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The Analysis of Effects of Good Corporate Governance on Earnings Management in Indonesia with Panel Data Approach

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Abstract

The research was aimed to analyze effects of Good Corporate Governance, comprising of Composition of Commissioners & Audit Committee on earnings management an Empirical Study on Indonesia Stock Exchange with Panel Data Approach. The data collection method used was documentation. The samples in this research were in Indonesia registered in Indonesia Stock Exchange. The data analysis method employed panel data regression analysis with E-Views Software. The results demonstrate that Good Corporate Governance simultaneously affects earnings management. Partial testing indicates that Good Corporate Governance variable of Composition of Commissioners has no effect on earnings management & Audit Committee has no effect on Earnings Management.

Keywords: Audit Committee, Composition of Commissioners, Good Corporate Governance, Earnings Management.
JEL Classification: D53, G15, G32, L60.

1. Introduction

The issue of Good Corporate Governance is being hotly debated, especially among the economists & businessmen in Indonesia. The financial crisis happening in various countries, particularly in Indonesia in 1997, which eventually turned into an Asian financial

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crisis, was seen as a result of the weakness in Good Corporate Governance practices in Asian countries. The failure of several companies & the emerging financial malpractice cases due to the crisis is the bad practice of Corporate Governance. Because of it, Good Corporate Governance finally became an important issue, especially in Indonesia which was worst affected by the crisis. In addition, many infringement cases committed by issuer companies in capital market being handled by Capital Market & Financial Institution Auditing Body Republic of Indonesia, show the low quality of good corporate governance practices in our country.

Based on several cases, financial statements have raised the question on the effectiveness of Good Corporate Governance implementation in a company for minimizing earnings management. The conflict of interest between the company owners & the management can be minimized by a monitoring mechanism capable of balancing the interests between the management & shareholders or other parties. Below is an example of a company that performs an earnings management.

It was indicated that PT. Kimia Farma Tbk. in 2002 had earning management practices by raising its earnings up to IDR 32.7 billions. PT. Indofarma in 2004 conducted an earnings management practice by presenting an overstated net profit of IDR 28.870 billions, as an impact of goods inventory assessment which is higher than expected, resulting in understated cost of sales for that year. Financial scandals also occurred in developed countries, such as such as Enron, Merck, World Com in United States (US) & the majority of other companies in United States (Cornett et al., 2006). Not long after the case, there were similar cases such as Tyco, Global Crossing & Xerox Corp. All these events defame the public accounting profession that should be independent. On that basis, the United States Parliament on 23 January 2001 issued a provision in the field of public accountant services known as the Sarbanes Oxley Act.

Looking at case examples above, it is very relevant to ask a question on the effectiveness of Good Corporate Governance implementation, especially in manufacturing companies listed on IDX as there are manufacturing companies indicated to have implemented earnings management. Good Corporate Governance provides a

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structure facilitating the determination of a company's goals, as well as a means of determining the work monitoring techniques (Darmawati et al., 2004 & Lutfi et al., 2016).

The agency theory describes that earnings management problem minimized by a monitoring through Good Corporate Governance. Corporate Governance is a concept to improve management performance in supervising or monitoring the management performance while guaranteeing the management accountability for the shareholders based on regulatory framework (Dalimunthe et al., 2016; Lubis et al., 2016; Muda et al., 2016). The concept of Corporate Governance is proposed for achieving more transparent company management for all financial statements users. If the concept is used properly, then the economic growth is expected to move forward in line with better transparent company management, which eventually gives benefits to many parties. (Nasution & Setiawan, 2007). The level Good Corporate Governance users can be measured, & it can be compared with each other. A number of methodologies for measuring Good Corporate Governance have been developed & can be used by users. The Forum Corporate Governance in Indonesia (FCGI), for example, developed a tool for assessing Good Corporate Governance which can also be used as an audit tool (FCGI 2003). In this research, the indicator of Good Corporate Governance mechanism used the mechanism of Composition of Commissioners & Audit Committee. In general, the Composition of Commissioners are given the tasks & responsibilities to monitor the information quality contained in the financial statements (Nurzaimah et al., 2016; Muda et al., 2016; 2017). Briefly, there are five aspects assessed in this FCGI GCG assessment scheme, namely: Shareholder rights, GCG Policy, GCG Practice, Disclosure & Audit. In Audit weights consist of having an effective internal audit, audited by an independent public accountant, having an effective audit committee, developing effective communication between internal audit, external audit & audit committee. It is very important, in the light of the management's interests to implement earnings management which may put impact on the decreasing investors' trusts. The Audit Committee based on BI Regulation No. 8/4/PBI/2006 states that the task of the Audit Committee is to monitor & evaluate the planning & execution of the

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audit, as well as to monitor the follow-up of audit outcome for assessing the adequacy of the financial statement process.

