Differences In The Impact Of Good Corporate Governance On Discretionary Accrual And Real Earnings Management

Istianingsih
Economics and Business Faculty, Universitas Bhayangkara Jakarta Raya
istianingsih@dsn.ubharajaya.ac.id

ABSTRACT

The purpose of this study is to determine the effect of Good Corporate Governance to Earnings Management. The earnings management in this study was measured by Discretionary Accrual and Real Earnings Management. This study used Jones Modified Model (1991) as proxy of discretionary accrual. To measure real earnings management we used three measures, namely abnormal cash flow, abnormal production cost and abnormal expenditure. This research was conducted on manufacturing companies listed on the Indonesia Stock Exchange. The period of this research is 2015 to 2018. Using the purposive sampling method, the results of the sample selection are 168 firm-years.
The analytical data method used multiple regression analysis. The result shows that Good Corporate Governance has no effect on Discretionary Accrual. On the other hand, GCG has a negative effect on earnings management as measured by the three real activities, namely abnormal cash flow, abnormal production costs and abnormal discretionary expenditure

Keywords
Good Corporate Governance, Discretionary Accrual, Real Earnings Management, Leverage, Size, Growth

Article Received: 10 August 2020, Revised: 25 October 2020, Accepted: 18 November 2020

Research Background

The financial report is a result of a series of accounting processes that are used as a reference or as a source of information in making economic decisions, within the scope of management performance, and changes in the company's financial position. Quality improvement is very important because financial reports are very necessary and beneficial for many parties, namely internal parties as well as external parties. Different perspectives can arise on both parties in the use of financial statements. External parties, such as investors, need financial reports that are accurate, reliable and transparent so that they can be used to measure the level of return and risk in making investment decisions. Meanwhile, internal parties, such as management, are trying to compile good financial reports by presenting information on high earnings so that they reflect high company value. High corporate value in the eyes of investors can easily attract investors to invest in the company so that the company's finances remain in good and stable condition. Creative accounting is a method used by managers in presenting financial reports that have value in the eyes of investors. Financial statements that are valuable in the eyes of investors if the information generated is high. Usually, in presenting high profits, managers have their own motivations, including expecting a bonus so that their personal welfare increases. In addition, based on the opportunistic perspective, managers behave to deceive investors and maximize their personal welfare because they have more information than other parties. Situations like that can make managers tend to be the party who is more superior in controlling information than other parties. The information gap that occurs between managers and owners is known as information asymmetry. This is why managers will only disclose certain information if there are benefits that can be obtained, whereas if there is no benefit, managers will hide or even delay disclosure of information to other parties. Motivation and management behavior can trigger accounting scandals and earnings management practices in the company (Dedhy, 2011).

There are 2 (two) methods used in practicing earnings management in this study, namely Discretionary Accrual or accrual earnings management and Real Earnings Management or real earnings management. Generally accepted accounting principles allow accounting principles in accrual earnings management with the aim of obscuring the actual company performance (Dechow and Skinner, 2000). Meanwhile, real profit management is a situation in which company managers take an action that deviates from the company's normal operations with the aim of increasing reported profit, namely through proxies for operating cash flows, production costs, and discretionary costs (Roychowdhury, 2006).

The development of empirical research on earnings management has found that managers in companies have shifted their use from accrual earnings management to real earnings management after the Sarbanes-Oxley Aet (SOX) period. This is in line with research by Zang (2007) which states that managers prefer real earnings management more than accruals, but managers still maintain these two techniques to be able to meet the desired profit targets.

According to Sri (2008), one of the failures in the world today to be able to create a healthy, clean and responsible business life is earnings management. Efforts in manipulating this information have become a factor that causes financial reports to no longer reflect the fundamental value of the company. There are many parties who will be harmed by this problem, first, the company will be the loser, because the manager's actions can cause the company to experience financial difficulties and even bankruptcy in the long term. Second, stakeholders as users of financial reports for investment decisions, with the false information they receive, strategic and economic decisions will be wrong. Errors in decisions taken are not only detrimental to stakeholders, but also indirectly felt by the public who are not directly related to the company. This is based on the error that results will result in errors in allocating resources to inappropriate parties. If this continues for a long time, it can affect a country's economy.

Thus it is necessary to have a system of supervision or good Good Corporate Governance to be able to realize a clean, healthy and responsible business. In connection with this, a study is needed that examines and sees a relationship between Good Corporate Governance and earnings management, so that this makes researchers interested in conducting research to see the effect of GCG on accrual earnings management activities and real earnings management carried out by the manager in the company.

