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The Effect of Good Corporate Governance Mechanism, Financial Performance, and IFRS Adoption on Earnings Management Practices Case Study: Manufactured Firms Listed on Indonesia Stock Exchange Period 2012–2017

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Abstract: ***This study aims to analyze the influence of the mechanism of good corporate governance, financial performance and ifrs adoption of earnings management practices case studies on manufacturing companies listed on the Stock Exchange for the period 2012-2017. The sample from this study is a manufacturing company listed on the IDX (Indonesia Stock Exchange) from 2012-2017. This study use 28 companies as sample which were determined based on the purposive sampling method. The study was tested using multiple linear regression methods. The results of this study indicate that partially the composition of the board of commissioners, audit committees, institutional ownership, managerial ownership, and if adoption have a significant effect on earnings management practices. Meanwhile, the composition of the board of commissioners, audit committee, institutional ownership, managerial ownership, return on assets, debt equity ratio, dividend payout ratio, and if adoption have an effect on the practice of earnings management.***

Keywords: good corporate governance mechanism, financial performance, ifrs, earnings management

1. Introduction

Investment has become an alternative for someone to use the more money he has to save than to save it in the bank. There are a number of reasons people make investments, the first is that a person's productivity will decrease with age, so they must think of provisions for the future so as not to bother other people. The second is indirectly investment will affect the country's economy because with the investment of a country's economy will grow so that government programs to improve people's welfare will soon be achieved. There are two types of investments that investors can invest in. the first is investment in real assets, investors can invest their capital in the form of factories, trade, property, and commodities. The second is investment in financial assets, investors invest in equity, debt, sukuk, derivatives, and so on. With the many alternative types of investments that are invested so as to create competition between companies.

The existence of competition between companies with the aim of attracting investors to invest their capital requires company management to produce information that can be considered by investors. The information is presented in the financial statements. In preparing financial statements, management must follow existing financial standards. At present, publicly listed companies are required to issue financial reports applying the applicable financial accounting standards.

Differences in accounting practices in each country caused by environmental, economic, social, and cultural influences and the opening of foreign investment taps opened by the country have led to the need for similar perceptions of accounting throughout the world. Therefore the International Accounting Standards Committee (IASC) or International Accounting Standard Board (IASB) in 2005 issued international financial accounting standards, known as International Financial Accounting Standards (IFRS). With the issuance of IFRS, it is expected that there will be an accounting equation throughout the world. In addition, IFRS can also facilitate business reconciliation across countries throughout the world.

The International Accounting Standards Committee (IASC) or International Accounting Standard Board (IASB) issues IFRS that aims to develop higher quality financial report standards, which can later be widely accepted by countries in the world. These objectives are achieved by issuing principles-based standards and taking steps to eliminate accounting alternatives that are used and require better accounting measurements reflected by the company's economic position and performance so that the quality of financial information will increase.

Profit is one component in financial statements that is often used to assess company performance. This is because the bad performance of the company is often related to the profits obtained by the company, so that high profits can be attributed to management's achievements. With this perception, many managers strive for all means to achieve profits determined by the company, giving rise to the assumption that by generating high profits will get a big bonus.
This action is one of the practices of earnings management. Earnings management is a condition where management intervenes in the financial reporting process for external parties so that it can flatten, increase, and reduce profits (Schipper, 1989). Management leveled profits to neutralize uncertain environments and stabilize company performance when the cycle of bad times and good times alternately. In

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doing income smoothing actions, management usually sees the situation to be faced. So that the income smoothing action will be effective in the future and the company's performance will look good.

Beidleman in Belkaoui (2007) provides two reasons for management to flatten profits. The first reason is that the flow of earnings that does not fluctuate will lead to a higher dividend rate so that it has a positive impact on the value of the company's shares as it decreases the risk level of the company. The second reason is to fight the nature of cycle earnings reports, so the level of profit can be made and there is a possibility to reduce expectations between the return of the company with the return of market portfolios.

According to Scott (2012) there are 3 hypotheses that motivate management to do earnings management, including: (1) Bonus Plan Hypothesis, (2) Debt to Equity Hypothesis (Debt Covenant Hypothesis). (3) Political Cost Hypothesis (Size Hypothesis). (4) CEO turnover. (5) Initial Public Offering (IPO). (6) The Importance of Disclosing Information to Investors.

