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Influence of Earnings Management on Stock Prices with Good Corporate Governance as an Intervening Variable

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Abstract

The management team tries to achieve the budgeted profit target each period to maximize the value of the company as reflected in the stock price. In general, management runs its operations by way of earnings management practices at every level of management to pursue the budgeted profit targets of the company. Earnings management which is a tool to maintain profitability can give a signal of stock prices in the capital market. Using path analysis, during the 2014-2018 period a study of the effect of earnings management on stock prices was carried out with Good Corporate Governance proxied by an independent commissioner and audit committee as an intervening variable in national private commercial banks. The results of this study indicate that earnings management directly does not have a significant effect on stock prices. And indirectly earnings management through Good Corporate Governance in the proxy of independent commissioners has no significant effect, but through the audit committee has a significant effect on stock prices. And through independent commissioners and audit committees have no significant effect on stock prices. Good Corporate Governance practices carried out by Independent Commissioners and Audit Committees can establish effective supervision and control systems within an entity.

Keywords: Earnings Management, Independent Commissioners, Audit Committee, Stock Prices

INTRODUCTION

Profit is a company that is sought so that it can increase the value of the company itself. By empowering existing resources, both banking professionals with a goal in the long term to maximize the value of the company. What is run by management, its size is a large increase in management being able to increase the value of the company. The measure used to approve the success of management functions by looking at the value of the company. Maximizing the value of the company in general maximizes the stock price, because the value of the company is the price of the company's stock (Husnan, 1987).

Management at every opportunity, especially when preparing financial statements seeks to provide a good performance report. If the manager wants the performance to look better than the actual performance, the manager will increase his profit information higher than the real profit (Sri Sulistyanto, 2008). Earnings management is one way to influence company performance so that it looks good by the management team. Several accounting surveys show that conflicts of interest and top management pressure on internal accountants, auditors, or accounting consultants are the cause of earnings management practices and accounting scandals (Dedhy Sulistiawan, Yeni Januarsi, 2011).

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Earnings management is done by managers based on various kinds of motivation (I Made Sukartha, 2017) quoted from Healy (1985). For example, motivation to get a bonus then management will try to make it appear as if the profit reached the target set to maximize the bonus that will be received. Research that reveals earnings management and stock prices, such as researchers (Laili, 2013) that examines the effect of earnings management on stock market prices on the Indonesia Stock Exchange which results in the conclusion that acquirer companies use earnings management before mergers or acquisitions and earnings management does not affect stock market prices. Other studies related to earnings management namely (Ni Putu Ayu Desy Indrayanti, 2017) who examined the effect of earnings management on stock returns with audit quality and corporate governance as moderating variables. The results of his research that earnings management has no influence on stock returns. The company's action on earnings management did not fully get a positive response from the investors.

The results of this study still provide room for other factors that can affect stock prices. Good Corporate Governance is a mechanism developed to improve company performance and management behavior (Murhadi, 2009). Recent earnings management research reveals that earnings management and good corporate governance are synergized to control company performance and management behavior. Good Corporate Governance research as an intervening variable that is expected to mediate earnings management such as institutional ownership, managerial ownership, independent commissioners, audit quality examined by (Herawaty, 2008), (Darwis, 2012a), (Emy Wahyu Kristanti and Maswar Patuh Priyadi, 2016) , (Ustman, Subekti, & Ghofar, 2016), and (I Made Sukartha, 2017). The results of the research that have been carried out reveal different conclusions that earnings management has a significant effect on firm value (Herawaty, 2008), (I Made Sukartha, 2017). While other researchers prove that earnings management has no effect on firm value (Dervish, 2012b), (Emy Wahyu Kristanti and Maswar Patuh Priyadi, 2016), (Ustman et al., 2016).

Likewise, as an intervening variable that will mediate earnings management, Herawaty's research (2008) proves that independent commissioners influence company value, while Priyadi (2016) Good Corporate Governance has no effect on firm value. It turns out there are still inconsistent research results and encourage researchers to conduct further research on earnings management. The problem raised in this study is what managerial factors can affect the stock prices of national private commercial banks in the Indonesian Capital Market? The research question is: Does earnings management affect stock prices in the Indonesian Capital Market? Can Good Corporate Governance mediate earnings management affecting stock prices? Therefore, the formulation of the problem of this study is whether earnings management affects stock prices through Good Corporate Governance, which is proxyed by the Independent Commissioner and Audit Committee at the Indonesian National Private Bank. With the title of research, "The Effect of Profit Management on Stock Prices with Good Corporate Governance as Intervening Variable National Private Commercial Banks Listed on the Indonesia Stock Exchange 2014-2018.

