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THE EFFECT OF APPLICATION OF GOOD CORPORATE GOVERNANCE ON EARNINGS MANAGEMENT IN PROPERTY, REAL ESTATE AND CONSTRUCTION OF BUILDING COMPANIES IN INDONESIA STOCK EXCHANGE

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Abstract

In the current global competition, various methods are carried out by companies to excel in competition. One way that companies do is by implementing good corporate governance. Good Corporate Governance itself is expected to increase yields or profits from the company's operating activities. Whereas profit is an indicator to measure performance at management's responsibility in achieving operating objectives which are often engineered targets. This study aims to examine the effect of the proportion of independent commissioners, board of commissioners and audit committees on earnings management practices in property, real estate and building construction and construction sub-sectors that have been listed on the Indonesia Stock Exchange (IDX) in the period 2013-2017. The method used in this study is descriptive analysis and inferential analysis viz. multiple linear regression. The test is carried out by classical assumption tests such as normality test, multicollinearity test, autocorrelation test, heteroscedasticity test, partial regression test, simultaneous regression test, and test coefficient of determination. The results of this study indicate that the proportion of independent commissioners, board of commissioners size, and audit committees influence the practice of *earnings management in property, real estate, and building construction companies in the construction and building sub-sectors in the period 2013-2017.*

Keywords: Good Corporate Governance (GCG), Proportion of Independent Commissioners, Board of Commissioners, Audit Committees, Earnings Management

INTRODUCTION

The development of the business world in Indonesia today has reached the stage of intense global competition with the dynamics of change that is so fast. In competition like this, good corporate governance is a very important thing in building the condition of a company that is strong and has strong competitiveness so that it can still compete with companies that exist today.

Good corporate governance is basically a concept that involves the structure of the company, division of tasks, segregation of duties, division of authority and division of responsibilities of each of the elements that make up the company's structure and relationships between elements of the company's structure, such as General Meeting of Shareholders (GMS), board of directors meetings, to board of commissioners meetings. Awareness of the importance of corporate governance for a company has become an important requirement. At least to survive from the swift global competition, and avoid bankruptcy.

According to Anton (2012), Although the importance of implementing good corporate governance is very clear, the concrete implementation among business people in Indonesia is still relatively minimal. It can be seen by comparing the implementation of corporate governance in five countries in Asia, namely Korea, Thailand, Malaysia, the Philippines and Indonesia showing the weakness of public companies in Indonesia in managing companies compared to Southeast Asian countries. This is indicated by the still weak accounting and regulatory standards, accountability to shareholders, standards for disclosure and transparency and corporate management processes. So this is the reason why good corporate governance is not optimal in terms of its implementation among Indonesian companies.

As a manager who manages the company is also expected to provide the best performance for the company and provide information related to the company to all interested parties in a financial report. In the Profit / Loss report contains information about profits that are useful for users of financial statement information to determine the ability and financial performance of the company. The Profit / Loss Report also provides information needed by shareholders and prospective investors to make decisions in investing their funds.

Earnings management is not entirely a negative action because earnings management is not always oriented to earnings manipulation. And although not all earnings management practices violate generally accepted accounting principles, the existence of earnings management actions can erode confidence in financial statements.

Good corporate governance is useful for motivating company managers to carry out managerial behavior correctly to enhance the company's business. There are fundamental reasons why company managers do earnings management. The market price of a company's stock is significantly affected by profit, risk, and speculation. Therefore, companies whose profits always increase from period to period consistently will result in the risk of this company experiencing a greater decline than the percentage increase in profits. This has caused many companies to manage and manage earnings as an effort to reduce risk.

LITERATURE REVIEW AND HYPOTHESIS

Good Corporate Governance

The results of research by Saputri (2009) found that good corporate governance is a concept based on agency theory, which is expected to function as a tool to give investors confidence that they will receive returns on the funds they have invested.

Earnings Management

According to Schipper in Wulansari (2018), earnings management is a condition where management intervenes in the process of preparing financial statements for external parties so that it can raise, flatten and reduce profits. Earnings management is one of the factors that can reduce the credibility of financial statements, and increase bias in financial statements and can disrupt financial statement users who believe in engineering figures as real or without engineering figures.