One of methods conducted by the management in the process of preparing financial statements - which may affect the level of profit shown - is earnings management (Mahdaleta et al., 2016 & Lubis et al., 2016). It is expected to increase the company value at certain times. Earnings management conducted by company management will increase the company value, but then it will go down (Jansen et al., 2012). Earning management occurs when managers use their decisions in financial reporting & in preparing transactions to alter financial statements to either create a false picture for stakeholders about the company's economic performance, or to influence contractual results that depend on accounting figures reported.

In the concept of Earning Management that has signaling motivation to record discretionary accruals to better reflect the impact of the underlying economic events on the performance of the company. Management records discretionary accruals to convey private information about a company's ability to generate future profits, or to make profits a more reliable & timely measure of current company performance than non discretionary accruals, while Discretionary accruals are also called abnormal accruals are often used as a proxy for opportunistic profit management in some previous studies according to their respective contexts, but managers may have other motivations for recording discretionary accruals to signal the performance of the company today & the future.

The existence of Earning Management in business entity is inseparable from various or underlying motivation factors as for some motivations related to the implementation of Earning Management ie, bonus motivation, political motivation, taxation motivation, motivation of change of chief executive officer (CEO), motivation of initial public offering (IPO), debt-induced motivation, motivation to meet expectations & maintain reputation. In addition, there are several steps or ways in doing business entities related to earning management with Taking a bath, Income Minimization, Income Minimization & Income Smoothing. Based on the background described above, the subject matter in this research is: “Does Good Corporate Governance, which consists of the Composition of Commissioners & Audit

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Committee simultaneously & partially affect earnings management?"

2. Literature Review

2.1 Profit Management

Earnings management is an effort by corporate managers to intervene or affect information in financial statements with the aim of deceiving the stakeholders who want to know the performance & condition of the company (Sulistyanto, 2008). In the opinion of (Lutfie et al., 2016), the ways to understand the earnings management are divided into two. First, it is seen as manager opportunistic agent in maximizing its utility in the face of compensation contracts, debt contracts & political costs (Opportunistic Earnings Management). Second, viewing the earnings management from the perspective of efficient contracting (Efficient Earnings Management), where the earnings management gives flexibility to the manager to protect themselves & the company in the anticipation of unforeseen events for the benefit of the parties involved in the contract.

2.2 Agency Theory

In order to understand Corporate Governance, then it should use the basic perspective of agency relationship. (Jansen & Meckling, 1976 in Muda & Dharsuky, 2015) pointed out that agency relationship is a contract between the manager (agent) & the investor (principal). The owners expect high returns from their investments in company, whilst the management expects high compensation & fulfillment of their psychological needs. It leads to conflicts between the management & owners, as each of them will fulfill their own interests (opportunistic behavioral).

Stakeholder theory emphasizes on organizational accountability which is far beyond simple financial or economic performance. This theory declares that organizations will voluntarily disclose information about their environmental, social & intellectual performance, beyond & above mandatory requests, in order to meet real expectations or those recognized by stakeholders (Yahya et al., 2017). Stakeholder theory has ethical (moral) & managerial sectors. The ethics field argues that all stakeholders have the right to be treated fairly by the organization & managers must manage the organization for the benefits of all stakeholders.

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2.3 Good Corporate Governance

According to (Kausalty et al., 2013), it was revealed that corporate governance refers to the systems, principles & processes by which a company is governed. Corporate governance provides guidance on how to control & direct the company to fulfill the goals & objectives that is able to add the company value & usable for all stakeholders in the long term (Muda et al., 2017). Stakeholders in this regard include all parties of the board of directors, management, shareholders, employees & the public. The mechanism of Good corporate governance consists of several variable indicators. In the present research, the indicators used by researchers are the Composition of the Commissioners & Audit Committee.

