European Journal of Business and Management
ISSN 2222-1905 (Paper) ISSN 2222-2839 (Online)
Vol.8, No.2, 2016

The Effect of Mechanism of Good Corporate Governance and Investment Opportunity Set on the Earning Management: Study On Property and Real Estate Companies Are Listed In Indonesia Stock Exchange

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Abstract

This study aims to test empirically the effect of the mechanism of Good Corporate Governance and Investment Opportunities for Earning Management in Property and Real Estate companies listed on the Stock Exchange.

The results showed that the Independent Commissioner, institutional ownership, and Investment Opportunities Set significantly affect earnings management. Instead, the frequency of audit committee meetings no significant effect on earnings management,

Keywords: Good Corporate Governance and Investment Opportunity Set, Earning Management

A. Introduction

A Financial statement serves as a means for accountability of the company's management that contains relevant financial information provides an overview of economic activity that is going on within the Company. The financial information that is generated in the form of financial statements will be used as a reference for the shareholders to make decisions related to investments in capital to the company.

The more qualified the financial statements presented by management increasingly attracted attention for shareholders to maintain their capital investments in the company. Quality of financial reports that can be measured on the basis of information generated by the company's earnings. The more quality information generated profit, will produce a positive relationship to price increases of shares owned shareholder. However, it is not uncommon where earnings information should be presented properly, but instead serve as a means to make profit by Manager engineering company with the aim to maintain the continuity of management in private interests, by giving a positive impression to the shareholder.

Engineered earnings information will cause Asymmetric Information, which the Manager of the Company as a major actor seeks to gain an overview menamapilkan dancing to keep his personal interests. Asymmetric Information is an unequal distribution of information when the management take advantage of asymmetric information is to benefit from the principals who do not know much about the information that occurred in the Company (Dedhy Sulistiawan et al, 2011). The Management will be more motivated to take a moral hazard if they diiming hereafter will be given a certain number of bonus either in cash or in stock.

This Asymmetric Information will open up opportunities for the manager to act oportunitis for the sake of personal gain (Ujiyanto, 2007). The nature of manager will make the manager presents unreliable financial statements. The opportunistic action starts from selecting accounting policies to have the courage to determine the amount of profit generated by the Company (Scott, 2003). Conditions such as these are supported by the situation in which the Manager has information about the internal financial reports that more than shareholder.Manager company will be more creative in action to get the maximum profit and this will make the manager of the company using aggressive accounting policies, or at least choose accounting policies that benefit they (Dedhy Sulistiawan et al, 2011)..

The behavior of opporuinistic manager, actuallyt, can be described in agency theory (Jensen and Mecling, 1976) where the manager as agent and shareholder / investor as the principals. By acting as an agent, manager of the company is authorized by the principal to administer and manage the company built. Therefore of course the agents will benefit more in the know and prospect information Company information Company executed rather than the principals. This will lead to a relationship that is not aligned between the agent and the principal where the company manager compelled to manage earnings in order to achieve personal interests.

The practice of earnings management practices to make the relevance of information in the financial statements be unreliable even mislead users of information so that the information presented in the financial statements do not help users of the information in making decisions. In addition of course the practice of earnings management practices would be particularly detrimental to the Company's external investors.

Case in earnings management started happening in the world, namely the collapse of the international leading company in the world, Enron Corporation where Enron Corporation to mark up the revenue and profit of up to US $ 600 million and hide the actual amount owed US $ 1.2 billion ("Learning from Case Enron "Tempo, February 5, 2002). In Indonesia alone earnings management cases occurred in several public companies including Company-which is actually a large company, one of which is the case of PT Kimia Farma. PT Kimia Farma, which is the largest drug companies in Indonesia inflate earnings in 2001 to $ 132 billion when in fact only catching a profit of Rp 99 billion (Tempo, November 4, 2002). Then there are also cases of earnings management in PT Indofarma which found the cost of goods sold are experiencing understated Rp 28.8 billion resulting in net income experienced overstated by the same value (Bapepam, November 8, 2004). There are also cases where the Lippo Bank Lippo Bank issued three versions of financial reports as well and 3 to the financial statements presented have different information.

