Proceeding

ENVIRONMENTAL AND SUSTAINABILITY MANAGEMENT ACCOUNTING FOR THE DEVELOPMENT OF SUSTAINABILITY AND ACCOUNTABILITY :

SHOULD WE TALK BEYOND NUMBER?

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The Effect of Good Corporate Governance on Earning Management and Earning Power as a Moderating Variable with Interaction Approach: Evidence from Companies Listed in Corporate Governance Perception Index (CGPI)

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Abstract.

The objective of the study was to establish the effect of Good Corporate Governance (GCG) on Earning Management and how the influence of Earning Power as Moderating variable, research conducted on companies that had been registered in CGPI (Corporate Governance Perception Index).The target population consisted of the 34 companies that had been registered in CGPI (Corporate Governance Perception Index) in 2016. Secondary data was used covering the period 2016 and analysed using cross section data and linear regression methodologiesto test the effect of the independent variables on the dependent variable.

The study found that the level of GCG relationship with earning management is 25.5% and the GCG relationship to earning management increased to 80.4% due to earning power as moderating variable. The study recommended the need for effective corporate governance practices to contribute to reduce earning management.

Keywords: *Good Corporate Governance, Earning Power, Earning Management*

1. INTRODUCTION

Competition between companies is very tight to be able to maintain its survival. The implementation of a good corporate governance system is a must. Good governance should be applied to the financial aspect, as the vein of the company. As a business entity, the company seeks to maximize profits. For management, the amount of profit that can be generated has specific uses. Earning management is an effort intervention management in the presentation of financial statements. Especially the financial statements to be submitted to the company's extension. Various reasons can arise, which underlie earning management. For example implementing internal accounting policies in an effort to increase, decrease or flatten earnings reporting. The strategies undertaken take advantage of the weaknesses of the company's internal accounting policies, as well as utilizing the gaps in the use of accounting methods. Management actions change earnings reporting is inseparable from the gap of information owned by management as a manager and driver of the company's operations on one side, with the investors, creditors, regulators, and other interested parties on the company's earnings information on the other side. Earning management can not be separated from the separation.

Research on earning management is interesting to be studied, since it can know the reason and motivation of management in reporting earnings performance, as contained in the Income Statement, as a summary of the company's revenue and expenses over a certain period of time, ending with net or net loss for the period (Horne, 2012). There are a number of factors that cause managers to make a profit. Among them according to Scott (2000), due to bonus plans, political motivation and

taxation motivation. Various causes of earning management, is earning power, which is defined by Riyanto (2008), as the ability to know the efficiency of the company by looking at the size of the profits generated. From the side of investors are expecting high earning power, because it provides guarantee of return on investment. So the company should display its financial performance as well as possible.

Based on the explanation in the introductory section above, then the research problem that was found:Does Earning Power reinforce the influence of Good Corporate Governance on Earning Management?Does Good Corporate Governance and Earning Power Affect Erning Management?

There is also the purpose of this study to:To know the effect of Earning Power that strengthens the influence of Good Corporate Governance to Earning Management?To know the influence of Good Corporate Governance and Earning Power on ErningManagement?

2. LITERATURE

2.1 Good Corporate Governance(GCG)

The term corporate governance in Indonesia is a translation of corporate governance. The word governance comes from the ancient French word gouvernance which means control or regulated and can be said to be in a controlled state (Subroto, 2005).

According to Muh. Arief Effendi (2009) in his book The Power of Good Corporate Governance, GCG understanding is a company's internal control system that has the primary goal of managing significant risks to meet its business objectives through securing corporate assets and increasing shareholder value of investment in the long run.

Good corporate governance is a system of rules that govern, manage and supervise a company in running its business to obtain additional value for the shareholders (Halimatusadiah, 2015). Theoretically, the implementation of Good Corporate Governance (GCG) can increase the value of the company, due to the implementation of good Corporate Governance to reduce risk that may be made by the board with the decisions that benefit themselves, and general corporate governance can increase the level of investor confidence (Newell and Wilson in Abriani, 2012).

Governance choices affect managerial behavior and the performance of the firm. When companies get these choices wrong or make incorrect selections based on "myths" about corporate governance, the welfare of shareholders and stakeholders is harmed (Larcker and Tayan, 2011).