2.4 Composition of Commissioners

In general, the board of commissioners is assigned and given responsibility for information quality monitoring as contained in the financial statements. This is important, given the importance of management to perform earnings management, resulting in poorer trust of the investors (Muda et al., 2017). In order to handle this, the board of commissioners is allowed to gain access to company information. The board of commissioners has no authority within the company. Therefore, the board of directors is responsible for delivering information related to the company to the board of commissioners (NCCG, 2001).

2.5 Audit Committee

The audit committee is supplementary organ required in the implementation of Good Corporate Governance principle, carrying out the directorial functions in the implementation of company management and managing important tasks related to the financial statement system. According to Decree 29/PM/2004, the audit committee is a committee set up by the board of commissioners for carrying out the monitoring task over company management. The presence of the audit committee is highly crucial for the company management. The audit committee is deemed as a connection between the shareholders, the board of commissioners and the management in handling control issues.

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2.6 The Five Aspects Assessed in the GCG Assessment Framework

Some tools for self-assessment of GCG conditions in companies in a spreadsheet file consist of: (Internal Audit, 2017)

1. Shareholder rights

In shareholder rights may provide an evaluation, whether the company has:

a. Holds a General Meeting of Shareholders (GMS) within 6 months after the end of the fiscal year,
b. Submit to shareholders notices concerning the Annual Shareholder Meeting at least 28 days before the General Meeting of Shareholders is held;
c. Encouraging shareholders to attend GMS and utilize their voting rights;
d. Provide sufficient opportunities for shareholders to submit questions at the GMS.

2. GCG Policy

In the GCG policy is assessed whether the company has:

a. Have written rules on GCG in which the rights of shareholders, duties and responsibilities of the Board of Directors and Board of Commissioners are explained;
b. Providing access for the public to know the company's policy regarding public investors;
c. Establishing a responsible organ (e.g. the Board of Commissioners) to ensure that the company complies with established GCG rules;
d. Have rules of conduct / ethics for employees in writing;
e. Inform and implement properly the rules of conduct/ethics.

3. GCG Practice

In practice this GCG is tested whether within the company:

a. The Board of Directors holds regular meetings with the Board of Commissioners;
b. There are strategic plans and operational plans that provide guidance to the Board of Directors and Board of Commissioners to carry out their duties and functions;

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c. The Board of Directors and Board of Commissioners have been trained or have appropriate backgrounds, enabling them to perform their duties;
d. Members of the Board of Commissioners and Board of Directors are not involved in a conflict of interest;
e. There is a performance appraisal system of the Board of Directors and the Board of Commissioners.

4. Disclosure

In this section it can assess whether the company has:

a. Providing equal access to shareholders and financial analysts;
b. Provide a proper explanation of business risks;
c. To express the remuneration of the Board of Directors and Board of Commissioners correctly;
d. Disclose related party transactions;
e. Presents the results of financial performance and analysis management via the internet.

5. Audit

In this section it should be assessed whether the company is:

a. Has an effective internal audit,
b. Audited by an independent public accountant,
c. Develops an effective audit committee,
d. Develops effective communication between internal audit, external audit and audit committee.

The conceptual framework can be described as follows:

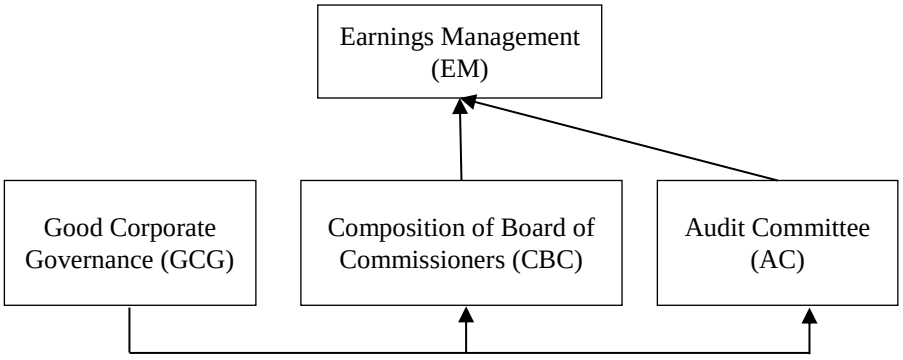

Figure 1: Conceptual Framework

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From the conceptual framework above, the researchers had the intention to examine the analysis of effects of Good Corporate Governance, which consists of the composition of commissioners and audit committee, on earnings management. The composition of commissioners is generally given with tasks and responsibilities to monitor the information quality contained in financial statements. It is highly important, given the importance of management to conduct earnings management that may impact on poorer trust of the investors. In order to handle this, the board of commissioners is allowed to gain access to company information.