Earnings management is a legal technique that is usually found in earnings management practices can be grouped into five techniques, namely: changing accounting methods, making accounting estimates, changing periods of revenue and expense recognition, reclassifying current and non-current accounts, and reclassifying non-discretionary and non-accrual accruals. discretionary (Dedhy Sulistiawan, Yeni Januarsi, 2011) quoted from Wolk, Dodd and Tearney (2006). This activity is a manager's intervention that has a specific purpose in the process of publication financial reporting to get personal benefits. Earnings management as an effort of company managers to intervene or influence the information in the report with the aim of tricking stakeholders who want to know the performance and condition of the company (Sri Sulistyanto, 2008). Earnings management will make profits not in accordance with existing economic realities, so the quality of reported earnings will be lower or higher. The profit presented may not reflect economic reality, but rather because of the desire of management to show in such a way that its performance can look good. Earnings management is carried out at the revenue centers to improve management performance information in managing the company. Earnings management occurs when managers use valuations in financial reporting and in preparing transactions to change financial statements to mislead some stakeholders about the company's economic performance, or to influence the outcome of contracts that depend on the accounting numbers reported (Dechow, 2000) quoted from Healy and Wahlen (1999).

Earnings management as an activity is still carried out by the company's management team in accordance with budgeted profit targets. Earnings management is possible because of the flexibility in making financial statements to change the company's operating profit (Murhadi, 2009) citing Ortega and Grant (2003). Earnings management is income manipulation carried out to meet the targets stated by management (Murhadi, 2009) quoted from Abdel Ghany (2005). If the manager wants the performance to look better than the actual performance, the manager will increase his profit information higher than the real profit (Sri Sulistyanto, 2008). Earnings management itself can result in reduced credibility of financial statements, increase bias in financial statements and can mislead financial statement users with the information that is fabricated. There are several ways that companies use to play the size of profits, namely by recognizing and recording income too fast or vice versa, recognizing and recording false income, recognizing and recording costs faster or slower than they should, and not disclosing their obligations (Sri Sulistyanto, 2008).

Good Corporate Governance, which is a concept based on agency theory, is expected to function as a tool to provide investors with confidence that they will receive a return on the funds they have invested. Good Corporate Governance leads to a system that regulates and controls the company so that the company creates added value for all stakeholders (Sri Sulistyanto, 2008). To establish an effective system of supervision and control in a company, two parties are needed, namely the Audit Committee and the Independent Commissioner.
Increasing the value of the company is the main goal of every business manager, because the higher the value of the company will be followed by the high prosperity of investors or shareholders. Company values provide management with an overview of investors' perceptions about the company's past performance and the company's prospects. Good Corporate Governance is a mechanism developed to improve company performance and management behavior (Murhadi, 2009).

Increasing the value of the company is the main goal of every business manager, because the higher the value of the company will be followed by the high prosperity of investors or shareholders. Company values provide management with an overview of investors' perceptions about the company's past performance and prospects.
Company value or also called company market value is the price that prospective buyers are willing to pay if the company is sold. The facts show that the value of wealth shown on the balance sheet has no relationship with the market value of the company. If the company is in profit, the retained earnings account will increase so that the book value of equity will also increase. This increase in book value of equity shows an increase in the book value of a company followed by an increase in its share price (Dedhy Sulistiawan, Yeni Januarsi, 2011)

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METHODS

This research was conducted on national private commercial banks listed on the Indonesia Stock Exchange during the 2014-2018 period as the population. The data used in the form of audit financial statements taken from the Indonesia Stock Exchange. Samples were drawn using the purpose sampling method with certain criteria so that 16 bank samples were obtained. Tests carried out on these samples with observations for 5 years during 2014-2018 to obtain 80 observations. The research variables consist of exogenous and endogenous variables consisting of earnings management, independent commissioners, audit committees and stock prices. The analytical method used is path analysis to test the effect of exogenous and endogenous variables. The influence in this research model is direct and indirect with the following research model:

