The Effect of *Good Corporate Governance* (GCG) Mechanism on Earnings Management Practices of The Stubben Model (Study Case on Mining Sector Companies Listed on The Indonesia Stock Exchange 2014-2019)

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Abstract — This study was prepared with the intention of analyzing the impact of the Good Corporate Governance (GCG) Mechanism on the Stubben Model of Profit Management (analysis of Mining Sector Companies on the Indonesia Stock Exchange for the period 2014-2019). The population used in the study is the mining sector companies on the IDX. The sample selection method used purposive sampling technique. To process data after sample selection, compile a research model, determine the variables analyzed in the study, and propose a hypothesis, the next step is to carry out data processing procedures through regression analysis with panel data. The results of the analysis conclude that (1) Institutional Ownership has a negative and significant impact on Earnings Management, (2) Managerial Ownership has a negative and significant impact on Earnings Management, (3) The Independent Board of Commissioners has a negative and significant impact on Earnings Management, (4) The Audit Committee has a negative and significant impact on Earnings Management, and (5) Audit Quality has a negative and significant impact on Earnings Management.

Index Terms — Institutional Ownership, Managerial Ownership, Independent Commissioner, Audit Committee, Audit Quality.

I. INTRODUCTION

The data contained in financial published reports is basically a summary of the company's achievements in a certain period. Considering the importance of earnings information as a basis for consideration for someone to make investment decisions, company managers do their best so that the profits included in the published annual reports give a positive signal to potential investors to make investments.

Jogiyanto [1] states that the role of earnings is important in various decision-making processes, so that there is a tendency for managers to influence company reported earnings with certain motives known as earnings management. Earnings management is the manager's opportunistic behavior to deceive investors and maximize their welfare because they control more information than for personal and / or corporate interests [2].

The phenomenon of earnings management is also experienced by companies belonging to the mining sector on the Indonesia Stock Exchange. The nature and characteristics of the mining industry are different from other industries. The mining industry is a high profile industry that has visibility from stakeholders, requires a very large investment cost, long term, high competition, full of risk and high uncertainty, making the problem of funding a major issue related to company development. Here are some cases of earnings management in the mining sector:

- a. In 2015, the mode of fraud allegedly committed by PT Medco E&P Indonesia was by manipulating financial report data through cost recovery calculations which could reduce the amount of revenue sharing funds distributed by the government (Skornews.com, accessed on December 20th, 2017).
- b. In 2016, PT Timah (Persero) Tbk allegedly provided a fictitious financial report in the first semester of 2015. This fictitious financial reporting activity was carried out to cover PT Timah's continued worrying financial performance (Tambang.co.id, accessed on December 20th, 2017).
- c. In 2017, the Directors of CKRA deliberately inflated the asset value of CKRA by falsely consolidating financial statements and exaggerating the value of the paid-up capital of the mining company (Beritalima.com, accessed on December th 2017).

Apart from the phenomenon of earnings management, the mining sector is one of the sectors on the Indonesian Stock Exchange which is very volatile. This is because the mining sector is known to have characteristics that depend on natural resource commodities in Indonesia.

There are differences in research results (gap research) regarding the impact of the GCG component on earnings management practices. Octavia [3] and Kazemian and Zuraidah [4] found that Institutional Ownership has a negative and significant effect on Earnings Management. This is not in line with the findings made by Salehi et al [5] and Kamran and Attaullah [6] who found that Institutional Ownership does not have a significant impact on earnings management.

Research conducted by Reyna [7] found that Managerial Ownership has a negative and significant impact on Earnings Management. This finding is not in line with Spinos' research [8] that managerial ownership does not have a significant impact on earnings management.

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Fig. 1. IDX Sectoral Price Index for the Period of 2014-2019.

Research conducted by Man and Brossa [9] and Ramachandran, et al [10] states that the Independent Board of Commissioners has a negative impact on earnings management. This is not in accordance with research by Daghnsni et al [11] that the Independent Commissioner has no significant effect on earnings management.

Research conducted by Sochib [12] states that the Audit Committee has a negative and significant impact on earnings management. This is not in line with the research conducted by Napolita and Komang [13] that the audit committee is not able to prevent and reduce earnings management practices.

II. LITERATURE REVIEW

Scott [14] explains that earnings management is management intervention in the policy of financial reporting data for parties outside the company so that it can manipulate earnings reporting where management can use the leeway in the use of accounting methods, make policies (discretionary) that can hasten or delay expenses and income, company profit as expected. According to Martani et al [15] earnings management is described as planning the timing of revenues, expenses, gains and losses to smooth out fluctuations in earnings.