The audit committee is a committee set up by the board of commissioners for carrying out the monitoring task over company management. The presence of the audit committee is highly crucial for the company management. The audit committee is deemed as a connection between the shareholders, the board of commissioners and the management in handling control issues. The audit committee is a committee established by the board of commissioners to carry out supervisory duties in the management of the company. The existence of the audit committee is very important for the management of the company.

Earnings management is done with a specific purpose. Earnings management is made by accruals that increase profits for the purpose of obtaining relatively high stock prices at the time of issue issuance. Earnings management can also be done with the aim of gaining profits related to the ownership of management shares. This can be done, for example, in the employee stock option program. In this program, the price of an option is usually determined at the time of the program offer. This encourages management to make earnings management before the option grant date i.e. lowered earnings in order to affect stock prices and thus management can accept the option at the time of relative stock price.

3. Material and Method

3.1 Type and Site of the Research

The research type was based on causal associative research. According to (Erlina, 2008 & 2017) associative /relationship research aims to find out the relationship between two or more variables or to explain effects of independent variables & dependent variables.

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3.2 Research Population and Samples

Population is a combination of the entire data elements in the form of events, objects or people having similar characteristics which become the focus of a researcher for being viewed as a universe of research (Muda, 2017). The population in this research was 325 manufacturing companies listed on Indonesia Stock Exchange which are grouped based on sub-sector of the companies. The sample is part of the population (in part or representative population) to be employed in the research (Gusnardi et al., 2016). The sampling in this research was performed by using Slovin formula: (Sirojuzilam et al., 2016)

$$n = \frac{N}{1 + Ne^2}$$

where:

n: The number of sample's members

N: Total population

e: *error tolerance* at 10%, therefore :

$n = \frac{325}{1 + 325(10\%)^2} = 76{,}47$ or 77, thereby, the number of samples in this research is being rounded into 78 company sectors

3.3 Data Analysis Method

The data were analyzed using regression method of panel data, & were sectioned using Eviews software tool. The panel data means statistical methods with regression using panel data or pooled data was a combination between time series & cross section data. In the opinion of (Tarmizi et al., 2016 & 2017), there are 2 ways to arrange a panel data structure, i.e. Independent Pooled Data and Longitudinal Data.

3.4 Data Testing

The residual normality testing in formal OLS method can show whether or not the residual is normally distributed, by means of comparing the Jarque-Bera (JB) value with chi-Square $\alpha = 0.05$ and df = 2 of 5.9915:

1. If JB value > 5.9915 then the residual is not normally distributed
2. If JB value < 5.9915 then the residual is normally distributed.

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3.5 Estimation of Panel Data Regression Model

The panel data equation model is a combination of cross section data and time series data:

$$Y_{it} = \alpha + \beta_1 X_{1it} + \beta_2 X_{2it} + \varepsilon_{it}$$

where:

Y_{it}	: Dependent variables
X_{it}	: Independent variables
α	: Constant
$\beta_1, \beta_2,$	: Coefficients Regressions
i	: i^{th} entity
t	: t^{th} entity
ϵ	: error

In panel data analysis, there are several analytical methods, such as Common Effects Model (CEM), Fixed Effect Model (FEM) and Random Effect Model (REM). Common Effect Model (CEM) refers to a model with non-different (constant) intercept and slope coefficients, thus ignoring the site and time dimensions of the panel data and using the OLS Regression Estimation for the estimation (Gujarati, 2004). This method can be analyzed using two approach models, i.e. Fixed Effect Model (FEM) and Random Effects Model (REM).

Fixed Effects Model (FEM) refers to models with non-different slopes (constant) but with varying or different intercepts based on cross-section (in this case is the company). Although intercepts may vary between companies, each of these intercepts does not differ from time to time (Gujarati, 2004). The estimation with OLS makes this estimation into General Least Square Fixed Effect, thus the resulted data are unbiased and consistent.