According to Dascher and Malcolm (1970) there are two forms of income smoothing carried out by management, namely real smoothing and artificial smoothing. Real smoothing is an income smoothing action carried out by manipulating the actual transactions that occur. While artificial smoothing is an income smoothing action carried out by utilizing certain accounting methods. Apart from the two forms of smoothing there is also classificatory smoothing, where classificatory smoothing occurs when an account other than net income is used as an object to practice income smoothing, so that management can classify accounts in the income statement to stabilize earnings each period.

The practice of earnings management can be minimized by implementing a system of good corporate governance that can be carried out through a supervisory mechanism to harmonize various interests including managerial ownership, institutional ownership, independent board of commissioners, and audit committees. Moh'd et al. (1998) in Jao and Pagalung (2011) state that institutional investors are parties that can monitor agents with large ownership. With the existence of an effective monitoring tool, it can improve company performance so as to increase public trust in the company. Jensen and Meckling (1976) revealed that by increasing the company's share ownership by management, it is expected that management can act in accordance with the company's main desires because the interests of shareholders can be aligned with the interests of managers. Independent commissioners carry out a supervisory function that can influence management in preparing financial statements so that a quality earnings report can be obtained (Boediono, 2005). The existence of an audit committee has been accepted as a part of corporate governance. The audit committee was formed to assist commissioners in order to improve the quality of financial statements and increase the effectiveness of external and internal audits in accordance with the decision of Chairman of Bapepam No. Kep-29 / PM / 2004.

The following is a research hypothesis that refers to a review of previous research and research problems.
H1: The composition of the Board of Commissioners influences the Practice of Profit Management
H2: The Audit Committee influences the Practice of Profit Management
H3: Institutional Ownership influences the Practice of Profit Management
H4: Managerial Ownership influences Profit Management Practices
H5: Return on Asset influences Profit Management Practices
H6: Debt Equity Ratio influences Profit Management Practices
H7: Dividend Payout Ratio affects the Practice of Profit Management
H8: Adoption of IFRS affects the Practice of Profit Management
H9: The composition of the Board of Commissioners, Audit Committee, Institutional Ownership, Managerial Ownership, Return on Assets, Debt Equity Ratio, Dividend Payout Ratio, and Adoption of IFRS affect Profit Management Practices.

2. Research Methodology

This study discusses the effects of good corporate governance mechanisms, financial performance and ifrs adoption on earnings management practices. Based on the data obtained, this type of research is quantitative research. This research is based on hypothesis testing using secondary data obtained from annual financial reports and annual reports obtained from the Indonesia Stock Exchange in the period 2012 to 2017. Then analyzed using descriptive statistical tests, classic assumption tests consisting of normality test, multicollinearity test, test autocorrelation, and heteroscedasticity test, while to test the hypothesis in this study using the test coefficient of determination (R2), partial test (T), and simultaneous test (F). This study uses nine variables consisting of eight independent variables, namely the composition of the board of commissioners, audit committee, institutional ownership, managerial ownership, return on assets, debt equity ratio, dividend payout ratio, and ifrs adoption. and one dependent variable is earnings management. The population in this study are all manufacturing companies listed on the Stock Exchange in the period 2012-2017. The sample selection method used is conditional sampling with certain criteria. Based on the methods and criteria, there are 28 manufacturing companies that were sampled in this study. The time of the study in this study was January 2019 to look for data and in May 2019 until the completion of the study.

3. Result and Discussion

3.1 Result

3.1.1 Descriptive Statistic

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Table 3.1: Result of Descriptive Statistics

	N	Minimum	Maximum	Mean	Std. Deviation
DA	168	-,5954	1,1324	,435813	,2861868
KDK	168	,2000	,8000	,402078	,1085139
KA	168	,0000	1,0000	,951390	,1797308
KI	168	,0000	,9824	,648125	,2203952
KM	168	,0000	,8944	,046568	,1308609
ROA	168	-,1358	,4150	,097664	,0938660
DER	168	,0797	6,0000	,868776	,9424989
DPR	168	-,1600	1,8388	,352483	,3616180
IFRS	168	,0444	,6000	,298545	,0948637
Valid N (listwise)	168				

Source: data processed

The results of the descriptive statistical test provide an overview of the description of the sample to be studied. By using the SPSS 20.0 program, it can be show that there are 168 samples observed. Earnings management variables are proxied by discretionary accruals. if the value of positive discretionary accruals indicates that
the company increases profits and if the value of the negative discretionary accrual indicates the company decreases profits. From the table 3.1 it can be seen that the minimum discretionary accrual value is -0.5954 achieved by PT. Duta Pertiwi Nusantara (DPNS) in 2017. and the maximum value of 1.1324 was achieved by PT. MalindoFeedmillTbk in 2012. The average of discretionary accruals is 0.4358 with a standard deviation of 0.2862.