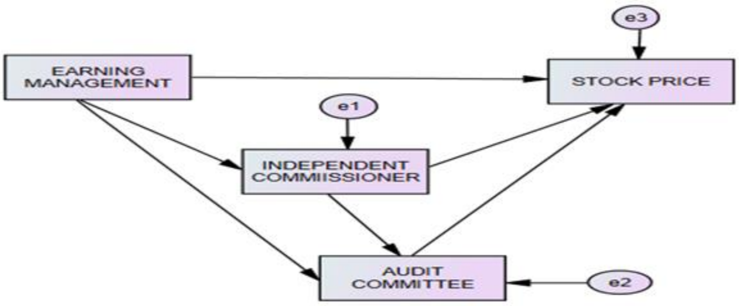

Figure 1: Research Model

With the path diagram model in Figure 1 there are four observed variables, namely earnings management, independent commissioners, audit committees and stock prices. In this model the hypothesis is proposed that earnings management has a direct influence on stock prices. While earnings management has an indirect effect on stock prices with a relationship pattern: (1) Earnings management affects stock prices through independent commissioners, (2). Earnings management affects stock prices through an audit committee, (3). Earnings management influences stock prices through independent commissioners and audit committees.

The pattern of relationships between the variables mentioned above was analyzed with three regression equations as follows: (1) Independent Commissioner = b1 Earnings Management + e1, (2). Audit Committee = b1 Earnings management + b2 Independent Commissioner + e3, (3). Stock Price = b1 Profit Management + b2 Independent Commissioner + b3 Audit Committee + e2. The assumptions in the equation are that the distribution of residuals is normal, the residual variance is constant in every observation (homoscedasticity), there is no autocorrelation between residues in the observation data, and there is no multicollinearity problem between independent variables.

In this research model earnings management uses the Modified Jones Model, which is seen in the company by means of the Discretionary Accrual value as an indicator of earnings management detection (Dedhy Sulistiawan, Yeni Januarsi, 2011).

TAit= Nit –CFOit ………………………………………………………………. (1)
TAit/Ait-1 = β1 (1 / Ait-1) + β2 (ΔRevit / Ait-1) + β3 (PPEit / Ait-1) +eit .... (2)
NDAit = β1 (1 / Ait-1) + β2 (ΔRevit / Ait-1 - ΔRecit/ Ait-1) + β3 (PPEit / Ait-1) .... (3)
DAit = TAit –NDAit .... (4)

RESULTS AND DISCUSSION

Research data are analyzed in advance to produce the values needed in hypothesis testing. To obtain the value of the relationship between variables using path analysis, the structural equation as follows: Equation I: IC = α + β1 EM + e1; equation II: AC = α + β1 EM + β2 IC + e2; and equation III: SP = α + β1 M + β2 IC + β3 AC + e3.

To test the proposed hypothesis, it is carried out with three times the model test. The measurement results of each of these equation structures can be seen in Table 1.

Table 1: The results of the analysis of Profit Management Variables

Persamaan	Variabel	R Square (R2)	Standardized Coeficient Beta	Sig	Error
$IC = \alpha + \beta_1 EM + e_1$	Earning Management	0,016	-0,127	0,263	0,9991
$AC = \alpha + \beta_{1\,E}M + \beta_2 IC + e_3$	Earning Management	0,065	0,245	0,031	0,966
	Independent Commissionr	0,065	0,112	0,315	0,966
$SP = \alpha + \beta_1 EM + \beta_2 IC + \beta_3 AC + e_2$	Earning Management	0,261	-0,124	0,230	0,860
	Independent Commissionr	0,261	0,304	0,003	0,860
	Audit Committee	0,261	-0,375	0,000	0,860

Based on table 1, it can be stated that each of the exogenous variable relationships with endogenous variables is a direct influence. In the first equation, the earnings management variable with an independent commissioner has a standardized coefficient beta of -0.127 with a sig value of 0.263> 0.05. In statistical tests with a significance level of 0.05, this test provides sufficient evidence to accept H0 and reject the hypothesis (H1). In the path analysis the information means that the earnings management variable has an insignificant influence on independent commissioners. The value of R square contained in the summary model is 0.016. This shows that the contribution of earnings management to independent commissioners is 1.6% while the remaining 98.4% is contributed by other variables not included in this study. For the value of e1 of 0.99 which is calculated by the formula √ (1-0.016).