The Random Effects Model (REM) refers to a model with non-different (constant) slope but with varying or different intercepts based on cross-section (in this case is the company) in randomly instead of in a fixed manner (Gujarati, 2004). In the fixed effect model, the differences between individuals are reflected by the intercept or constants, but on the Random effects model the differences are accommodated by the error terms of each individual.

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3.6 Selection of Panel Data Regression Model

3.6.1 Chow Test

The chow test is undertaken to select whether the model used should be Common Effect Model (CEM) or Fixed Effect Model (FEM). This testing was performed with the following hypotheses:

Ho: Probability > 0.05, then Common Effect Model (CEM) is valid to be used.

Ha: Probability < 0.05, then Fixed Effect Model (FEM) is valid to be used.

3.6.2 Hausman Test

The Hausman test is used as the basis for consideration in selecting whether the model used is Fixed Effect Model (FEM) or Random Effect Model (REM).

This testing was conducted with hypotheses as follows:

Ho: Probability > 0.05, then Random Effect Model (REM) is valid to be used.

Ha: Probability < 0.05, then Fixed Effect Model (FEM) is valid to be used.

3.6.3 Hypothesis Testing

The hypothesis testing was conducted using panel data regression analysis model which aims to predict the extent of the strength of effects of independent variable on dependent variable through t test and F test using static regression equation model:

$$EM = a + b_1CBC + b_2AC + e$$

Description :

EM	: Earnings Management
a	: Constants
b_1, b_2	: Coefficient Regression
CBC	: Composition of Board of Commissioners
AC	: Audit Committee
e	: Error

3.6.4 Coefficient of Determination

The coefficient of determination statistical testing was conducted by observing the adjusted R^2. The adjusted R^2 value of the coefficient of

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determination ranges from 0 to 1 ($0 \leq R^2 \leq 1$) (Sadalia et al., 2017; Azlina et al., 2017; Nasir et al., 2017). The adjusted R^2 value is said to be good if it is above 0.5 becaus it ranges from 0 to 1.

4. Results And Discussion

4.1 Result

4.1.1 Descriptive Statistical Analysis

Descriptive statistics are the process of collecting, presenting, and summarizing which serve to provide a sufficiently examined data. The illustration or description of data can be seen from the mean, maximum, and standard deviation values. It can be seen in the following Table:

Table 1: Descriptive Statistics

	EM	CBC	AC
Mean	0.042682	0.375390	2.633898
Median	0.030740	0.333000	3.000000
Maximum	0.652810	0.750000	5.000000
Minimum	-1.223345	0.100000	0.000000
Std. Dev.	0.166357	0.112074	1.125555
Skewness	-1.505356	-0.030866	-1.611532
Kurtosis	16.74276	4.705446	4.634667
Jarque-Bera	2432.862	35.79773	160.5325
Probability	0.000000	0.000000	0.000000
Sum	12.59129	110.7400	777.0000
Sum Sq. Dev.	8.136367	3.692834	372.4610
Observations	390	390	390

Source: Eviews Results (2017).

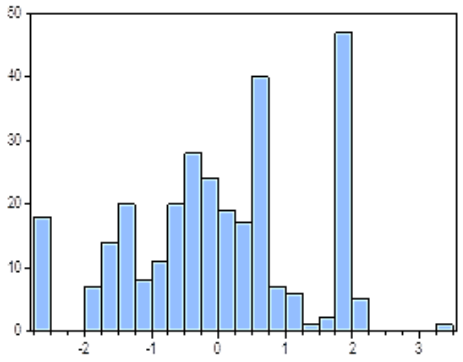

Figure 2: Normality Testing
Source: Eviews Results (2017)

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4.1.2 Data Testing

Based on the table above, it can be concluded that concluded that the earnings management being observed is normally distributed.

4.1.3 Estimation of Panel Data Regression Model

4.1.3.1 Common Effect Model (*CEM*)

Table 2: **Cammon Effect Model (CEM)**

Dependent Variable: EM

Method: Panel Least Squares

Date: 04/08/17 Time: 18:41

Sample: 2011 2015

Periods included: 5

Cross-sections included: 78

Total panel (balanced) observations: 390

Variable	Coefficient	Std. Error	t-Statistic	Prob.
CBC	0.017664	0.086936	0.203179	0.8391
AC	-0.005740	0.008656	-0.663055	0.5078
C	0.051169	0.039932	1.281415	0.2011
R-squared	0.001597	Mean dependent var		0.042682
Adjusted R-squared	0.052415	S.D. dependent var		0.166357
S.E. of regression	0.166793	Akaike info criterion		-0.734014
Sum squared resid	8.123372	Schwarz criterion		-0.696519
Log likelihood	111.2671	Hannan-Quinn criter.		-0.719000
F-statistic	0.233556	Durbin-Watson stat		1.574240
Prob(F-statistic)	0.791861			