Literature Review, Hypothesis And Framework

Agency Theory

The basis used to understand corporate governance is agency theory. Jensen and Meckling (1976) state that an agency relationship occurs when there is a contract agreement between the principal, namely shareholders or investors, and other parties who have the ability to manage the company better (agent). Scott (2015) states that the relationship between the principal and the agent can lead to an imbalance of information, where the agent has more information about the capacity of the person, the work environment, and the company as a whole than the principal, thus this results in an imbalance of information held by the principal and agent. This information imbalance is known as information asymmetry. The relationship between company owners and managers should be able to produce a symbiotic relationship of mutualism that can benefit all parties, in the sense that all parties carry out their respective rights and obligations in a responsible manner. However, in reality the opposite is true, namely, an agency problem arises. This agency problem is the source of all corporate irregularities that have occurred so far in the business world.

Earnings management

An approach to agency theory which states that there is an agency problem between the owner and the company manager, where there are parties (agents) who prioritize personal interests even though they are detrimental to other parties, both owners and investors. To fulfill the personal interests of managers, they make efforts to manipulate information by playing with the components in the financial statements that will be used by other parties. Even though it seems that they only play with the size of the numbers in the financial statements, in fact the game the manager is playing is because they basically want to hide something that other parties don't want to know. This is done by managers with the aim of being able to protect any fraud that has been committed by the manager and also to secure positions, interests, and to improve personal welfare even though it must be detrimental to the position and interests of other parties. On this basis, it is stated that the tendency of managers in conducting earnings management is a fraud / violation. Scott (2015) states that there are several factors that encourage managers to behave opportunistically, including; bonus schemes, debt covenants, political motivation, tax motivation, changes in Chief Executive Officer (CEO), and IPO.

There are two methods of earnings management, namely accrual earnings management and real earnings management which can be used to influence the company's financial statements. Accrual earnings management is one of the methods in earnings management carried out by management by selecting accounting policies through methods that have been recognized in a generally accepted accounting regulation, with the aim of disguising the actual economic performance of a company (Dechow and Skinner, 2000). Accrual earnings management is done by playing with the accrual components in the financial statements, because accruals are a component that is easily selected according to the wishes of managers who record and prepare financial reports. The main reason is that the accrual component does not require physical cash evidence. . The method used by management in carrying out accrual earning activities (Zang, 2011) is by changing the depreciation method for fixed assets, wherein so that the current year's profit increases, depreciation expense is reduced. The depreciation method can be changed from multiple declining balances to the straight-line method, or by changing the age on which the depreciation expense is calculated. In addition, by changing the estimate for the allowance for bad debts. The Company made a decrease in the estimated allowance for doubtful accounts with the aim of increasing the profit for the year. The advantage of earnings in the accrual component is in the delivery of information that explains the company's future financial performance. However, the drawback of earnings in the accrual component is less persistent and relatively more subjective when compared to earnings on the cash flow statement. Profit management can be detected by comparing the operating profit reported by the company with the operating cash flow for the same period. As a first step to identify earnings management is to remove the cash component from the accounting model to calculate the amount of the accrual component received by the company, namely accounting profit must be reduced by cash flow obtained from company operations.

In accrual management, management does not carry out activities that have an impact on the company's operational activities; however, in real earnings management, the management carries out activities by fundamentally changing the company's operational activities. In detecting real activities manipulation by companies, Roychowdhury (2006) uses the model of Dechow et al. (1998) and focus on three manipulation methods. First, perform sales manipulation, which is defined as management's efforts to increase sales during the year so that the gross profit value will increase. Second, reducing discretionary expense can increase profits or avoid reporting negative profit or loss. Reductions in discretionary costs can be through advertising costs, research and development costs, sales costs, and general and administrative costs such as employee training costs and repair and travel costs. Third, overproduction, namely by producing more goods than needed in order to meet the expected demand so that profits can increase. In detecting real activity, this research refers to research conducted by Roychowdhury (2006) through proxies of abnormal cash flow, abnormal discretionary expense, abnormal production with the aim of being able to detect the occurrence of real earnings management so that losses can be avoided.

Good Corporate Governance (GCG)

There are public demands for a healthy, clean and responsible business life. The demand is actually caused by the increasing number of cases of corporate irregularities around the world today. This does not only occur in countries that do not yet have a good business system, but also in countries which can be said to have their business systems very well organized.

Cases of irregularities that have occurred are for example the Enron case scandal, where the case is in line with the application of modern management concepts in business management. This concept explains that the business world is getting wider and bigger both in scale of operation and location, a business owner may not be able to run his business alone, so the owner needs someone else who can be trusted to manage his business. There is a separation of responsibilities between owners and managers so that in the end agency conflicts arise. The conflict that occurs between the owner and the manager causes the need for a control that can mediate the problems of interest between the two parties. One of the control mechanisms that can handle the agency conflict is through the implementation of Good Corporate Governance. The Organization of Economic Co-operation and Development (OECD) views corporate governance as a system by which a company or business entity is directed and supervised. The OECD states that the correct implementation of corporate governance can increase the credibility of a country's economy (market) in terms of economic growth and can also improve the welfare of the community.