Board of Commissioners

According to Mahiswari and Easter in Ujiyantho and B.A Pramuka (2014), the size of the board of commissioners is the number of members of the board of commissioners of the company both from internal companies and external companies. This can be explained in the agency problem, namely that with the increasing number of members of the board of commissioners increasingly difficult to carry out their roles, including difficulties in communicating and coordinating the work of each member of the board itself, the difficulties experienced are the difficulty of carrying out company management which will also have an impact on the company's performance that is declining.

Independent Commissioner

Independent Commissioners are members of the board of commissioners who are not affiliated with directors, other members of the board of commissioners and controlling shareholders, and are free from business relationships or other relationships that can affect their ability to act independently or act solely in the interests of the company (Buchori, 2017).

Audit Committee

According to Susilo (2010), the audit committee is a group of people selected from the company's board of commissioners who are responsible for assisting the auditor in maintaining its independence from management.

Hypothesis

In this study the formulation of the hypothesis that will be proposed is as follows:

H1 = The Proportion of Independent Commissioners an Influential on Earnings Management.

H2 = The Board of Commissioners Size an Influential on Earnings Management.

H3 = The Audit Committee an Influential on Earnings Management.

H4 = The proportion of Independent Commissioners, Board of Commissioners Size and The Audit Committee an Influential on Earnings Management.

MATERIAL AND METHODS

In this study, the research variables can be classified into 2 (two) groups of variables, namely independent variables and dependent variables. The independent variable of this study is the proportion of independent commissioners, the size of the board of commissioners and the audit committee. Whereas the dependent variable of this study is earnings management.

The object of research in this study are property, real estate and building construction companies in the construction and building sub-sectors that have been listed on the Indonesia Stock Exchange during the period 2013-2017. This study uses secondary data.

This research was conducted in period 2013 - 2017 because the data needed for this study was complete in that period. In addition, the period of 2013 - 2017 in Indonesia is a period of development that is quite high, so that service companies in the Property, Real Estate and Building Construction sub-sectors of the Building Construction are very much needed and many enthusiasts to support development, so the authors are interested in conduct research in this period and those companies.

Population and Sampling

Determination of the sample is done after knowing what criteria are used to select the objects of property, real estate and building construction companies in the construction and building sub-sectors used in this study. After the selection was conducted, 9 companies were selected from 16 property, real estate and building construction companies, the construction and building sub-sectors that were listed on the Indonesia Stock Exchange for the period 2013-2017.

Data and Data Collection Techniques

The data used in this study are secondary data in the form of financial statements on property, real estate and building construction companies in the construction and building sub-sectors obtained from the Indonesia Stock Exchange through its website, www.idx.co.id. Especially financial statements which include statements of financial position and profit and loss issued by each company from 2013-2017. In addition, this study uses data on the proportion of independent commissioners, board of commissioners and audit committee.

Identification of Variables

In this study, the research variables can be classified into 2 (two) groups of variables, namely independent variables and dependent variables. The independent variable of this study is the proportion of independent commissioners, the size of the board of commissioners and the audit committee. Whereas the dependent variable of this study is earnings management.

Proportion of Independent Commissioners

According to FCGI (Forum of Corporate Governance in Indonesian) regarding the board of commissioners explained that the number of independent commissioners is at least 30% of the total number of board of commissioners. To calculate the proportion of independent commissioners the formula is as follows:

PIC= (Independent Commissioner)/(Total Board of Commissioners) × 100%

The proportion of independent board of commissioners is measured by the percentage of the number of independent commissioners on the total number of commissioners in the composition of the sample board of commissioners.

The Board of Commissioners Size

The size of the board of commissioners is the total number of members of the board of commissioners, both from internal companies and from external sample companies.