Source: Eviews Results (2017)

Common Effect Model (CEM) generates the following equation:

$$EM = 0{,}051169 + 0{,}017664CBC - 0{,}005740AC$$

Based on the estimation result of using Common Effect Model (CEM) with common intercept, it gives determination coefficient value of Adjusted R-squared by 0.052415. That is, GCG variable consisting of CBC and AC simultaneously is able to explain EM variable at 5.24%, whilst the 94.76% is explained by other variables.

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4.1.3.2 Fixed Effect Model (FEM)

Table 3: **Fixed Effect Model (FEM)**

Dependent Variable: EM

Method: Panel Least Squares

Date: 04/08/17 Time: 18:31

Sample: 2011 2015

Periods included: 5

Cross-sections included: 78

Total panel (balanced) observations: 390

Variable	Coefficient	Std. Error	t-Statistic	Prob.
CBC	0.014574	0.112900	0.129085	0.8974
AC	-0.002168	0.011959	-0.181261	0.8563
C	0.042921	0.053586	0.800983	0.4240

Effects Specification

Cross-section fixed (dummy variables)

R-squared	0.389597	Mean dependent var	0.04262
Adjusted R-squared	0.233083	S.D. dependent var	0.16637
S.E. of regression	0.145685	Akaike info criterion	0.83281
Sum squared resid	4.966464	Schwarz criterion	0.07049
Log likelihood	183.8425	Hannan-Quinn criter.	0.52750
F-statistic	2.489219	Durbin-Watson stat	1.84149
Prob(F-statistic)	0.000001		

Source: Eviews Results (2017)

Fixed Effect Model (FEM) generates the following equation:

$$EM = 0{,}0429216 + 0.0145740CBC - 0.0021689AC + [CX=F]$$

Based on result of equation estimation using Fixed Effect Model (FEM) for EM, it obtains Adjusted R-squared equal to 0,233083. That is, GCG variable consisting of CBC and AC simultaneously is able to explain EL variable at 23.30% whilst 76.70% is explained by other variables.

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4.1.3.3. Random Effect Model (FEM)

Table 4*:* Random Effect Model (REM)

Dependent Variable: EM

Method: Panel EGLS (Cross-section Randomeffects)

Date: 04/08/17 Time: 18:32

Sample: 2011 2015

Periods included: 5

Cross-sections included: 78

Total panel (balanced) observations: 390

Swamy and Arora estimator of component variances

Variable	Coefficient	Std. Error	t-Statistic	Prob.
CBC	0.015842	0.093517	0.169399	0.8656
AC	-0.004315	0.009552	-0.451698	0.6518
C	0.048100	0.044724	1.075479	0.2830
Effects Specification				
			S.D.	Rho
Cross-section random			0.083775	0.2485
Idiosyncratic random			0.145685	0.7515
Weighted Statistics				
R-squared	0.000786	Mean dependent var		0.026203
Adjusted R-squared	0.060580	S.D. dependent var		0.144770
S.E. of regression	0.145208	Sum squared resid		6.156948
F-statistic	0.114802	Durbin-Watson stat		1.959592
Prob(F-statistic)	0.891582			
Unweighted Statistics				
R-squared	0.001504	Mean dependent var		0.042682
Sum squared resid	8.124130	Durbin-Watson stat		1.572951

Source: Eviews Results (2017)

Random Effect Model (REM) generates the following equation:

$$EM = 0{,}048100 + 0{,}015842CBC - 0{,}004315AC + [CX=R]$$

Based on result of equation estimation uRandomsing Random Effect Model (REM) for EM, it obtains Adjusted R-squared of

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0,060580. That is, GCG variable consisting of CBC and AC simultaneously is able to explain EM variable at -6,05%, whist the 93,95 % is explained by other selection variables.