In the second equation, the earnings management variable with the audit committee has a standardized coefficient beta of 0.245 with a sig value of 0.031 <0.05. In statistical tests with a significance level of 0.05, this test provides sufficient evidence to reject H0 and accept the hypothesis (H2). While the independent commissioner with the audit committee has a standardized coefficient beta of 0.112 with a sig value of 0.31> 0.05. In statistical tests with a significance level of 0.05, this test provides sufficient evidence to accept H0 and reject the hypothesis (H3). This information means that the independent commissioner variable has an insignificant influence on the audit committee. The amount of R square value contained in the summary model is 0.065. This shows that the contribution of earnings management and independent commissioners influence to the audit committee by 6.5% while the remaining 93.5% is contributed by other variables not included in this study. For the value of e1 of 0.97 which is calculated by the formula √ (1-0.065).

In the third equation, earnings management variables with stock prices have a standardized coefficient beta of 0.124 with a sig value of 0.23> 0.05. The statistical test with a significance level of 0.05 provides sufficient evidence to accept H0 and reject the hypothesis (H4). This information means that earnings management variables have no significant effect on stock prices. Whereas independent commissioners with stock prices have a standardized coefficient beta of 0.304 with a sig value of 0.00 <0.05. The statistical test with a significance level of 0.05 provides sufficient evidence to reject H0 and accept the hypothesis (H5). This information means that the independent commissioner variable has a significant effect on stock prices. And the audit committee with a stock price has a standardized coefficient beta of -0.375 with a sig value of 0.00 <0.05. The statistical test with a significance level of 0.05 provides sufficient evidence to reject H0 and accept the hypothesis (H6). This information means that the independent commissioner variable has a significant effect on stock prices. The amount of R square value contained in the summary model is 0.261. This shows that the contribution of earnings management influence and independent commissioners and audit committees is 26.10% while the remaining 73.90% is contributed by other variables not included in this study. For e1 value of 0.86 which is calculated by the formula √ (1-0.261. The results of the statistical calculation can also be seen in Figure 2.

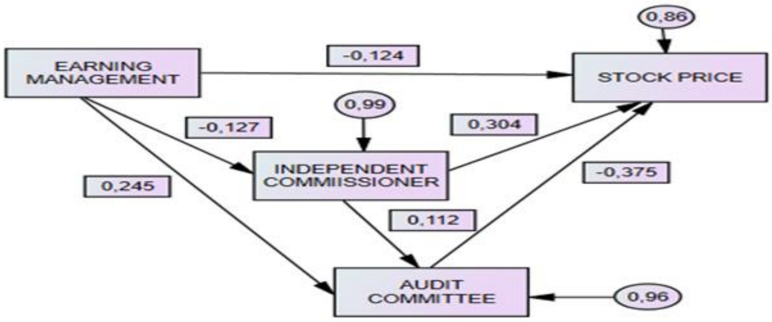

Figure 2: Results of analysis of research variables

Each variable has a standardized coefficient beta value that can be used to indirectly calculate the effect of earnings management on stock prices through intervening variables. Testing the indirect effect of earnings management variables on stock prices through an independent commissioner. The coefficient value of the earnings management path to the independent commissioners is shown by the standardized coefficient beta value of -0.127. While the path coefficient of the independent commissioner to the stock price obtained a standardized beta coefficient value of 0.304. The coefficient of earnings management path to the stock price obtained by the value of standardized beta coefficient of -0.124.

The results of the analysis indirectly influence earnings management on stock prices through the audit committee. The coefficient value of the earnings management path to the audit committee with a standardized coefficient beta of 0.245. The path coefficient from the audit committee to the stock price obtained a standardized coefficient beta value of -0.375. The path coefficient from earnings management to stock prices obtained a standardized coefficient beta value of -0.124. The results of the analysis indirectly influence the earnings management on stock prices through independent commissioners and audit committees. The coefficient value of the earnings management path to an independent commissioner obtained a standardized coefficient beta value of -0.127. The path coefficient of the independent commissioner to the audit committee obtained a standardized beta coefficient value of 0.112. And the audit committee path coefficient to the stock price obtained a standardized coefficient beta value of -0.375. The coefficient of earnings management path to stock price is obtained from the standardized coefficient beta value of -0.124.

