The Effect Of Good Corporate Government On Earning Management In Trading Companies Listed On The Indonesia Stock Exchange

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Received: June, 2021; Accepted: August, 2021; Published: September, 2021

ABSTRACT

Trading company is a company that purely only sells products whose products have been provided by suppliers or manufacturers with the aim of creating added value. Trading company financial reports must be reported annually. The company has the goal of increasing profits, therefore company leaders try to manage earnings. To achieve this, researchers conducted mini research on good corporate government and earning management. The result of this research is that GCG (Good Corporate Governance) does not have a significant effect on earning management

Keywords: good corporate government, earning management.

INTRODUCTION

The responsibility of a manager to the owner of the company is to make financial statements. Financial statements are a source of information regarding the condition and performance of a company for external parties. Such information concerns the financial position, performance, and changes in the financial position of an enterprise, and is useful to a wide range of users in making economic decisions. One of the important elements in the financial statements used to measure management performance is profit. Earnings information is a major concern for assessing management's performance or achievements. In addition, profit information is also used by investors or other interested parties as an indicator of the efficiency of the use of funds embedded in the company which is manifested in the rate of return and indicators for increasing prosperity (Ghozali and Chariri, 2007).

The existence of information asymmetry and the tendency of external parties (investors) to pay more attention to earnings information as a parameter of company performance, will encourage management to manipulate in showing earnings information, which is referred to as earnings management. Earnings management is defined as the effort of a company manager to influence financial statement information that aims to deceive stakeholders Sulistyanto (2008). Three (3) types of earnings management strategies, namely: (1) Increasing income (increasing income) carried out by management in the current period by reducing the level of expenses below net income, (2) Performing profit reductions in this period by managers to eliminate (write-off) for periods with poor performance, this strategy is commonly called a “big bath”, (3) Performing income smoothing by managers to reduce uncertainty or fluctuations in earnings.

Companies in all aspects around the world this year have experienced shocks due to covid 19, this also happened in Indonesia, but a very influential event was since March 2020, but after all, covid 19 began in early November 2019 which was first discovered in China, this This has an impact on Indonesia because Indonesia is an importing country for goods from China, so it will indirectly affect the economy in Indonesia. Trading companies in Indonesia listed on the Indonesia Stock Exchange in 2019 experienced the above problems, because researchers are interested in observing the annual reports of trading companies in the 2019 period to find out whether the Good Corporate Government of trading companies has an influence on earnings management.

The choice of earnings management strategy can be chosen by company managers, depending on the goals they want to achieve. If the company wants its performance to look better than it actually is, managers can increase or manipulate earnings information to be higher. But if the manager wants the company's performance to be the same every period, then the manager can adjust the company's profit so that it does not fluctuate during that period. Several factors that can influence earnings management practices in companies are good corporate governance practices, free cash flow policies and leverage ratios. There is an inconsistency in the results of research on these factors in influencing the practice of corporate earnings management (Dewanto, 2012). Meanwhile, what is discussed in this study is taking GCG (Good corporate governance).

The emergence of good corporate governance can minimize deviant actions. Good corporate governance will make a way to get out of a problem from the decisions that have been taken and provide benefits for all parties. Good governance is one of the independent auditors' assessments in presenting their services which consists of assessments and examinations related to performance, existing risks and good corporate governance. Internal auditors have duties related to existing fraudulent practices and to the development of all auditor performance. One of the elements of good governance is the existence of transparent characteristics, which is the openness of information provided by the management in truth so that there is effective supervision of published financial reporting and truth. The existence of an independent commissioner as a practice of Good Corporate Governance, can make the company's movements can be monitored, so that the role of an independent commissioner will make a problem that exists can be resolved with good decisions. Because the supervision of the performance of the board of directors will be assessed whether it is appropriate and correct (Murwaningsari 2014).

Earnings management is "the choice by a manager of accounting policies so as to achieve some specific objective." reported losses, several motivations that encourage management to carry out earnings management, among others are (1) Bonus motivation, namely the manager will try to regulate net income in order to maximize the bonus; (2) Debt Covenant Hypothesis, related to the terms of the debt agreement that must be fulfilled, high profits are expected to reduce the possibility of violating the terms of the debt agreement; (3) Meet Investors Earnings Expectations and Maintain Reputation, companies that report higher profits than investors' expectations, their share prices will experience a significant increase because investors predict the company will have a better future; (4) IPO (Initial Public Offering), managers of companies that will go public are motivated to carry out earnings management so that reported profits are high in the hope of increasing the company's stock price

(Scott 2011).