4.1.4 The Selection of Panel Data Regression Model

4.1.4.1 Hausman Test

Table 6: Correlated Random Effect - Hausman Test

Correlated Random Effects - Hausman Test			
Equation: Untitled			
Test cross-section Random effects			
Test Summary	**Chi-Sq. Statistic**	**Chi-Sq. d.f.**	**Prob.**
Cross-section random	0.090820	2	0.0095

Source : Eviews Results (2017).

From the table above, it shows that prob= 0.0095 which is smaller than $\alpha = 0.05$, thus model used is Fixed Effect Model (FEM). Based on the test to select the model, using Chow and Hausman tests, it can be concluded that the model is more appropriate to follow the Fixed Effect Model (FEM), than the Common Effect Model (CEM) and Random Effect Model (REM).

4.2.4 Hypothesis Testing

The selected model in hypothesis testing which is in line with the selection of panel data regression model is Fixed Effect Model (FEM). The Fixed Effect Model (FEM) generates the following equation:

$$EM = 0{,}0429216 + 0.0145740CBC - 0.0021689AC$$

Below is an analysis of the equation results above:

1. This result indicates that if there is no independent variable - GCG which consists of CBC and AC then EM will be 0,0429216.
2. CBC regression coefficient on the test is 0.0145740, which means that CBC has a positive effect on EM. Thereby, if CBC increases by 1 unit then EM will increase by 0.0145740 units.
3. AC regression coefficient of the test is - 0,0021689, which means AC has negative effects on EM. thereby, if AC increases by 1 unit, then EM will decrease by -0,0021689 units.

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4.1.5 Coefficient Determination Test

The coefficient determination in statistical test was conducted by observing the Adjusted R-squared value in the Table as follows:

Table 7: **Coefficient Determination Test**

Dependent Variable: EM

Method: Panel Least Squares

Sample: 2011 2015

Periods included: 5

Cross-sections included: 78

Total panel (balanced) observations: 390

Variable	Coefficient	Std. Error	t-Statistic	Prob.
CBC	0.014574	0.112900	0.129085	0.8974
AC	-0.002168	0.011959	-0.181261	0.8563
C	0.042921	0.053586	0.800983	0.4240
Effects Specification				
Cross-section fixed (dummy variables)				
R-squared	0.389597	Mean dependent var		0.042682
Adjusted R-squared	0.233083	S.D. dependent var		0.166357
S.E. of regression	0.145685	Akaike info criterion		-0.832831
Sum squared resid	4.966464	Schwarz criterion		-0.070439
Log likelihood	183.8425	Hannan-Quinn criter.		-0.527550
F-statistic	2.489219	Durbin-Watson stat		1.841439
Prob(F-statistic)	0.000001			

Source: Eviews Results (2017).

From the table above, the Adjusted R-squared value is 0.233083. It means 23.30% of EM variables can be explained by CBC and AC, the remaining 76.70% is explained by other variables not found in the equation.

4.1.6 F Test

F test is performed to determine whether the independent variables simultaneously have significant effect on the dependent variables. The fixed effect model can be seen in the table as follows:

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Table 8: F Model Test

Dependent Variable: EM			
Method: Panel Least Squares			
Sample: 2011 2015			
Periods included: 5			
Cross-sections included: 78			
Total panel (balanced) observations: 390			
R-squared	0.389597	Mean dependent var	0.042682
Adjusted R-squared	0.233083	S.D. dependent var	0.166357
S.E. of regression	0.145685	Akaike info criterion	-0.832831
Sum squared resid	4.966464	Schwarz criterion	-0.070439
Log likelihood	183.8425	Hannan-Quinn criter.	-0.527550
F-statistic	2.489219	Durbin-Watson stat	1.841439
Prob(F-statistic)	0.000001		

Source: Eviews Results (2017)

Based on the table above, the value of F count is 2,489219, the F table value is 1.37978 with the Prob significance value (F-statistic) of 0.00001 <0.05 (Hasan et al., 2017; Handoko et al., 2017). It shows independent variable, i.e. good corporate governance, consisting of Composition of Commissioners and Audit Committee, simultaneously affects the dependent variable, namely the earnings management.