The formula for calculating the size of the board of commissioners is as follows:
BCS=Internal Board of Commissioners + External Board of Commissioners

Audit Committee

The audit committee in this study was measured using a scale ratio of the percentage of audit committee members from outside the audit committee to all members of the audit committee.
AC= (Number of Outside Audit Committee Members)/(Number of all Audit Committee Members)

Earning Management

The use of discretionary accrual as a proxy for earnings management is calculated using a modified Jones model. The modified Jones model is formulated as follows:

$$TA_{it} = N_{it} - CFO_{it}$$

The total accrual value (TA) estimated by the Ordinary Least Square (OLS) regression equation as follows:

$$TA_{it} / A_{it} - 1 = \beta 1\,(1/A_{it} - 1) + \beta 2(\Delta rev_t / A_{it} - 1) + \beta 3(PPE_t / A_{it}) + e$$

Using the regression coefficient above the value of non discretionary accruals (NDA) can be calculated using the formula:

$$NDA_{it} = \beta 1(1/A_{it} - 1) + \beta 2(\Delta REV_t / A_{it} - 1 - \Delta REC_t / A_{it} - 1) + \beta 3(PPE_t / A_{it} - 1)$$

Furthermore discretionary accrual (DA) can be calculated as follows:

$$DA_{it} = TA_{it} / A_{it} - 1 - NDA_{it}$$

Where:

DAit	= i Corporate Discretionary Accruals in the t-period
NDAit	= Non-Discretionary Accruals of i company in the t-period
TAit	= Total accrual i company in the t-period
Nit	= Net income of i company in the t-period
CFOit	= Cash flow from operating activities of i company in the t-period
Ait – 1	= Total assets of i company in period t - 1
ΔREVt	= Changes in i company income in the t-period
PPEt	= Company fixed assets in the t-period
ΔRECt	= Changes in i company receivables in the t-period
β1-β3	= Variable coefficient
e	= error terms

Analysis Techniques

The analysis was carried out SPSS 21 through classic assumption testing which consists of: (1) normality test, (2) multicollinearity test, (3) autocorrelation test, and (4) heteroscedasticity test, multiple linear regression analysis, and hypothesis testing consists of: (1) test the regression coefficient partially, (2) test the regression coefficient together, and (3) test the coefficient of determination.

RESULTS

Based on the results of testing classic assumptions, the data has fulfilled the required elements, where data is normally distributed and free from multicollinearity problems, autocorrelation, and plasticity heteroskes, so the analysis can be continued in the next level, namely multiple linear regression analysis, test the regression coefficient partially, test the regression coefficient together, and test the coefficient of determination.

Table 1 Multiple Linear Regression Results

Coefficients[a]

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	.294	.113		2.615	.012
	Proportion_of_Independent_Commissioners	-.005	.002	-.378	-2.609	.013
	Board_of_Commissioners_Size	-.033	.015	-.332	-2.245	.030
	Audit_Committee	.001	.001	.063	.429	.670

a. Dependent Variable: Earning_Management

Based on the results of processing the data above, the regression equation is obtained as follows:

$$\boxed{LnDA = 0.294 - 0.005PIC + 0.033BCS - 0.001AC + e}$$

From the results of the regression equation, it can be explained that:

1. Constant value that is equal to 0.294 with a positive value. This shows that if without all the independent variables (PIC, BCS, AC) then earnings management in each sample company can occur at 0.294.

2. The regression coefficient of the proportion of independent commissioners (PIC) is equal to -0.005. This shows that if the proportion of independent commissioners has increased by 1 unit, it will result in earnings management in the sample companies will decrease by -0.005.
3. The regression coefficient of the board of commissioner size (BCS) is 0.033. This shows that if the company's board of commissioners samples increase by 1 unit, it results in earnings management in the sample company will increase by 0.033.
4. The regression coefficient of audit committee (AC) is equal to -0.001. This shows that if the audit committee increases by 1 unit, it results in earnings management in the sample company will decrease by -0.001.