Cases above indicates seven games managerial which recorded revenues too quickly, noting false revenues, recognizing revenue faster one period, recognizing the cost of the current period into the cost of the previous period or thereafter, does not reveal all its obligations, recognizing revenue current period into income the previous period, and recognizes future income into current period income (Davin, 2005). The seventh game of managerial this be the kind of action the Company Manager to manage earnings. To minimize the actions of the manager in managing profits, companies need to implement good corporate governance in managing the Company. Purpose applied good corporate governance within the company is to create added value for the parties concerned (Sutedi, 2011). In Indonesia birth GCG beginning of the formation of national committees and issuing the decision Coordinating Minister EKUIN No: KEP-10 / M.EKUIN / 1999 dated August 19 1999 of the Code of Good Corporate Governance. The emergence of the Coordinating Minister for the decree as a result of the impact of the economic crisis that had rocked Indonesia in 1998. Many companies are finally closed due to corporate management is not done transparan.Oleh because the Indonesian government finally fix the rules regarding the management of the corporate system in Indonesia with the issuance of the decree

Good Corporate Governance system is good should be able to provide protection to shareholders through a mechanism of internal and external passing Company (Sulistyanto, 2008) .Some mechanisms of good corporate governance, among others, embodied in the presence of independent directors, commissioners, institutional ownership, board of directors and the size of the company , Good corporate governance mechanism can be done with the aim of narrowing the Manager of the Company in performing earnings management and the most influential indicator, namely the existence of independent directors and audit committee. The Audit Committee is a party that has the task to assist the commissioner in order to improve the quality of financial reporting and increasing the effectiveness of internal and external audits. While the independent commissioner is a party that has a responsibility to encourage implementation of the principles of good corporate governance within the company through the empowerment of the board of directors in order to carry out the task of monitoring and providing advice to managers more effectively and provide added value to the Company (Sulistyanto, 2008).

Independent Commissioner is a board of directors who are not part of the Company's management, the majority shareholder, officer, or otherwise associated directly or indirectly with the majority shareholder of the company that oversees the management of the Company (the Solar and Yustivandana, 2006). Independent Commissioner is the best position to monitor and control the company's policies that are run by a board of directors. Results of research conducted Ratnaningsih SY and Cholis Hidayati (2012) states that an independent commissioner has no significant effect on earnings management but the results Ratnaningsih SY and Cholis Hidayati not the same as the results of research conducted by I Gusti Ayu Made (2012). Results of the research I Gusti Ayu Made (2012) found that the independent commissioner significant positive effect on earnings management.

The Audit Committee is a committee established by the board of commissioners tasked with monitoring the quality of financial statements that made the company's management. Its presence is expected to improve the quality of the company's internal control, and is able to optimize the mechanism of checks and balances, which is ultimately intended to provide optimal protection to shareholders and other stakeholders (IKAI, 2012). The task of the audit committee assist the commissioners in controlling the quality of financial reporting. Results of research conducted and Cholis Hidayati Ratnaningsih SY (2012) did not prove any influence on earnings management audit committee.

According to Siregar and Siddharta (2005), institutional ownership is the ownership of company shares by financial institutions such as insurance companies, banks, pension funds, and investment banking. Institutional ownership can reduce the level of management incentives to improve their own welfare through intense supervision that can reduce earnings management behavior performed by management. Results of research and Cholis Hidayati Ratnaningsih SY (2012) together with the results I Gusti Ayu Made (2012) in which the institutional ownership has no effect on earnings management.

In addition to GCG as an independent variable, another factor in triggering the act of earnings management is the investment opportunity set (IOS). According Kallapur and Trombley (2001) states that the company's investment opportunities is an important component of the market value. This is due Investment Opportunity Set (IOS) or the investment opportunity set from a company affected how managers, owners, investors and creditors of the company. Investment Opportunity Set demonstrate the company's investment or growth options.

Investment Opportunity Set is an investment opportunity in the future where the Company Manager will be driven to earnings management practices if they see the opportunities these investments. Based on research Belkaoui (2003) states that the company's high air-IOS manage earnings more as a tool to convey private information that has relevance to the value of opportunistic hide poor performance. Research Belkaoui (2003) reinforced by the research Henggar Watiningsih (2011) which states the same thing that the company will have the investment opportunity set likely to make earnings management practices.

B. Problem Formulation

Based on the description on the background of the above, can be formulated research question is: "What is the mechanism of Good Corporate Governance (GCG), which is proxied by an independent commissioner, the board's audit committee, institutional ownership and Investment Opportunity Set (IOS) effect on earnings management?"

C. Objectives and Benefits of Research

This study aims to demonstrate empirically the effect of the mechanism of Good Corporate Governance (GCG), which is proxied by an independent commissioner, the board's audit committee, institutional ownership and Investment Opportunity Set (IOS) to earnings management.

The results are expected to help users of financial statements information to detect possible occurrence of earnings management in a company that is not wrong in taking decisions and that large losses can be anticipated by stakeholders.