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DISCUSSION

In Based on the results of the analysis of the research hypothesis testing above, it can be explained comprehensively the effect of earnings management on stock prices on the Indonesia Stock Exchange. With the path analysis research model shown in Figure 2, there are two relationships, namely the direct effect and the indirect effect of earnings management on stock prices. First is the direct effect of earnings management on stock prices and the second is the indirect effect of earnings management on stock prices through independent commissioners. Third, the indirect effect of earnings management on stock prices through an audit committee. The four indirect effects of earnings management on stock prices are through independent commissioners and audit committees.

The results of the first hypothesis test provide information that earnings management has no significant effect on the stock prices of national private commercial banks. This statistical test provides enough evidence to reject H1 that earnings management affects stock prices. The results of this test indicate that earnings management is not able to influence the stock price that occurs in the stock exchange. In the path analysis there is a path coefficient between the earnings management variables and the stock price. The path coefficient gives a standardized beta coefficient of -0.124. This coefficient value is the value of the relationship of exogenous variables to endogenous variables, namely earnings management to stock prices.

By analyzing the results of statistical measurements show that earnings management variables are done with income increasing patterns, income decreasing patterns and income smoothing patterns. Whereas the stock price is reflected by a Price Book Value above one or over value and a Price Book Value below one or under value. Empirical facts on 80 observations show that during 2014-2018 earnings management tendencies are income increasing patterns that are characterized by discretionary accruals of more than 1 by 36%. The pattern of income decreasing which is marked by discretionary accruals is less than 1 by 58% and those with income smoothing with discretionary accruals are equal to 0 by 6%.

Information on earnings management raises Price to Book Value as a measurement of stock price compared to the book value of the relevant stock. From the pattern of income-increasing management that the market responded to so that the price to book value was less than 1 as many as 13 observations or 45%, and the price to book value was more than 1 as many as 16 observations or 55%. Likewise, the profit management patterned income decreasing responded by the market so as to produce a price to book value of less than 1 as many as 13 observations or 28%, and price to book value of more than 1 as many as 33 observations or 72%.

Relationship with earnings management pattern of increase in income with stock prices will rise in book value increasing reserves, if in the condition of capital being moved in the initial position. Stock prices on the exchange can go up marked PBV above 1 and can also go up PBV below 1. This depends on the market response to stock prices in the market adjusted to investor demand for these shares. Managers do earnings management, but earnings management is done that is not able to increase stock prices. Although managers make efforts to increase income or increase profits, the stock price until the stock exchange closes does not increase. Earnings obtained by the entity are not able to provide information signals to the stock exchange that will influence investors to make a stock request. The quality of the profits generated is not able to provide a positive response to the stock market. This study supports previous research, including those conducted by (Darwis, 2012), (Emy Wahyu Kristanti and Maswar Patuh Priyadi, 2016), and (Ustman et al., 2016). Earnings

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issued by companies on the IDX are not responded positively by the market so that the stock market price at the end of the year closes at a lower price than the opening price.

In terms of prosperity, investors as investors feel that the yield expectations are not accommodated by the company's management. In line with the statement (Dedhy Sulistiawan, Yeni Januarsi, 2011) many people gave the opinion that the information on a company's financial statements went public is just a formality, because the information was not reflected in its stock price. Technically, stock prices are also influenced by the strength of the demand and supply of these stocks. The financial statements no longer objectively inform what the company has done and experienced (Sri Sulistyanto, 2008).

The path analysis results to measure the indirect effect of earnings management on stock prices through independent commissioners obtained values with negative coefficients (figure 2). Because the direct effect of earnings management on stock prices is insignificant, while the indirect effect through the effect of earnings management on independent commissioners and independent commissioners on stock prices is insignificant, independent commissioners do not function as intervening between earnings management with stock prices. The magnitude of the value of the coefficient of direct influence between earnings management with negative independent directors and the direct influence of independent directors on positive stock prices. This implies that the more management runs a pattern of income decreasing it will encourage independent commissioners to carry out their functions to control management operations.

The descriptive analysis shows that during 2014-2018 observations of income decreasing patterns carried out by management reached 58% of all observations and reflected the condition of independent commissioners above 30% in accordance with the Financial Services Authority provisions namely PJOK Number 33 / PJOK.04 / 2014 concerning Issuers and Board of Commissioners issuers. Thus, the pattern of income decreasing to the composition of independent commissioners is negative at -0.127 (coefficient of direct effect of earnings management on independent commissioners). Meanwhile the positive influence of independent directors on stock prices on the stock exchange indicates the function of independent commissioners' control over supervision and advice to carry out good corporate governance so that it is reflected in the magnitude of the price book value of stocks above 1.