Table 2 Regression Coefficient Partially Test Result

Coefficients[a]

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	.294	.113		2.615	.012
	Proportion_of_Independent_Commissioners	-.005	.002	-.378	-2.609	.013
	Board_of_Commissioners_Size	-.033	.015	-.332	-2.245	.030
	Audit_Committee	.001	.001	.063	.429	.670

a. Dependent Variable: Earning_Management

Based on Table of The Regression Coefficient Partially Result Test, the following a hypothesis testing using a partial regression coefficient test is:

1. Effect of the Proportion of Independent Commissioners

H_{a1}: The proportion of independent commissioners an influential on earnings management

H_{01}: The proportion of independent commissioners does not an influential on earnings management

The proportion of independent commissioners has a significance value (p) of 0.013 which means that it is smaller than the significant level (α) = 0.05 (0.013 <0.05). Based on these values it can be concluded that **H_{a1} is accepted** or the proportion of independent commissioners an influential on earnings management.

2. Effect of Board of Commissioners Size

H_{a2} : The size of the board of commissioners an influential on earnings management

H_{02} : The size of the board of commissioners does not an influential on earnings management

The size of the board of commissioners has a significance value (p) of 0.030 which means it is greater than the significant level (α) = 0.05 (0.030 <0.05). Based on these values it can be concluded that **H_{a2} is accepted** or means that the size of the board of commissioners an influential on earnings management.

3. Effect of Audit Committee

Ha_3 : Audit committee an influential on earnings management

H_{03} : Audit committee does not an influential on earnings management

Audit committee has a significance value (p) of 0.670 which means it is greater than the significant level (α) = 0.05 (0.670> 0.05). Based on these values it can be concluded that **H_{03} is accepted** or means that audit committee does not an influential on earnings management.

Table 3 Regression Coefficient Together Test Result

ANOVA[a]

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	.079	3	.026	3.401	.027[b]
	Residual	.319	41	.008		
	Total	.398	44			

a. Dependent Variable: Earning_Management

b. Predictors: (Constant), Audit_Committee, Proportion_of_Independent_Commissioners, Board_of_Commissioners_Size

The Regression Coefficient Together Test is used to test the significance of the influence of several independent variables simultaneously (together) on the dependent variable. The Regression Coefficient Together Tests are used to prove the hypothesis that there is an influence between the proportion of independent commissioners, the size of the board of commissioners, and audit committee on earnings management.

The hypothesis for The Regression Coefficient Together Test is as follows:

H_{a4} : The variable Good Corporate Governance simultaneously an influential on earnings management

H_{04} : Variable Good Corporate Governance simultaneously does not an influential on earnings management

From the Table of the Regression Coefficient Together Result Test can be seen that from the results of the Together Test Regression Coefficient F significance level is 0.027 smaller than α = 0.05 (0.027 <0.05) then **H_{a4} is accepted** or can be interpreted simultaneously (together) independent variables (the proportion of independent commissioners, board of commissioner size, and audit committee) an influential on earnings management.

Table 4 Determination Coefficient Test Table

Model Summary[b]

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.446[a]	.199	.141	.08817

a. Predictors: (Constant), Audit_Committee, Proportion_of_Independent_Commissioners, Board_of_Commissioners_Size

b. Dependent Variable: Earning_Management

Based on the results of the Determination Coefficient Test Table, it can be seen that the value of R Square is 0.199 meaning 19.9% the variability of discretionary accruals can be explained by the proportion of independent commissioners, the size of the board of commissioners, and the audit committee. While the remaining 80.1% is explained by other factors not included in this study. This shows that the proportion of independent commissioners, the size of the board of commissioners and the audit committee influences earnings management, although there are still many other factors beyond these factors that affect earnings management.

DISCUSSION OF RESULTS

The results of hypothesis testing that have been done using multiple linear regression analysis is by testing the coefficient partially, testing coefficients simultaneously or together, and testing the coefficient of determination, the results of testing can be analyzed as follows:

1. Effect of the proportion of independent commissioners on earnings management

Based on the results of testing the first hypothesis shows a significance value of 0.013 which means that the significance value is smaller than 0.05. So that it can be concluded that Ha1 is accepted or the existence of independent commissioners has an effect on earnings management. The results of this study are in line with the research conducted by A.A. Intan Puspita Sari and I.G.A.M. Asri Dwija Putri (2014), Kadek Emi Kristiani, Ni Luh Gede Erni Sulindawati and Nyoman Trisna Herawati (2014), and Nuriyatun Fauziyah (2014), which shows that the proportion of independent commissioners influences earnings management. Jao and Pagalung (2011) state that the greater the proportion of independent commissioners, the higher the supervision in the company so that it can minimize the possibility of managers in conducting earnings management.