The composition of the board of commissioners (KDK) variable in table 3.1 can be seen that has a minimum value of 0.2 achieved by PT. Kimia Farma (KAEF) in 2016 & 2017. and a maximum value of 0.8 is achieved by PT. Unilever Indonesia (UNVR). The average of the board of commissioner composition variables is 0.4021 with a standard deviation value of 0.1085. The higher the value of the composition of the board of commissioners variable, the more independent commissioners are in the company.

The variable audit committee (KA) in table 3.1 can be seen that has a minimum value of 0 and maximum value 1. The average of these variables is 0.9514 with a standard deviation value of 0.1797. The higher the value, the more members of the independent audit committee are in the company.

Institutional ownership variable (KI) in table 3.1 can be seen that has a minimum value of 0 and a maximum value of 0.9824. the average of these variables is 0.6481. with a standard deviation value of 0.2204. The higher the proportion of institutional ownership, the higher the shares of the company owned by the institution.

Managerial ownership variable (KM) in table 3.1 can be seen that has a minimum value of 0 and a maximum value of 0.8944. the average of the variable is 0.0466. with a standard deviation value of 0.1309. The higher the proportion of managerial ownership, the higher the shares of the company owned by the manager.

Variable return on assets (ROA) in table 3.1 can be seen that has a minimum value of -0.1358, namely PT. Keramika Indonesia Association Tbk (KIAS) and a maximum value of 0.4150 namely PT. Unilever Indonesia Tbk (UNVR). the average of these variables is 0.0977. with a standard deviation value of 0.0937. This means that Rp. 1 assets owned will generate a net profit of Rp. 0.0977.

Variable debt equity ratio (DER) in table 3.1 can be seen that has a minimum value of 0.0797 namely PT. IntanWijaya International Tbk (INCI) and a maximum value of 6, namely PT. Indal Aluminum Industry Tbk, (INAI). the average of these variables is 0.8688. with a standard deviation value of 0.9425. This means that IDR 1 of the capital owned will cover IDR 0.8688 in debt

The dividend payout ratio (DPR) variable in table 3.1 can be seen that has a minimum value of -0.1600, namely PT. Keramika Indonesia Association (KIAS). and a maximum value of 1.8388, namely PT. Indocement Tunggal PrakasaTbk (INTP). the average of these variables is 0.3525. with a standard deviation value of 0.3616. This means that Rp. 1 profit will generate dividends of Rp. 0.3525

The variable adoption ifrs (IFRS) in table 3.1 can be seen that has a minimum value of 0.0444 and a maximum value of 0.6000. The average of the variable is 0.2985. with a standard deviation value of 0.0949.

3.1.2 Classic Assumption Test

According to Ghozali (2011) the purpose of the normality test is to test whether the regression model, the residual confounding variable has a normal distribution. The Kolmogorov-Smirnov test results indicate that the regression model has already been normally distributed. This is indicated by the probability value of Asymp. Sig. (2-tailed) Kolmogorov-Smirnov test of 0.153 or above 0.05. Thus the data is normally distributed and H0 is accepted.