Stubben [16] conducted a study on the advantages of accrual models and revenue models to find simulated earnings management and actual earnings management. Stubben [16] took a sample of earnings management data in companies (except for the financial and insurance sectors). Then do the manipulation of the income and expenses. The accrual model and the revenue model were tested to detect this manipulation. The results show that the revenue model is stronger in detecting such revenue and expense manipulations [16].

Institutional ownership is a situation where the institution has shares in a company [17]. This is because institutional investors have more resources than other shareholders, so they are considered capable of implementing good supervisory mechanisms. From the above understanding, it can be concluded that institutional ownership is a condition in which external institutions or institutions also own shares in the company.

According to Sukirni [18] managerial ownership is the portion of owners in the company and managers actively participate in decision making in the company concerned. From the above definition, it can be concluded that managerial ownership is the owner of the company's shares from management who participates in the decision making of a company concerned.

According to the National Committee on Governance [19], an independent board of commissioners is a board of commissioners that is not directly connected to management, other members of the board of commissioners and controlling shareholders, and is free from conflicts of interest that can affect its ability to act independently for the benefit of the company. Based on the above definition, the writer concludes that the independent board of commissioners is a member of the commissioner who is in the company (has no affiliation with the company).

Hamdani [17] argues that the audit committee is formed by the Board of Commissioners of a listed company, whose members are selected and terminated by the board of commissioners of a listed company to assist the company's board of commissioners in carrying out necessary checks on the function of the board of directors to manage the company. The duties of the audit committee include tracking company accounting policies, evaluating internal controls, analyzing external reporting systems and compliance with regulations [20].

Amijaya and Prastiwi [21] state that qualified auditors are able to detect earnings management actions by clients so that managers will limit the amount of discretionary accruals. Based on the above statement, it can be concluded that audit quality is the ability to enhance the quality of the company's financial reporting.

Based on literature review, this study compiles a framework for testing hypotheses and answering the problem formulations in this study.

Fig. 2. Research Framework.

III. RESEARCH METHODOLOGY

This type of research used in this research is the type of causal research. This type of causal research is used to prove the relationship between cause and effect of several variables. The operational definition of this research can be seen in Table 1 below:

TABLE 1: OPERATIONAL DEFINITION AND VARIABLE MEASUREMENT

No	Variable	Definition	Measurement
1	Earnings Management (Y)	Management intervention in preparing financial reports for parties outside the company so as to manipulate earnings reporting as expected.	$AR_{it} = \alpha + (\beta_1 \Delta R_{it}) + (\beta_2 \Delta R_{it} \times SIZE_{it}) + (\beta_3 \Delta R_{it} \times AGE_{it}) + (\beta_4 \Delta R_{it} \times AGE_SQ_{it}) + (\beta_5 \Delta R_{it} \times GRR_P_{it}) + (\beta_6 \Delta R_{it} \times GRR_N_{it}) + (\beta_7 \Delta R_{it} \times GRM_{it}) + (\beta_8 \Delta R_{it} \times GRM_SQ_{it}) + \varepsilon_{it}$ <p>Notes: AR : Accounts receivable end of year R : Annual income SIZE : Natural log of total assets at the end of the year AGE : Company age (years) GRR_P : Industry median adjusted revenue growth (0 = if Negative) GRR_N : Industry median adjusted revenue growth (0 = if positive) GRM : Adjusted gross margins at the end of the fiscal year SQ : The square of the variable Δ : Annual Changes ε : Error</p>
2	Institutional Ownership (X ₁)	External ownership of shares	$KI = \frac{\text{Number of Institutional Shares}}{\text{Total Company Shares}} \times 100\%$
3	Managerial Ownership (X ₂)	The level of management's share ownership so that it can participate in making decisions	$KM = \frac{\text{Total Manager Shares}}{\text{Total Company Shares}} \times 100\%$
4	Independent Board of Commissioners (X ₃)	The board of commissioners does not come from management, other members of the board of commissioners and the controlling shareholder	$DKI = \frac{\text{Number of Independent Commissioners}}{\text{Total Number of Commissioners}} \times 100\%$
5	Audit Committee (X ₄)	A committee formed by the Board of Commissioners to carry out supervisory duties and responsibilities	$KA = \frac{\text{Total Audit Committee}}{\text{Total Board of Commissioners}} \times 100\%$
6	Audit Quality (X ₅)	Auditor foresight in the detection and reporting of fraud in client financial reports	Measurement of variables using dummy variables, the value of 1 if the company is audited by KAP the big-4, and 0 if the other (Non The big-4)

IV. RESULT AND DISCUSSION

In the first stage before regression analysis is carried out, here are the descriptive statistics of the research variables.

A. Descriptive Statistical Analysis Results

Descriptive statistics are a general description of the data which is the research variable. Descriptive statistical analysis will produce information consisting of the average value (mean), middle value (median), maximum value and minimum value from the research data. Following are the results of the descriptive statistical analysis of the study.