2. Effect of board size on earnings management

Based on the results of testing the first hypothesis shows a significance value of 0.013 which means that the significance value is smaller than 0.05. So that it can be concluded that the existence of independent commissioners has an effect on earnings management. The results of this study are conducted by A.A. Intan Puspita Sari and I.G.A.M. Asri Dwija Putri (2014), Kadek Emi Kristiani, Ni Luh Gede Erni Sulindawati and Nyoman Trisna Herawati (2014), and Nuriyatun Fauziyah (2014), which shows the proportion of independent commissioners influences earnings management. Jao and Pagalung (2011) stated that the supervision in the company so that it minimizes the possibility of managers in conducting earnings management.

3. The influence of the audit committee on earnings management

Based on the results of testing the third hypothesis shows a significance value of 0.670 which means that the significance value is greater than 0.05. So it can be concluded that H03 is accepted or means that the audit committee has no effect on earnings management, meaning that the audit committee is not the main factor to oversee management actions in managing the company. The results of this study are not in line with the research of Kadek Emi Kristiani, Ni Luh Gede Erni Sulindawati and Nyoman Trisna Herawati (2014) and Marihot Nasution and Doddy Setiawan who revealed that audit committees affect earnings management.

4. Effect of the proportion of independent commissioners, board of commissioners size, and audit committee on earnings management

The fourth test results show that simultaneously (together) the proportion of independent commissioners, the size of the board of commissioners, and the audit committee together influence earnings management. Ha4 received is indicated by the results of the F Test which shows a significance value of 0.027 which is smaller than 0.05. So simultaneously all independent variables affect earnings management. This research is not in line with the research conducted by Ratnaningsih SY and Cholis Hidayati (2012), Pretty Elisa Rahmah (2014), and Debby Natalia (2013) that simultaneously the mechanism of Good Corporate Governance does not affect earnings management.

5. The coefficient of determination test results

The test results of the coefficient of determination in this study can be seen from the value of R square is 0.199 which means 19.9% variability of discretionary accruals can be explained by the proportion of independent commissioners, size of the board of commissioners, and audit committee. While the remaining 80.1% is explained by other factors not included in this study.

This shows that there are still many other factors beyond the factor of the proportion of independent commissioners, the size of the board of commissioners and audit committees that influence earnings management.

In this study, the main objective is to prove whether the implementation of Good Corporate Governance has an influence on earnings management conducted by the company. The effect of implementing Good Corporate Governance on a company is enough to ensure that the practice of taking profits for personal interests can be avoided. The influence of the implementation of Good Corporate Governance on earnings management is caused by several things including because there is no opportunity to take personal advantage, there is effective supervision by the board of commissioners and there is no interference by other parties in carrying out the duties and functions of each party, and so because of the existence of effective supervision, the reporting of financial statements that are not true because the manager wants to show good performance to the owner so that the manager can manipulate the results of financial statements to get a bonus for the good performance he has done can be overcome.

CONCLUSION

The author limits the problem in this study to the Property, Real Estate and building construction sub-sector construction services companies. The object of this research are the Property, Real Estate and building construction sub-sector companies that have been listed on the Indonesia Stock Exchange (IDX) for the period 2013-2017 and has published the company's annual financial statements for the period 2013-2017 with complete available data regarding the proportion of independent commissioners, board of commissioners size, audit committee, and earnings management.

Subsequently, the author discusses the influence of the implementation of Good Corporate Governance on earnings management in property, real estate and building construction and construction sub-sector companies on the Indonesia Stock Exchange, it can be concluded that the proportion of independent commissioners and board size influences the practice of earnings management in companies property, real estate and building construction, construction and building sub-sectors for the period 2013-2017. While the audit committee has no effect on earnings management practices in property, real estate and building construction companies in the construction and building sub-sector for the period 2013-2017.

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