The concept of "governance" is used in many subdisciplines of the social sciences. Common elements emphasized are cooperation to enhance legitimacy, the effectiveness of governing societies, new processes and public–private arrangements (Wanvik 2016).

In a traditional way, government is what the government is doing - they control the allocation of resources between social actors, and provide a set of rules and operate a set of institutions to do so. Traditionally, governing is what governments do— they control the allocation of resources between social actors, and provide a set of rules and operate a set of institutions to do so. Thus, government involves the establishment of a set of basic relationships between government and citizens, which are different from the highly structured and regulated hierarchical arrangements by the state to loosely informal, informal egalitarian or "plurilateral" people, if at all (Wanvik 2016).

2.2 Earning Power

Riyanto (2008) states that the calculation of earnings power on the basis an analysis system intended to demonstrate the efficiency of a firm used by users of financial statements. High earnings power can be determined by several factors that can be seen from the financial ratios, namely:
Profit Margin, intended to know the efficiency of the company with look to the size of the operating profit in relation to sales.

Surya (2016) in his research suggests that earnings power for states the firm's value of the financial ratios in which the ROA variable represents corporate effectiveness that reflects the

performance of management within generate profits simultaneously with existing assets, positive results show that the higher the earnings power the more efficient the operating income is seen from asset and or higher profit margin earned by the company. This matter has an impact on increasing company value.

2.3 Earning Management

Scott (2006: 423) defines earnings management as an option made by managers in determining accounting policies to achieve certain goals. Profit management is divided into two ways: first, the management through the accounting figure of the discretionary accrual in accordance with the desired viewing objectives of the company. Second, management has made some operational decisions in other words the real thing for management activities that can generate profits from the desired profit by management. Management gains can be made in two ways: manipulation of real activity and discretionary accrual manipulation (Shirzad et al., 2015). .
Sulistyanto (2008: 5) states that earnings management can not be defined and limited definite. There are some views on earnings management, both positively and negatively. Earnings management for some parties is seen as an act of cheating by deceiving others, while for others profit manipulation is a "commonplace" action done in the preparation of financial statements as supported by accounting principles. The manipulation of real activity and discretionary accrual manipulation (Shirzad et al., 2015). .

According to Scott (2006: 365) a variety of patterns that managers often do in making earnings management is:

1. taking a Bath
2. Income Minimization
3. Income Maximization
4. Income Smoothing

3. Research methodology General Background and Population of the Study

In order to look at the corporate governance practices and their associations or relationship with earning management by quoted companies at the NSE, this study adopted a descriptive research design. Descriptive research design is concerned with finding out “what is” and can either be quantitative or qualitative since it involves gathering data that describes events and then organizes, tabulates, depicts and describe the data collection. The population used in this study are all CGPI participant companies listed in Indonesia Stock Exchange (IDX) period 2016. List of CGPI participants who become the population can be presented in the following table:

No	Stock Index	Company’s name
1	ADHI	PT Adhi Karya (Persero) Tbk
2	ANTM	PT Aneka Tambang (Persero) Tbk
3	BABP	PT Bank ICB Bumi Putera Tbk
4	BBCA	PT Bank Central Asia Tbk
5	BBNI	PT Bank Negara Indonesia (Persero) Tbk
6	BBNP	PT Bank Nusantara Parahyangan Tbk
7	BBRI	PT Bank Rakyat Indonesia (Persero) Tbk
8	BBTN	PT Bank Tabungan Negara (Persero) Tbk
9	BCIC	PT Bank Mutiara Tbk
10	BJBR	Pt Bank Jabar Banten Tbk
11	BMRI	PT Bank Mandiri (Persero) Tbk
12	BNBR	PT Bakrie & Brother Tbk
13	BNGA	PT Bank CIMB Niaga TBk