D. Framework and Hypotheses

1. Effect of the Board of the Independent Commissioner Against Profit Management

Independent Commissioner of the Board is a party plays an important role in providing reliable financial statements. Therefore, the existence of independent board would have an influence on the quality of financial reporting and is used as a measure of financial engineering that made the manager (Sulistyanto, 2008).

Ratnaningsih SY and Cholis Hidayati (2012) states that the existence of independent board does not have a significant effect on earnings management. This shows that the presence of independent board is only used as a formality company where independent board functions as regulatory compliance alone. SY Ratnaningsih research and Cholis Hidayati is in line with research conducted by I Gusti Ayu Made (2012) where the research conducted by I Gusti Ayu stated that the existence of independent board was not able to reduce the amount of earnings management practices. Results of research conducted by I Gusti Ayu showed a significant positive influence that the presence of independent board becomes ineffective.

Meanwhile, according to research conducted Marihot Nasution and Doddy Setiawan (2007) states that the size of the independent board that has a negative effect on earnings management, thus the presence of independent board should be able to be a good corporate governance mechanism in reducing earnings management practices. With the independent board is expected to provide effective supervision in order to reduce earnings management practices.

Based on the description above, it can be formulated hypothesis is as follows:

H1: the proportion of independent board effect on earnings management

2. Effect of the Audit Committee Against Profit Management

Based on BI regulation 8/4 / PBI / 2006 states about duties of the audit committee is to conduct monitoring and evaluation of the planning and execution of audits and monitoring of the follow-up results of the audit in order to assess the adequacy of the financial reporting process. Thus with the audit committee hoped this committee is able to reduce the likelihood of earnings management activities.

Ratnaningsih research and Cholis Hidayati SY (2012) in line with the audit committee function in suppressing the earnings management where research results show the negative influences. With the ownership of the audit committee is expected to inhibit the occurrence of earnings management practices.

In contrast to research conducted Yusriati Farida et al (2010) which concluded that the existence of an audit committee was not as a measure which ensures reduction in earnings management. Yusriati results of research conducted shows that the existence of an audit committee has a positive influence on earnings management despite an audit committee nonetheless profit management can be manipulated by the manager.

Based on the description above, it can be formulated hypothesis is as follows:

H2: The audit committee effect on earnings management

3. Effect Against Institutional Ownership Profit Management

According to Jensen and Mecling (1976), in the presence of institutional ownership is expected to reduce the agency conflict. Institutional ownership has the ability to reduce the incentives of managers who act in an opportunistic through intense level of scrutiny (Boediono, 2005). Given the intense level of scrutiny of the management of the potential for fraud can be pressed (Herawaty, 2008).

According to research I Gusti Ayu Made (2012) institutional ownership has no effect on earnings management. Means the presence of institutional ownership as shareholders are not so function in monitoring the performance of management. Research conducted by I Gusti Ayu Made in line with research conducted by Dian Agustia (2013). Dian Agustia study concluded that institutional ownership can not limit the occurrence of earnings management. This is because institutional investors do not act as sophisticated investors that have more ability and opportunity to monitor and discipline managers to be more focused on the company's value, and limit management policies in manipulating earnings, but rather acts as a temporary owner who is more focused on current earnings (Yang et al., 2009).

Based on the description above, it can be formulated hypothesis is as follows:

H3: Institutional Ownership effect on earnings management

4. Effect of Investment Opportunity Set To Profit Management

Investment Opportunity Set is a proxy that is used to see opportunities to grow perusahaan.Investment Opportunity Set (IOS) is an investment decision in the form of a combination of owned assets and growth options in the future (Myers, 1976). Companies that have high investment opportunity set which uses earnings management to mark their information about the company's growth opportunities in the future (Gul et.al, 2003).

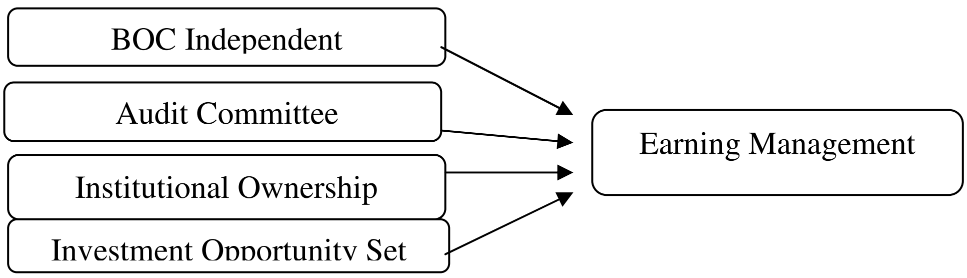
Some evidence of previous literature such as Skinner (1993) has shown that companies with higher investment opportunity to show big profit management. Skinner's study had similar results with research done Henggar Watiningsih (2011) and Shanti J et al (2007) where the investment opportunity set positive effect on earnings management. However, not all studies show positive results. According to research Zaenal Fanani (2006) investment opportunity set negatively affect earnings management. This shows the company's rapid growth was not followed by the behavior of managers to increasingly perform earnings management behavior.