According to Ghozali (2011) the purpose of the multicollinearity test is to test whether the regression model found a correlation between independent variables (independent variables). From the results of multicollinearity test, it can be seen that all independent variables are free from multicollinearity. This is indicated by the value of tolerance probability on each variable> 0.10 and VIF value <10. Where in the Board of Commissioners Composition variable (KDK) the tolerance value is 0.662> 0.10, VIF 1.511 <10. In the Audit Committee variable (KA) value tolerance 0.934> 0.10, VIF 1.071 <10. In Institutional Ownership variable (KI) tolerance value is 0.537> 0.10, VIF 1,862 <10. In Managerial Ownership variable (KM) tolerance value is 0.531> 0.10, VIF 1.881 <10. the Return on Assets (ROA) variable tolerance value is 0.692> 0.10, VIF 1.445 <10. In the Debt Equity Ratio (DER) variable the value of tolerance is 0.781> 0.10, VIF 1,280 <10. In the Dividend Payout Ratio (DPR) variable tolerance value 0.847> 0.10, VIF 1.181 <10.and in the Adoption IFRS (IFRS) variable tolerance value is 0.901> 0.10, VIF 1.110 <10. Then it can be concluded that the eight variables do not have a multicollinearity relationship and can be used to predict earnings management during the observation period.

According to Ghozali (2011) the purpose of heteroscedasticity testing is to test whether in the regression

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model variance from residual inequality occurs one observation to another observation. Determination to detect the presence or absence of heteroscedasticity using the Glejser test. Based on the results of the glejser test it is known that the significance value of the board of commissioner composition (KDK) is 0.054> 0.05. Audit committee (KA) significance value 0.862> 0.05. The significance value of institutional ownership (KI) is 0.511> 0.05. The significance value of managerial ownership (KM) is 0.675> 0.05. Significance value of Return on Assets (ROA) 0.815> 0.05.Significant value of debt equity ratio (DER) 0.766> 0.05.Significant dividend payout ratio (DPR) value of 0.219> 0.05. And the significance value of adoption ifrs (IFRS) is 0.128> 0.05. It can be concluded that this regression model does not occur heterocedasticity because each probability value is above 0.05.

According to Ghozali (2011) the purpose of the autocorrelation test is to test whether in the linear regression model there is a correlation between the confounding errors in the current period and interfering errors in the previous period. From the results of the durbinwatson test it can be concluded that the regression model does not have autocorrelation. It is shown that the Durbin-Watson value is 1.820 which is between dL = 1.6491 and dU = 1.8482 or entered in an area without conclusions.

3.1.3 Multiple Linear regression Model

The following are the results of testing based on unstandardized coefficients that can describe the contribution of independent variables in explaining the dependent variable.

Table 3.2: Result of Regression Coefficients

Model		Unstandardized Coefficients		Standardized Coefficients
		B	Std. Error	Beta
1	(Constant)	1,036	0,177	
	KDK	0,75	0,226	0,284
	KA	-0,42	0,115	-0,264
	KI	-0,404	0,123	-0,311
	KM	-0,829	0,209	-0,379
	ROA	-0,096	0,255	-0,031
	DER	0,002	0,024	0,006
	DPR	0,006	0,06	0,007
	IFRS	-0,656	0,221	-0,217

Source: data processed

From the table 3.2, it can be seen that the linear regression model is as follows:

DA = 1,036 + 0,75KDK – 0,42KA – 0,404KI - 0,829KM - 0,096ROA + 0,002DER + 0,006DPR – 0,656IFRS

From the equation, it can be seen that:

- The constant of the linear regression model is 1.036, this means that if the coefficient value of all variables is zero, then the value of discretionary accrual is 1.036.
- The coefficient of the composition of the board of commissioners has a contribution to the DA of 0.75.
- The coefficient of audit committee has a contribution to DA of -0.42.
- The coefficient of institutional ownership has a contribution to DA of -0.404.
- The coefficient of managerial ownership has a contribution to DA of 0.829.
- The coefficient of return on Asset has a contribution to DA of -0,096.
- The coefficient of debt equity ratio has a contribution to DA of 0.002.
- The coefficient of dividend payout ratio has a contribution to DA of 0,006
- The coefficient of Ifrs adoption coefficient has a contribution to DA of -0.6561.

3.1.4 Simultaneous Significancy Test (F Statistics Test)

According to Ghozali (2005) the statistical test F basically shows whether all the independent variables intended in the model have a simultaneous influence on the dependent variable. Basic acceptance decision making If the value is significant ≤ 0.05, the hypothesis is accepted (significant regression coefficient). and rejection of the hypothesis If the significant value is> 0.05, the hypothesis is rejected (regression coefficient is not significant).