4.1.7 t Test

Table 9: Statistic t Model Testing

Dependent Variable: EM				
Method: Panel Least Squares				
Sample: 2011 2015				
Periods included: 5				
Cross-sections included: 78				
Total panel (balanced) observations: 390				
Variable	**Coefficient**	**Std. Error**	**t-Statistic**	**Prob.**
CBC	0.014574	0.112900	0.129085	0.8974
AC	-0.002168	0.011959	-0.181261	0.8563

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Table 9: Statistic t Model Testing

C	0.042921	0.053586	0.800983	0.4240
	Effects Specification			
Cross-section fixed (dummy variables)				
R-squared	0.389597	Mean dependent var		0.042682
Adjusted R-squared	0.233083	S.D. dependent var		0.166357
S.E. of regression	0.145685	Akaike info criterion		-0.832831
Sum squared resid	4.966464	Schwarz criterion		-0.070439
Log likelihood	183.8425	Hannan-Quinn criter.		-0.527550
F-statistic	2.489219	Durbin-Watson stat		1.841439
Prob(F-statistic)	0.000001			

Source: Eviews Results (2017)

Based on the test results in the table, partial effects of each independent variable - GCG comprising of CBC and AC on Earnings Management (EM) dependent variable can be described as follows:

1. CBC has a $t_{statistic}$ value of 0.129085 < t table of 1.968178 with significant prob. = 0.8974> α = 0.05, thus it can be concluded that CBC variable has no effect on EM in manufacturing companies listed on Indonesia Stock Exchange in 2011-2015.
2. AC has $t_{statistic}$ value of -0.002168 < t table of 1,968178 with significant prob. = 0.8563> α= 0.05, thus it can be concluded that the AC variable has no effect on EM in manufacturing companies listed on Indonesia Stock Exchange in 2011-2015.

5. Discussion

5.1 GCG Effects of Composition of Commissioners on Earnings Management

The partial test results indicate that the Composition of Commissioners shows a positive regression coefficient at 0.014574 with $t_{statistic}$ value of 0.129085 < t table of 1.968178 with significant prob. = 0.8974, which is greater than α = 0.05. The testing result obtained empirical evidence that the Composition of Commissioners has no effect on earnings management. In general, the Composition of Commissioners is given responsibilities and tasks over information quality control, found in the financial statements. Based on the agency

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theory developed by Johnson (1979), it views that the Composition of the Company's Board of Commissioners as agents for shareholders will act with full awareness for its own interests, not as a wise and fair party to shareholders. It shows that regardless the large or small size of Composition of Independent Board of Directors in the company, it won't be a guarantee that there is no fraud in the financial statements. The monitoring conducted by an independent board of commissioners has yet to reduce the managers' behavior which puts their personal interests to the maximum.

The research results are in line with the research by (Mawardi and Cholid, 2011), stating that partially, the Composition of Commissioners has no effect on earnings management. However, the research results are not in line with previous research undertaken by (Midiastuty and Machfoedz, 2003), saying that Composition of Commissioners partially has positive effects on company's earnings management in a significant manner.

5.1.1 GCG Effects of Audit Committee on Earnings Management

The partial test results indicate that the audit committee shows negative regression coefficient of -0.002168 with a $t_{statistic}$ value of -0.181261 < t table of 1.968178 with significant prob.= 0.8563 which is greater than $\alpha = 0.05$. From the testing results, empirical evidence is obtained that audit committee has no effect on earnings management. The result obtained from this research is that audit committee is not capable of protecting the shareholders' interest from the earnings management conducted by the management. Based on the Circular Letter from JSE, SE-008/BEJ/12-2001, it says that the membership of audit committee should at least consist of three persons, including the chairperson of the audit committee. There should only one member of this committee coming from the commissioners. The committee member from the commissioners should be a recorded independent commissioner who is also serving as the chairperson of the audit committee. Other members who are not included as independent commissioners must come from independent external parties.

The results are in line with the research by Mawardi and Cholid (2011), Veronica & Utama (2005) & Sefiana (2010), pointing out that the audit committee has no effect on earnings management.

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Nevertheless, it is in contrast with the research results by (Nasution and Setiawan, 2007), arguing that the audit committee has negative effects on earnings management in banking companies.

6. Conclusion

Based on simultaneous analysis results, the independent good corporate governance variable which consists of the Composition of Commissioners and audit committee, affects the manufacturing companies' earning management in Indonesia Stock Exchange. Partially, GCG composition variable on Board of Commissioners has no effect on earnings management; and audit committee has no effects on earnings management. The present research is only limited to manufacturing companies listed on Indonesia Stock Exchange. However, it is advisable to be conducted to all companies listed on Indonesia Stock Exchange.

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