Research on Good Corporate Governance (GCG) itself has been widely studied. From several studies found some differences. Asitalia & Ita (2015) say managerial ownership: No effect, institutional ownership has no effect on earnings management. Meanwhile, Anggana & Prastiwi (2013) said that independent commissioners have a negative effect, and managerial ownership has only a negative effect on earnings management. Research conducted by Theresia Inggriani H., Easter Ika Nugroho, in banking with the title Effect of Good Corporate Governance on earnings, where the results of the research are Managerial Ownership has no effect on Earnings Management, Institutional Ownership has no effect on Earnings Management, Company Size has no effect on Earnings Management, Independent Board of Commissioners has no effect on Earnings Management.

Based on the problems above, the researcher wants to find out how the influence of corporate governance on earnings management is applied to trading companies on the Indonesia Stock Exchange in 2019 and tries to discuss it in an article with the title: The Effect of Good Corporate Government on Earning Management in Trading Company Companies. Listed on the Indonesia Stock Exchange.

METHOD

In this study, the population used is trading companies listed on the Indonesia Stock Exchange for the period 2018 and 2019. This study uses purposive sampling as a sampling technique. The criteria used in this study for sampling are: a) Trade companies listed on the IDX for the 2019 period, b) The annual financial statements are published in full ending on December 31, 2019, and are expressed in Rupiah (Rp). The existing data is complete, in terms of Good Corporate Governance including managerial ownership, institutional ownership, company size, and independent board of commissioners as well as earnings management. This study uses quantitative. This study uses financial statements

30 trading companies (Trading Company) listed on the Indonesia Stock Exchange for the period 2018 and 2019, which were

obtained from www.idx.co.id, as well as the sites of each sample.

In this study, the variable used is the variable earning management (earnings management) as the dependent variable, while Good Corporate Governance (GCG) as the independent variable. Measurement of GCG (Good Corporate Government) This guide describes the steps that need to be taken to create a situation of checks and balances, enforce transparency and accountability, and realize social responsibility for the survival of the company. For this purpose, BAPEPAM issued the General Guidelines for Good Corporate Governance in Indonesia (KNKG, 2006) which regulates the best corporate governance disclosure standards. for each item that is disclosed and 0 for items that are not disclosed (Rini, 2010), so that a disclosure score will be obtained in the form of a percentage number. The disclosure table used to measure the CG disclosure index was developed by Kusumawati (2007) which was sourced from BAPEPAM-LK Decree No. KEP-134/BL/2006 and General Guidelines for Good Corporate Governance in Indonesia (KNKG, 2006). The disclosure table consists of 16 classifications which are further divided into 93 items as listed in the following table:

In this study, Good Corporate Governance (GCG) is calculated using the governance index method. Based on the research of Bhuiyan and Biswas (in Efendi, 2014), the CG disclosure index can be calculated:

$$\textit{Good Corporate Governance} = \frac{\text{Total Disclosure Item Score CG (N)}}{\text{Disclosure Item Maximum Score CG (K)}} \times 100\%$$

Explanation:
N = Total score of items disclosed by the company (a score of 1 for each item disclosed and 0 for items that are not disclosed)
K = Maximum score (16 classifications which are then divided into 93 items)

Earnings management is the dependent variable in this study. Earnings management variables are measured based on discretionary accruals which reflect the freedom to make their own decisions by managers in every situation encountered that can affect financial statements (Rahman, 2009). The best proxy for earnings management depends on the model to correctly predict how changes in business circumstances affect accruals (Jones, 1991). This study uses the modified

Jones (1991) model, which was developed by Kothari et al. (2005), to measure earnings management. The use of this measurement is consistent with many earnings management studies, such as Rahman (2009), Rusmin (2014) and Ghazali (2015). The value of earnings management as proxy for discretionary revenues is the residual value of the regression equation. In previous studies, the accrual proxy is generally used with the Jones model and the Modified Jones measurement model. Discretionary accruals are widely used because of their ability to capture the quality of information in a general and universal sense. Earnings management is measured using the Discretionary Revenue (DR) proxy and calculated using the Conditional Revenue Model Stubben (2010):

$$\Delta AR_{it} = a + Q_1\, \Delta R_{it} + Q_2\, \Delta R_{it}\ X\ SIZE_{it} + Q_3 \Delta R_{it}\ X\ AGE_{it} + Q_4 \Delta R_{it}\ X\ AGE_{SQ_{it}} + Q_5 \Delta R_{it}\ X\ GRR_{P_{it}} + Q \Delta R_{it}\ X\ GRR_{N_{it}} + Q_7 \Delta R_{it}\ X\ GRM + Q_8 \Delta R_{it} X\ GRM_{SQ_{it}} + s_{it}$$