In the Table 2, it is known that the number of observed data is 84 and there are no missing data (all data were successfully processed). In the measurement of earnings management, there is an average value of -5.56. This shows that mining sector companies listed on the IDX carry out profit management with an Income Minimization strategy. This is because the average value of earnings management shows a negative number.

In the Institutional Ownership variable, the mean is 47.71%. This shows that mining sector companies have a fairly good portion of institutional ownership so that

earnings management can be minimized. In the Managerial Ownership variable, the mean is 7.19%. This shows that companies in the mining sector have a low portion of managerial ownership so that managers have less supervision of the running of the company.

On the Independent Commissioner Board variable, the mean is 36.43%. This shows that mining sector companies listed on the Indonesia Stock Exchange have significant independent parties to the company. On the audit committee variable, the mean was 71.87%. This shows that mining sector companies have a large proportion of audit committees. This makes it easier for companies to produce better financial reports.

In the audit quality variable, it is known that the companies that were not audited by Big 4 KAP were PT Radiant Utama Interinsco Tbk., PT Central Omega Resources Tbk, PT Mitra Investindo Tbk, PT SMR Utama Tbk, PT Energi Mega Persada Tbk, and PT Delta Dunia Makmur. Tbk. Meanwhile, other companies have been audited by KAP Big 4, which shows that the quality of the resulting financial reports is better.

TABLE 2: DESCRIPTIVE STATISTICAL ANALYSIS RESULTS

	Earnings Management	Institutional Ownership	Managerial Ownership	Independent Board of Commissioners	Audit Committee	Audit Quality
Mean	-5.56536	47.71845	7.19929	36.43167	71.87167	0.57143
Median	-5.41000	45.34000	0.05500	33.33000	66.67000	1.00000
Maximum	-3.73000	99.99000	57.55000	57.14000	150.00000	1.00000
Minimum	-16.36000	4.92000	0.01000	20.00000	33.33000	0.00000
Observations	84	84	84	84	84	84

B. Results of Regression Model Testing

In this study, panel data regression analysis was used. Through testing panel data regression data analysis, researchers will find out the influence between the variables

tested to answer the problem formulation and research hypotheses. Following are the results of the panel data regression analysis in the study.

TABLE 3: PANEL DATA REGRESSION ANALYSIS RESULTS

Chow Test	Cross-section F		Result
	0.000		PLS is not the best model
Haussman Test	Prob.		Result
	0.000		Fixed Effect
Variable	Coefficient	t-Statistic	Prob
C	-4.806188	-3.896028	0.0000
INSTITUTIONAL OWNERSHIP	-0.218467	-2.635031	0.0008
MANAGERIAL OWNERSHIP	-0.432120	-5.537997	0.0000
INDEPENDENT BOARD OF COMMISSIONERS	-0.350027	-2.913289	0.0009
AUDIT COMMITTEE	-0.317992	2.398531	0.0260
AUDIT QUALITY	-0.306022	2.325919	0.0032
F Test	F-Statistic	Prob	Result
	21.053	0.000	Significant
Coefficient of Determination (R-Squared)			0.672

Source: Output Eviews 10 (Processed Data)

- Constant value of -4,806 with a significance value of 0,000. Due to the significance <0.05, the value is constant, and it can be interpreted that if all independent variables are considered constant or do not change, the amount of Earnings Management is 4.806.
- The regression coefficient value for Institutional Ownership (KI) is -0.218 with a significance value of 0.008. Based on this, H₀ is rejected and H_a is accepted. This shows that there is a negative and significant influence of Institutional Ownership on Earnings Management. The regression coefficient figure shows that if the Institutional Ownership (KI) increases by one unit, Profit Management will decrease by 0.218 only if the other variables are constant (constant).
- The regression coefficient value for Managerial Ownership (KM) is -0.432 with a significance value of 0.000. Based on this, H₀ is rejected and H_a is accepted. This shows that there is a negative and significant influence of Managerial Ownership on Earnings Management. The regression coefficient number shows that if Managerial Ownership (KM) increases by one unit, Earnings Management will decrease by 0.432 only if the other variables are constant (constant).
- The regression coefficient value for the Independent Commissioner (DKI) is -0.350 with a significance value of 0.000. Based on this, H₀ is rejected and H_a is accepted. This shows that there is a negative and significant influence of the Independent Commissioner variable on earnings management. The regression coefficient number shows that if Managerial Ownership (KM) increases by one unit, Earnings Management will decrease by 0.350 only if the other variables are constant (constant).
- The regression coefficient value of the Audit Committee (KA) is -0.317 with a significance value of 0.026. Based on this, H₀ is rejected and H_a is accepted. This shows that there is a negative and significant effect of the Audit Committee variable on earnings management. The regression coefficient number shows that if the Audit Committee (KA) increases by one unit, the Profit Management will decrease by 0.317 only if the other variables are constant (constant).
- The regression coefficient value of Audit Quality (KAD) is -0.306 with a significance value of 0.003. Based on this, H₀ is rejected and H_a is accepted. This shows that there is a negative and significant effect of the Audit Quality variable on Earning Management. The regression coefficient number shows that if the Audit Quality increases by one unit, the Earnings Management will decrease by 0.306 only if the other variables are constant (constant).
- In the F test it is known that the F-Statistic value of 21,053 is significant at alpha 0,000. Based on this, H₀ is rejected and H_a is accepted. This shows that simultaneously (together) Institutional Ownership (KI), Managerial Ownership (KM), the Independent Board of Commissioners (DKI), the Audit Committee (KA), and Audit Quality (KAD) have a significant effect on Earning Management (MA)).
- The coefficient of determination (R-Squared) is 0.672. This shows that the percentage of the contribution of the influence of the independent variable on the dependent variable is 67.2%. In other words, it can be interpreted that the independent variables (Institutional Ownership (KI), Managerial Ownership (KM), Independent Board of Commissioners (DKI), Audit Committee (KA), and Audit Quality (KAD)) used in this study are able to explain the variables. the dependence of Earnings Management is 67.2%. While the remaining 32.8% is influenced by other variables.