Table 3.3: Result of Simultaneous Significancy Test

ANOVA[a]			
Model		F	Sig.
1	Regression	5,929	,000[b]
	Residual		
	Total		
a. Dependent Variable: DA			

Source: data processed

From table 3.3 it can be show that the value of the simultaneous test is equal to 0,000 or the value of sig. <0.05. This means accepting H9 so that the simultaneous mechanism of good corporate governance, financial performance, and ifrs adoption affect the practice of earnings management.

3.1.5 Partial Significancy Test (t Statistics Test)

According to Ghozali (2005) the statistical test t basically shows how far the influence of one independent variable individually in explaining the dependent variable. Testing is done using significance level 0.05 (α = 5%). Acceptance or rejection of hypotheses is carried out with the following criteria:

a) If the significant value is> 0.05, the hypothesis is rejected (regression coefficient is not significant).
b) If the value is significant ≤ 0.05, the hypothesis is accepted (significant regression coefficient).

The results of testing the variable partial significance of the good corporate governance mechanism, financial performance, and ifrs adoption on earnings management are as follows

Table 3.4: Result ofPartial Significancy Test

Model		T	Sig.
1	(Constant)	5,837	0
	KDK	3,325	0,001
	KA	-3,663	0
	KI	-3,275	0,001
	KM	-3,972	0
	ROA	-0,377	0,707
	DER	0,072	0,943
	DPR	0,095	0,925
	IFRS	-2,963	0,004

Source: data processed

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Based on table 3.4.the results of processing statistical data using SPSS 20.0 obtained the following results:

- The composition of the board of commissioners variable has a significance value of 0.001. Or the value of sig. <Alpha = 0.05. So that the hypothesis decision making accepts H1 or can be interpreted that the Composition of the Board of Commissioners Variables affect the practice of earnings management.
- The audit committee variable has a significance value of 0,000. Or the value of sig. <Alpha = 0.05. So that the hypothesis decision is to accept H2 or it can be interpreted that the audit committee variable influences the practice of earnings management.
- Institutional ownership variables have a significance value of 0,0001. Or the value of sig. <alpha-0.05. So that the hypothesis decision is to accept Ha3 or it can be interpreted that institutional ownership variables affect the practice of earnings management.
- Institutional ownership variables have a significance value of 0.0000. Or the value of sig. <alpha-0.05. So that the decision making hypothesis is to accept Ha4 or it can be interpreted that managerial ownership variables affect the practice of earnings management.
- The return on asset variable has a significance value of 0.707. Or the value of sig.> Alpha = 0.05. So that the decision making hypothesis is to reject H5 or it can be interpreted that the variable return on assets (ROA) does not affect the practice of earnings management.
- Variable debt equity ratio has a significance value of 0.943. Or the value of sig.> Alpha = 0.05. So that the decision making hypothesis is rejecting H6 or it can be interpreted that the variable debt equity ratio does not affect the practice of earnings management.
- The dividend payout ratio variable has a significance value of 0.925. Or the value of sig.> Alpha = 0.05. So that the decision making hypothesis is to reject H7 or it can be interpreted that the dividend payout ratio variable does not affect the practice of earnings management.
- Ifrs adoption variables have a significance value of 0.004. Or the value of sig. <Alpha = 0.05. So that the hypothesis decision is to accept H8 or it can be interpreted that the variable adoption ifrs influences the practice of earnings management.

3.1.6 Determination Coefficients Adjusted R2

The adjusted R2 coefficient value is intended to determine the percentage of the influence of independent variables together on the dependent variable or to show how much the regression model is able to explain the variability of the dependent variable.

Tabel 3.5: Result ofDetermination Coefficients Adjuster R^2

Model Summary				
Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	,479[a]	,230	,191	,2574041
a. Predictors: (Constant), IFRS, KM, DPR, KA, DER, ROA, KDK, KI				

Source: data processed

Based on table 3.5, it can be seen that the results of the regression model obtained R2 (Determination Coefficient) of 0.191. This can be interpreted that the variable composition of the Board of Commissioners, Audit Committee, Institutional Ownership, Managerial Ownership, Return on Assets (ROA), Debt Equity Ratio (DER), Dividend Payout Ratio (DPR), and IFRS Adoption contributed 19.1% to profit management practice variable. while the other 80.9% is explained by other factors.