Based on the description above, it can be formulated hypothesis is as follows:

H4: Investment Opportunity Set effect on earnings management

5. Research Model

Based on the literature review and formulation of hypotheses, the researchers outline the research described in the following figure:



Figur: 1: Research Model

E. Methods

This research uses a causal research, the independent variable is the investment opportunity set and mechanisms of good corporate governance which is proxied by independent directors, audit committees, and institutional ownership. While dependent variablenya measured by earnings management.

The study population was the Company's financial statements Property and Real Estate are listed on the Stock Exchange by 46 companies. The sample selection using purposive sampling method with the following criteria:

1. The property and real estate company listed on the Indonesia Stock Exchange during the period 2010-2013
2. The Company publishes audited financial statements for the period 2010-2013

3. The company has a total equity earnings and positive in 2010-2013

Of the sample selection criteria then obtained 29 companies that meet the criteria of the sample so that the number of samples analyzed the data 96 (24 companies x 4 years = 116 data).

F. Operationalization Variable

Tabel 1
Operasionalization of Variabel

Variabel		Pengukuran	Skala
1	Komisaris Independen	$\frac{\Sigma \text{ anggota komisaris independen}}{\Sigma \text{ anggota komisaris}}$	Rasio
2	Komite Audit	Frekuensi rapat komite audit dalam 1 (satu) tahun	Rasio
3	Kepemilikan Institusional	Σ saham institusi Σ saham vang beredar	Rasio
4	*Investment Opportunity Set*	TOBIN'S Q : $\frac{\text{Total Aset-Total Ekuitas (lembar saham beredar x harga saham penutupan)}}{\text{Aset Tetap(aset tetap gross-aset tetap net/biaya depresiasi)+ (total aset-aset tetap net)}}$	asio
5	Manajemen Laba	$DAC_t = TAC_t/A_{t-1} - NDA_t$	

Test hypotheses for this research model using t statistical test and regression analysis. Here are the results of hypothesis testing:

Table 2
Coefficients[a]

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	,464	,118		3,946	,000
	K.Ind	-,493	,165	-,280	-2,987	,003
	FRKA	,001	,002	,042	,458	,648
	K. Ins	-,160	,055	-,282	-2,928	,004
	IOS	,091	,042	,196	2,156	,033

From the output results shown in Table 2, the data obtained calculation results of multiple linear regression equation as follows:

$DA = 0.464 - 0,493Kind + 0,001FRKA - 0,160Kins + 0,091IOS + \varepsilon$

Results of testing with the analysis of multiple linear regression method to detect the influence of independent directors, audit committee, institutional ownership, and Investments opportunity set against earnings management in property and real estate companies listed on the Stock Exchange is as follows:

1. The influence of independent directors on earnings management

In this study, the proportion of independent board significantly affect earnings management. This may imply that the role of independent board of the management company run optimally with intense monitoring of the management of the company by management. This can occur because basically independent board intervene in the decision-making operations. Decisions taken by the independent board inviolability given independent decisions without the intervention of the parties in the company.

Results of this study are consistent with results of research conducted by I Gusti Ayu Made (2012) which states that the independent board significant effect on earnings management. This was due to the presence of independent board oversight of the company's financial reporting process and quality management increasingly required to do more transparency in financial reporting of the company.

Nasution and Setiawan (2007) also corroborate the results found by researchers that the more independent board will depress earnings management action because independent board oversee the management of the company.

However, these results contrast with results presented by Yusriati Farida, Yuli Prasetyo, and Eliada Herwiyanti (2010) who found that the independent board does not have a significant effect on earnings management. According to the presence of independent board in Indonesia just to meet regulatory demands. This can occur because not all companies are able to meet the minimum standards set for the proportion of independent board by 30%.

Research conducted by Ratnaningsih SY and Cholis (2012) and Dian Agustia (2013) is also contrary to the researcher. Dian Agustia (2013) argues that the appointment of independent board only based on kinship, kinship, or awards that although the company has the independent board, but in practice the commissioners are not really independent in carrying out their duties.

