profit Management

In table 4.5 it can be seen that significant board of commissioners less than 0.05 (0.109> 0.05) where the value of t count <t table (1.563 <2.042), it can be concluded that the board of commissioners partially has no effect on earnings management. This is in contrast to the research by Dechow et al. (1996), Klein (2002), Chtourou et al., (2001), Xie et al., (2003) and Cornett et al. (2006) a significant negative effect. It can be explained that the placement or addition of independent board members is possible only to meet formal requirements, while the majority shareholder still holds an important role so that the performance of the board does not increase even down (Gideon, 2005).

4.4.3 The Effect of Audit Committee on Profit Management

In table 4.5 it can be seen that significant audit committee is less than 0.05 (0.037 <0.05) where the value of t count>t table (2.189> 2.042), it can be concluded that the audit committee partially has a positive and significant effect on earnings management.

The positive effect of the audit committee on earnings management reinforces the hypothesis that has been compiled by the authors who stated that there is a positive and significant impact audit committee on earnings management in Manufacturing Company Sub Sector Food and Beverage Period 2012-2016. This study is consistent with the research of Wedari (2004) and Siregar and Utama (2005) who found that the existence of an independent audit committee was not proven to effectively reduce earnings management. This is thought to be due to the appointment of the audit committee by the company only for the fulfillment of the regulation but not intended to enforce good corporation governance in the company.

The Effect of Managerial Ownership, Institutional Ownership, Proportion of Board of Commissioners and Proportion of Audit Committee on Profit ManagementBased on table 8 it can be seen that the significance of the test is less than 0.05 (0.092 <0.05) and f count>f table (2.207> 2.92) it can be concluded that there is a significant influence between managerial ownership, institutional ownership, board of commissioners, audits amount to the management of labapada Manufacturing Company Sub Sector Food And Beverage Period 2012-2016. The results of this study is supported by research Muh. Arief Uji yanto and Bambang Agus Pramuka (2007) who found that the results of institutional ownership, property ownership, the proportion of independent board of commissioners and the number of boards of commissioners together have a significant effect on earnings management. The adjusted value of R^2 equals 0.227, which means that 22.7% of earnings management variables can be explained by the dependent variable, the remaining 77.3% is explained by other factors outside the regression model. While the variable of earnings management is not able to explain variable of financial performance proxies with cash flow return on assets.

5. CONCLUSION

Based on the results of the discussion of data analysis through the verification of the hypothesis of the issues raised about the factors that affect earnings management in manufacturing companies sub-sector Food and Beverage Period 2012-2016, it can be concluded from this research as follows:

1. The t test shows that audit committee variables have a significant positive effect on earnings management. This is

thought to be due to the appointment of the audit committee by thecompany only for the fulfillment of the regulation but not intended to enforce good corporation governance in the company. Other variables of managerial ownership, institutional ownership and proportion of boards of commissioners are not proven to have a significant effect on earnings management.

2. From the results of the F test that the authors do can be concluded that there is a significant influence between managerial ownership, institutional ownership, board of commissioners, audit committee amount to the management labapada Manufacturing Company Sub Sector Food and Beverage Period 2012-2016

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