Explanation:

ΔARit = Changes in receivables of company i in year t, obtained by the formula:

$$\frac{\text{Receivables of the year} - \text{Receivables of the year } t-1}{\text{Average total assets}}$$

ΔRit = Changes in company revenue i in year t, obtained by formula:

$$\frac{\text{Revenue of the year } t - \text{Revenue of the year } t-1}{\text{Average total assets}}$$

** The average total asset is the sum of the assets year t and year t-1 divided by 2.

SIZEit = Natural log of the company's total assets in year t

AGE it = Natural log of company age i in year t

AGE_SQit = Square of the natural age log of company i in year t

GRR_Pi = Growth rate in revenue, obtained by formula:

$$\frac{\text{Revenue of the year } t - \text{Revenue of the year } t-1}{\text{Revenue of the year } t-1}$$

** If the result is negative then GRR_P is given a value of 0

GRR_Nit = Growth rate in revenue, obtained with formula:

$$\frac{\text{Revenue of the year } t - \text{Revenue of the year } t-1}{\text{Revenue of the year } t-1}$$

GRMit = Growth revenue margin, obtained with formula:

$$\frac{\text{Revenue of the year } t - \text{Cost of Sale } t}{\text{Revenue of the year } t}$$

GRM_SQit = Square of company GRM i in year t

RESULTS AND DISCUSSION

Descriptive statistics are statistics that describe or describe data into information that is clearer and easier to understand, Ghozali (2018). In this study, the normality test aims to test whether in the regression model the independent variable Good Corporate Governance and the dependent variable earning management have a normal distribution or not. A good regression model is one that has a normal data distribution. There are two ways to detect whether the residuals are normally distributed or not, namely by graphical analysis and statistical tests (Ghozali, 2016). The normality test can be seen from the spread of the data on the diagonal axis of the graph.

The basis for making normality test decisions is using a graph test. If, the data spreads around the diagonal line and follows the direction of the line, then the regression model fulfills the assumption of normality. If the data spreads away from the diagonal line and does not follow the direction of the line, then the regression model does not meet the assumption of normality. From the normality test table, it can be seen that the Asymp Sig (2-tailed) value is 0.115. With the test results, it can be concluded that the data is normally distributed because of the Asymp value. Sig. (2-tailed)> 0.05.

Heteroscedasticity test is used in this study to determine whether there is a common standard deviation value on the variables used. Heteroscedasticity occurs if there is no similarity in the value of the standard deviation between the independent variable Good Corporate Governance and the dependent variable earning management. A good regression model is homoscedasticity or there is no heteroscedasticity. In this study, the heteroscedasticity test will be used using two types of tests, namely using the scatterplot test and the glejser test. The basis for making heteroscedasticity test decisions using the Scatterplot are as follows: a) If the points spread above and below or around the number 0 on the Y axis and there is no clear pattern, it indicates that there is no heteroscedasticity. b) If there is a certain pattern, such as dots that form a regular pattern, it indicates that heteroscedasticity has occurred. In addition to using the Scatterplot test type, this study also used the glejser test. This test is carried out to find out the test results in addition to using graphs, because seeing test results using graphs sometimes still raises doubts. The results of the Glejser test resulted in a significant value of Good Corporate Governance of 0.270. Based on the basis for making heteroscedasticity test decisions using the glejser test type, then the three variables of Good Corporate Governance do not occur heteroscedasticity because the significant value is more than 0.05.

This study was tested using a simple regression with a summary model is the output of the determinants of R2 to determine the percentage of the influence of the

Good Corporate Governance variable on the earning management variable. Good Corporate Governance has an effect on the earning management variable by 12.6% or 0.126. While the ANOVA test is the output for the F test or hypothesis testing, where F count is 4.051 and the F table value is 4.17 so F count is less than F table with a significant level of 0.054, meaning that the sig value is > from 0.05. Based on the above calculation, the Good Corporate Governance variable does not have a significant effect on earning management.

CONCLUSION

Based on the results of the study, it is concluded that Good Corporate Governance does not have a significant effect on earning management in trading companies listed on the Indonesia Stock Exchange for the period 2018 to 2019.

For further research, it is recommended to use a proxy or a different theory if you want to research about Good Corporate Governance (GCG) so that it is hoped that it will affect earnings management in trading companies listed on the Indonesia Stock Exchange.

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