2. Effect of the audit committee to earnings management

In this study the existence of an audit committee did not significantly affect earnings management. This can happen because of the removal of the audit committee may only be done for regulatory compliance alone but are not intended to enforce good corporate goverance.

The results are consistent with the results of research conducted by Yusriati Farida, Yuli Prasetyo, and Eliada Herwiyanti (2010) which states that the audit committee is not proven effect on earnings management. Similarly, the results obtained by Dian Agustia (2013). According to them the existence of an audit committee in the company only to meet regulatory demands just so avoid the sanctions. Therefore, the performance of the audit committee to be less effective and optimal in developing and applying the regulatory process to minimize earnings management action.

However, this result is contrary to the results of research conducted by Nasution and Setiawan (2007) who found that the existence of the audit committee have a significant effect on earnings management. This study is consistent with research conducted by Ratnaningsih SY and Cholis (2012) also found that the audit committee has a positive correlation to earnings management. This is due to the audit committee has fulfilled its duties in overseeing the management of the financial statements by applying the principles of corporate governance.

3. Effect of institutional ownership on earnings management

In this research, institutional ownership significantly influence management. This indicates a growing number of shares held by institutions, supervision by institutional investors more intense against the management company so that the existence of an institutional investor in the company was able to reduce earnings management action.

These results are not in accordance with the results found by Yusriati Farida, Yuli Prasetyo, and Eliada Herwiyanti (2010) which states that institutional ownership has no effect on earnings management. He said not all companies have the institutional ownership in their capital structure.

The researchers' work is also inconsistent with research conducted by I Gusti Ayu Made (2012) and Dian Agustia (2013). This is because institutional investors did not act as a sophisticated investor who has more ability to restrict managers to manipulate earnings.

However, the results of researchers in line with results found Tarjo (2007) which states that a company if it has the institutional investors will usually cause a negative impact on earnings management due to the presence of investors from outside the company is expected to oversee the tendency of managers to manipulate the financial statements.

4. Effect of investment opportunity set (IOS) to earnings management

In this study the investment opportunity set significantly affect earnings management. This means that companies with high investment opportunity set that tends to perform earnings management. The higher the investment opportunity set of the company then the company has assets in a low place with the intention that investors do not demand the distribution of dividends.

These results are consistent with research conducted by Ferdinand A Gul, Sydney Leung, and Bin Srinidhi (July, 2003) and Henggar Watiningsih (2011). Henggar Watiningsih believes companies that have high growth opportunities tend to earnings management. Ken Y. Chen, Randal J. Elder, and Shengmin Hung (2010) also found a positive correlation to earnings management. But the researchers were not in line with the results of research conducted by Zaenal Fanani (2006), JC Shanti, Yudhayanti, and Star Day (2007). According to them the company's growth occurred not because of the existence of earnings management in the company, but because the company is really growing.

G. Conclusions and Recommendations

Based on the results of previous studies, this study sought to examine the effect of the three variables of good corporate governance (independent directors, audit committee meeting frequency, and institutional ownership) and the investment opportunity set against profits in the company's management and real estate property company listed in BEI.Untuk determine earnings management, researchers memproksikannya with dicretinonary accruals using the Jones modifications. From the results of the study conducted by researchers through descriptive statistical tests, the classic assumption test, and test hypotheses it could be concluded as follows:

1. Independent Commissioner significantly affect earnings management. The results support the concept that the conflict between the interests of management with investors can influence the management to increasing income.
2. The audit committee is seen from the number of meetings frequency not significantly affect earnings management. This is because the company only meet regulatory demands so that the effectiveness of the audit committee is not optimal.
3. Institutional Ownership significantly affect earnings management. This happens because with the ownership of capital from institutions outside the company in the capital structure will improve supervision carried out by institutional investors for the management of the company
4. Investment Opportunity Set (IOS) significantly affect the earnings management. This can be seen from the results of the regression test and T test which showed a positive relationship between IOS with earnings management. The higher the growth rate of investment companies, this will give a signal to management to manage earnings.

Results of this study are expected to provide an overview of the effects of the application of good corporate governance mechanisms and investment opportunity set to earnings management. However, research is still far from perfect so therefore there are some suggestions that are expected from researchers to be developed in future studies. As for some of the following suggestions:

1. The period that will be used in further research should be added by using the latest data so that it can better explain the latest conditions and could represent a population
2. Due to the adjusted R-square possessed in this study is small then further research is expected to add another independent variables to produce different results with previous research

3. For good corporate governance variables are expected to further research using GCG index in predicting corporate earnings management. This is important because the index will provide an assessment of the implementation of better corporate governance.

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