14	BRAU	PT Beran Coal Energy Tbk
15	BTEL	PT Bakrie Teelcom Tbk
16	BUMI	PT Bumi Resaurces Tbk
17	ELSA	PT Elnusa Tbk
18	GIAA	PT Garuda Indonesia (Persero) Tbk
19	INAF	PT. Indofarma (Persero) Tbk
20	ISAT	PT. Indonesian Satellite Corporation Tbk
21	ITMG	PT Indo Tambangraya Megah Tbk
22	JSMR	PT Jasa Marga Tbk
23	KRAS	PT Krakatau Steel (Persero) Tbk
24	KAEF	PT. Kimia Farma Tbk
25	PGAS	PT Perusahaan Gas Negara (Pesero) Tbk
26	PTBA	PT Tambang Batubara Bukit Asam Tbk
27	PTPP	PT. Pembangunan Perumahan (Persero) Tbk
28	SMBR	PT. Semen Baturaja Tbk
29	SMGR	PT. Semen Indonesia (Persero) Tbk
30	TLKM	PT Telekomunikasi Indonesia (Persero) Tbk
31	TINS	PT Timah (Persero) Tbk
32	UNTR	PT United Tractors Tbk
33	WEHA	PT Panaroma Transportasi Tbk
34	WSKT	PT. Waskita Karya (Persero)

4. Data Collection Method and Instruments

The study used secondary quantitative data to analyze the relationship between corporate governance and earnings managementalso earning power as a moderating variable. Secondary data was obtained by abstraction method from corporate governance statements and financial statements for the 34 companies that had been registered in CGPI (Corporate Governance Perception Index) in 2016. Secondary data was used covering the period 2016 and analyzed using cross section data and linear regression methodologies to test the effect of the independent variables on the dependent variable.

5. Data Analysis Technique

The data collected was analyzed using linear regression analysis to test the relationship between the good corporate governance, earnings management and earning power. The regression results were interpreted based on the Pearson correlation, adjusted R-squared, Test of significance using F statistic, coefficients of the independent variables and their p-values.Data analysis technique:Data processing techniques with Classical Assumption Testing. The classical assumption test aims to know and test the feasibility of the regression model used for this study. This test is also intended to ensure that in the regression model used there is no auto generation, multicolonierity, and heteroscedasticity and to ensure that the resulting data is normally distributed (Ghozali, 2005).

The data used in this study is secondary data obtained from the financial statements published by the company, through the official website www.idx.co.id. The operational definition of the variables used in this study is:

1. Dependent Variable (Y) Dependent variable used is Profit Management (EM), measured using Discretionary Accrual Models Jones Modified, with the formula Discretionary Accrual Value

$DAC_{i,t} = \frac{CurAcci,t}{TAi,t-1} - NDA_{i,t}$

2. Variable independent (X1) independent variable used is Good Corporate Governance is measured by using GCG Score registered in CGPI

3. Moderating variable (X2) moderating variable used by Earning Power by using Return On Assets
$Return\ On\ Assets = \frac{EarningAfterTax}{TotalAsset}$

6. Results and Discussion

6.1 Classic assumption test

6.1.1. Test Normality

Test Normality is a test conducted with the aim to assess the distribution of data in a group of data or variables, whether the distribution of data is normally distributed or not. The Normality test is useful for determining the data that has been collected to be normally distributed or taken from the normal population. To find out whether the data is normal or not then used the test of normalitas

Table 1.1
One-Sample Kolmogorov-Smirnov Test

		Unstandardized Residual
N		11
Normal Parameters[a,b]	Mean	0E-7
	Std. Deviation	.12401675
Most Extreme Differences	Absolute	.204
	Positive	.192
	Negative	-.204
Kolmogorov-Smirnov Z		.675
Asymp. Sig. (2-tailed)		.752

a. Test distribution is Normal.
b. Calculated from data.

From the table above shows the significance value of 0.752 greater than 0.05 means that all tested data are normal spark plugs

6.1.2. Autocorrelation Test

Autocorrelation test is used to determine whether or not the deviation of classical autocorrelation assumption is the correlation that occurs between residuals in one observation with other observations on the regression model. The precondition that must be met is the absence of autocorrelation in the regression model.