3.2 Discussions

The composition of the board of commissioners variable influences the practice of earnings management. the results of the study also support the research of Aswarď& Lina (2015), Juwika& Hani (2015), and Sirait&Yasa (2015). And this study contradicts Meiryani's (2015) and Siregar&Utama (2005) research. this shows that the higher percentage of independent commissioners in the company will reduce the practice of earnings management. so that it can be said that commissioners work effectively in overseeing the management of the company.

Audit committee variables influence the practice of earnings management. This research supports research conducted by Aswarď (2015) and Sirait and Yasa (2015). And also this study contradicts Juwika and Hani (2015), and Siregar&Utama (2005), and Juhmani (2017). This indicates that the existence of an audit committee has worked effectively in supervising financial statements.

Institutional ownership variables affect earnings management. This study supports the research conducted by Aswarď& Lina (2015) and Ajay &Madhumathi (2015). And also this study contradicts Siregar&Utama (2005), Rice (2013), Aryanti (2017), and Oyedokun (2019). this shows that the higher the level of institutional ownership outside the company, will minimize the practice of earnings management.

Managerial ownership variables influence earnings management. This research supports the research conducted by Aryanti, Krisanti, &Hendratno (2017), Aswarď& Lina (2015), and Nazira&Ariani (2016). And also this research contradicts the research of Wardani&Masodah (2011) and Oyedokun (2019). this shows that the higher the level of ownership of managers in companies, will minimize the practice of earnings management.

The variable return on assets does not affect the practice of earnings management. thisresearch supports the research conducted by Dwiputra and Suryanawa (2016), Mousa (2019). and contrary to research conducted by Cuong& Ha (2018), and Alexander &Hengky (2017). this is because the accounting information system applied by management has gone very well, every action taken by management on profit, will be immediately detected by the controller. So that it can be directly evaluated by the audit committee.

The variable debt equity ratio does not affect the practice of earnings management. this research supports the research conducted by Ardison, Martinez, &Galdi (2012), and Cuong & Ha (2018). And this research contradicts the research of Wardani & Masodah (2011), Dwiputra & Suryanawa (2016), Moradi (2012), Moghaddam (2017), and Mousa

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(2019). This is because the world economic slowdown which also afflicts Indonesia is not a barrier for manufacturing companies in Indonesia to generate income. So that the company does not need to borrow debt to creditors because management managed to generate profits to cover its operational costs. The implication of this situation is that management does not take earnings management actions to attract creditors to lend their money.

The dividend payout ratio variable does not affect the earnings management practice. this research supports research conducted by Doraini&Wibowo (2017), and Nazira & Ariani (2016). and contrary to the research conducted by Widhyawan (2015) and Mousa (2019). management cannot take action to change dividend policy to regulate profits in certain positions because the dividend distribution policy is at the general meeting of shareholders (principal), so that management does not have control over the amount of dividends to be distributed to shareholders.

Variable IFRS adoption influences the practice of earnings management. this research supports the research conducted by Kurniawati & Rahmawati(2014), and Nastiti & Ratmono (2015). This study contradicts Doraini & Wibowo (2017), and Santy, Tawakkal, &Pontoh (2016). this is because financial accounting standards can reduce the practice of earnings management. companies that adopt IFRS can control earnings management and improve the quality of profits generated.

4. Conclusion

This study discusses the effect of the mechanism of good corporate governance, financial performance, and ifrs adoption of earnings management practices of manufacturing companies listed on the Indonesia Stock Exchange for the period 2012-2017. The sampling technique used was purposive sampling. From the withdrawal of the sample obtained 28 companies that met the proposed criteria. The technique used in this study is multiple linear regression. Based on the results of data analysis and hypothesis testing that has been done concluded:

1) Variables in the composition of the board of commissioners affect the practice of earnings management.
2) The audit committee variable influences the practice of earnings management.
3) Institutional ownership variables affect earnings management.
4) Managerial ownership variables influence earnings management.
5) Variable return on assets does not affect the practice of earnings management
6) Variable debt equity ratio does not affect the practice of earnings management
7) Variable dividend payout ratio does not affect the practice of earnings management.
8) The variable adoption ifrs influences the practice of earnings management
9) Variables in the composition of the board of commissioners, audit committees, institutional ownership, managerial ownership, return on assets, debt equity ratio, dividend payout ratio, and adoption if jointly influence earnings management practices.

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