The findings of this study are consistent with research (Emy Wahyu Kristanti and Maswar Patuh Priyadi, 2016) that GCG is not able to moderate the effect of earnings management on firm value. In earnings management practices there is a tendency for earnings management to lead to an increase in corporate profits, because management has an interest in corporate profits. The manager's interest is the motivation of management to manage earnings (Dedhy Sulistiawan, Yeni Januarsi, 2011) including: bonus motivation, debt motivation, tax motivation, and stock sales motivation. The results are different from the research conducted (Herawaty, 2008) proving that independent commissioners, audit quality and institutional ownership are moderating variables between earnings management and firm value. With the wisdom of an independent commissioner who can function as a supervisor and controller of management can provide information signals to the stock exchange.

With the above research model, it is evident that when managers want to increase the value of a company that is reflected in stock prices, management cannot directly implement its own policies. There are other functions within the organ of the company that must also play a role in carrying out supervision and control of the company's operations, namely an independent commissioner. The role of the independent commissioners who participate provide an assessment of the manager's performance report so that it can give a positive signal to the stock price on the stock exchange.

The path analysis results to measure the indirect effect of earnings management on stock prices through the audit committee obtained values with negative coefficients (figure 2). Because the direct effect of earnings management on stock prices is not significant, while the indirect effect through the effect of earnings management on the audit committee and audit committee on stock prices is significant, thus the audit committee functions as an intervening between earnings management and stock prices. The negative direction of the indirect effect implies that the presence of the audit committee in mediating the relationship between earnings management reduces the closeness of the relationship between earnings management and stock prices. The magnitude of the value of the coefficient of direct influence between earnings management with a positive audit committee and the direct influence of the audit committee on negative stock prices. This suggests that with the increasing pattern of income decreasing, it encourages the audit committee to improve the quality of the company's financial statements so that the value of the company is reflected in the price of stocks on the stock exchange.

The descriptive analysis shows that during 2014-2018 observations of income decreasing patterns carried out by management reached 58% of all observations and reflected the condition of the proportion of audit committee members of at least 3 people according to the Financial Services Authority provisions namely PJOK number 55 / PJOK.04 / 2015 concerning the Formation and Guidelines for the Work Implementation of the Audit Committee. Thus, the income decreasing pattern gives a positive audit committee value of 0.245 (coefficient of direct effect of earnings management on the audit committee). Meanwhile the negative influence of the audit committee on stock prices indicates the role of the audit committee to reduce the level of weakness in earnings management by management. The findings of this study provide empirical evidence that there is a positive relationship between income decreasing patterns and the role of the audit committee to improve the quality of financial statements.

The path analysis results to measure the indirect effect of earnings management on stock prices through independent commissioners and audit committees obtained values with negative coefficients (figure 2). Therefore, the direct effect of earnings management on stock prices is not significant while the indirect effect through the path of earnings management influence on independent commissioners and independent commissioners on the audit committee, and the audit committee on stock prices is not significant. Thus, the independent commissioner and audit committee together do not function as an intervening between earnings management and stock prices. The magnitude of the value of the coefficient of direct influence between earnings management with a negative independent commissioner, the direct influence of an independent commissioner on a positive audit committee and the influence of the audit committee on a negative stock price. This implies that the more management runs a pattern of income decreasing it will encourage the independent commissioner to carry out its function to control management operations and further encourage the audit committee to improve the quality of the company's financial statements so that the company's value reflected in market prices rises.

The descriptive analysis shows that during 2014-2018 observations of income decreasing patterns reached 58% of the total observations and reflected the condition of the audit committee at least 3

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people according to the Financial Services Authority provisions namely PJOK number 55 / PJOK.04 / 2015 concerning Establishment and Audit Committee Implementation Guidelines.

CONCLUSIONS

Based on the results of research using path analysis or the path analysis of the effect of earnings management on stock prices with independent commissioners and audit committees as intervening variables. And the discussion that has been described above results in several conclusions of direct influence and indirect influence as follows: a. Direct earnings management does not have a significant effect on stock prices. b. Indirect Profit Management through Independent Commissioners has insignificant influence on the Stock Price. c. Indirectly Profit Management through the Audit Committee has a significant influence on the Stock Price. d. Indirectly Profit Management through Independent Commissioners and Audit Committees has no significant effect on Stock Prices.

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