Tabel 1.2
Model Summary[b]

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Change Statistics					Durbin-Watson
					R Square Change	F Change	df1	df2	Sig. F Change	
1	.895[a]	.802	.717	.14823	.802	9.427	3	7	.007	2.437

a. Predictors: (Constant), GCG_EP, GCG, EP

b. Dependent Variable: EM

From the above table obtained DW value of 2.437 and seen from the DW table with n, 11 and k 3 dL value of 0.5948 and the value of du 1.9280 so it can be concluded there is no autocorrelation with du <d <(4-dL) or 1, 9280 <2.437 <(4-1,980)

6.1.3. Multocollinearity Test

Multicollinearity test is used to know whether or not the deviation of classical assumption of multicollinearity is the existence of linear relationship between independent variables in the regression model. The precondition that must be met in the regression model is the absence of multicolinearity.

Tabel 1.3

Coefficients[a]

Model		Unstandardized Coefficients		Standardize d Coefficients	t	Sig.	Collinearity Statistics	
			Std. Error	Beta			Tolerance	VIF
1	(Constant)	-6.971	5.420		-1.286	.255		
	EP	-.090	.210	-.304	-.429	.686	.156	6.397
	log_gcg	3.910	2.857	.594	1.369	.229	.416	2.403
	log_cgc_ep	-.267	.290	-.787	-.923	.398	.108	9.245

a. Dependent Variable: EM

Test multicollinearity by looking at the VIF value of each variable is greater than 0.1 and smaller than 10 so that all variables are free from multicollinearity

6.1.4. Heterokedasticity Test

Heteroskedasticity test is used to know whether or not there is deviation of classical assumption of heteroskedastisitas that is existence of variant inequality of residual for all observation in regression model. The prerequisite that must be fulfilled in the regression model is the absence of symptoms of heteroscedasticity.

The heterokedasity test was conducted by glacier test on the basis of decision making

- There is no heterokedasitas, if the value of t arithmetic is smaller than t table and significance value greater than 0.05
- Heterokedasity occurs, if the value of t arithmetic is smaller than t table and the significance value is less than 0.05

Based on the above table obtained t arithmetic of 0.00 and t table 2.262 then t arithmetic smaller than t table so the level of significance 1.00 greater than 0.005 so it can be concluded that the research data does not occur heterokedasitas

6.2 Multiple Regression

To see how much influence Good CoorporateGovernent variable to earnings management and how influence Good Corporate Governance after there Earning Power as Variable Moderator

Table 1.5

Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.502[a]	.252	.169	.25376

a. Predictors: (Constant), GCG

Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.895[a]	.802	.717	.14823

a. Predictors: (Constant), GCG_EP, GCG, EP

From the table above shows the value of R2 in the first regression of 0.252% or 25% whereas after there is a second regression equation R2 value rose to 0.802 or 80.2% then it can be concluded there earning power as a moderating variable will strengthen the influence of GoodCoorporateGovernent to Earning Management.And prove that GCG, and Earning Power As Moderating Variable affect 80.2% to earnings Management and the rest 19,8% influenced by other factor

Tabel 1.5
Coefficients[a]

Model		Unstandardized Coefficients		Standardized Coefficients	T	Sig.	Collinearity Statistics	
		B	Std. Error	Beta			Tolerance	VIF
1	(Constant)	-.476	.755		-.630	.549		
	GCG	.011	.009	.306	1.217	.263	.447	2.237
	EP	-4.471	1.256	-10.907	-3.560	.009	.003	331.177
	GCG_EP	.043	.013	10.036	3.362	.012	.003	314.358

a. Dependent Variable: EM

From the above table it can be obtained regression equation

Y = -0.476 + 0.011x1-4,471x2 + 0.043x1x2

7. CONCLUSION OF THE STUDY

Based on the results of this study, the conclusions of this study are :

1) GCG has a positive relationship to earning management, meaning that the company registered in GPI has implemented GCG, but the implementation of GCG is not maximal and cause earnings anagement in the company is still high.
2) Earning Power has a negative effect on earning management means that earning power owned by the company is able to reduce the action earnings management will be done by management. This is because the amount of revenue owned by the company will discourage management in the conduct of earnings management.
3) Earning power will strengthen GCG to reduce management actions in earning management. This is because earning power helps GCG in implementing the management of the company so as to reduce and suppress management actions in the manipulation of earnings.

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