C. Discussion of Research Results

Based on the research results, it is known that Institutional Ownership is able to significantly reduce Earning Management practices. Institutional ownership has the ability to control management through an effective monitoring process so that it can reduce earnings management [22]. The results of this study are in line with previous research conducted by Kazemian and Zuraidah [4] which states that Institutional Ownership has a negative and significant effect on Earning Management.

Based on the research results, it is known that Managerial Ownership is able to significantly reduce Earning Management practices. Earnings management practices are

largely determined by the motivation of company managers. Different motivations will produce different amounts of earnings management [22]. Asward and Lina [23] conclude that managerial ownership has succeeded in reducing agency problems from managers and aligning the interests of managers with shareholders. Previous research conducted by Hazri and Sugiyarti [24] stated that Managerial Ownership can significantly reduce Earning Management practices.

The results showed that the Independent Board of Commissioners was able to significantly reduce Earning Management practices. The independent board of commissioners functions and is responsible for ensuring that the company establishes the right strategy (monitoring schedules, budgets and strategy effectiveness), does not violate applicable regulations, and ensures that the principles and practices of good corporate governance are well obeyed and implemented [25].

The results showed that the Audit Committee was able to significantly reduce Earning Management practices. According to Boediono [26] the audit committee is responsible for overseeing financial reports, overseeing external audits, and observing internal control systems (including internal audits) can reduce the opportunistic nature of management that performs earnings management by supervising financial reports and supervising the external audit. Previous research by Latif and Fahad [27] explained that the Audit Committee was able to significantly reduce Earning Management practices.

The results showed that Audit Quality was able to significantly reduce Earning Management practices. The auditor quality dimension is the size of the public accounting office or KAP which is considered the most important indicator [28]. The results of this study are in line with previous research conducted by Ulina et al [29] which states that Audit Quality can significantly reduce Earning Management practices.

V. CONCLUSION

The conclusions obtained in this study are (1) Institutional Ownership is able to significantly reduce Earning Management practices, (2) Managerial Ownership can significantly reduce Earning Management practices, (3) Independent Board of Commissioners is able to significantly reduce Earnings Management practices, (4) Committee Audit is able to reduce Earning Management practices significantly, and (5) Audit Quality can significantly reduce Earning Management practices

Based on the results of the research obtained, the following are suggestions put forward in this study (1) it is recommended that mining companies increase the portion of Institutional ownership as part of an oversight in managing the company, (2) it is recommended that mining companies increase the portion of managerial ownership because of the share ownership owned by the manager. is one way to reduce agency costs where managerial ownership can align the interests of managers with those of owners, (3) it is recommended that mining companies increase the number of Independent Commissioners because independent commissioners can minimize conflict of interest because

they will be objective in decision making, where independent commissioners will provide input in case of business management irregularities so that adverse selection and moral hazard can be avoided, (4) it is recommended companies increase the number of Independent Commissioners because of Independent Saris can minimize conflict of interest because it will be objective in decision making, where independent commissioners will provide input if there is business management irregularities so that adverse selection and moral hazard can be avoided, (5) The results of the study show that Audit Quality can reduce the practice of Earnings Management significant. Therefore, it is recommended companies use a credible KAP that has met the qualifications and permits of the BPK and OJK in order to guarantee quality and reliable reports (information). (6) It is recommended that in further research, use other variables that influence corporate earnings management such as financial variables, namely Profitability, Liquidity, Solvency and Market Ratio for BUMN and private companies.

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