The Indonesian Institute for Corporate Directorship (IICD) is an independent institution in Indonesia that has become a strategic partner in building good corporate governance by promoting ethical corporate behavior and also enhancing the skills, knowledge and abilities of company directors and board of commissioners. The important role of the IICD is by internalizing good corporate governance practices, where IICD has consistently conducted an assessment of the implementation of Good Corporate Governance (GCG) on public companies in Indonesia.

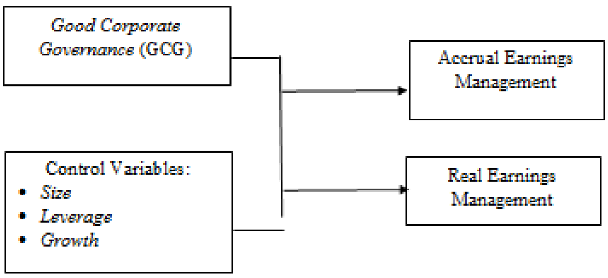

Figure 1. Research Framework

Hypothesis

The Effect of Good Corporate Governance on Accrual Earnings Management

This study aims to obtain evidence that there is an effect of Good Corporate Governance on accrual earnings management. The influence of corporate governance on corporate value is due to agency problems within the company arising as a result of the separation of control and ownership (Istianingsih, 2020). Research conducted by Sonda et al. (2001), Cohen et al (2008), and Dian (2013) state that GCG has a negative effect on accrual earnings management through discretionary accruals. GCG is expected to reduce the opportunities for performance engineering by management (Istianingsih, 2020). Based on the description described above, the second hypothesis in this study is as follows

H1 = Good Corporate Governance has a negative effect on accrual earnings management

The Effect of Good Corporate Governance on Real Earnings Management

According to Roychowdhury (2006), real earnings management is carried out by managers through proxies for abnormal cash flow, abnormal discretionary expense, and abnormal production. Eva et al. (2015) through their research found that Good Corporate Governance (GCG) is able to moderate the effect of real earnings management on firm value. The lower the real earnings management, the higher the firm value, especially for companies that implement high GCG practices. Engineering often occurs and results in financial statements do not describe the fundamental value of the company (Chtourou, 2001; Istianingsih, 2020). Based on the description described above, the second hypothesis in this study wants to see the effect of Good Corporate Governance on real earnings management and also through their respective proxies, namely Abnormal Cash Flow, Abnormal Discretionary Expense, and Abnormal Production where the hypothesis is as follows:

H2 = Good Corporate Governance has a negative effect on real earnings management
H2a = Good Corporate Governance has a negative effect on abnormal cash flow
H2b = Good Corporate Governance has a negative effect on abnormal discretionary expense
H2c = Good Corporate Governance has a negative effect on abnormal production

Research Methods

This research is included as a type of causal research that tests cause and effect and sees the effect of the dependent variable with the independent variable. The independent variable in this study includes Good Corporate Governance and the dependent variable is accrual earnings management and real earnings management.

Sampling in this study was carried out using purposive sampling method. Purposive sampling method is sampling based on the consideration of the research subject, the sample is selected based on the suitability of the characteristics with the specified sample criteria in order to obtain a representative sample. The population used in this study are all manufacturing companies listed on the

Indonesia Stock Exchange that participated in the Corporate Governance Perception Index 2010-2013.

Variable Operational

Accrual Earnings Management

In this study, according to research by Zang (2011), to detect the existence of accrual earnings management, a modified model of the model found by Jones (1991) is used which states the normal level of accruals. These models include:
Determine the total value of Accruals (TA) by:

$$TA_{it} = NI_{it} - CFO_{i,t}$$

All variables are divided by the assets of the previous year so that the formula is as follows:

$$\frac{TA_{it}}{A_{i,t-1}} = \alpha_1 \frac{1}{A_{i,t-1}} + \alpha_2 \frac{\Delta \mathrm{Re}v_{it}}{A_{i,t-1}} + \alpha_3 \frac{PPE_{it}}{A_{i,t-1}} + \varepsilon_{i,t}$$

The estimation coefficient from the above equation is then used to estimate the Normal Accruals (NA) level of change specifically:

$$NA_{it} = \alpha_1 \frac{1}{A_{i,t-1}} + \alpha_2 \frac{(\Delta \mathrm{Re}v_{it} - \Delta AR_{it})}{A_{i,t-1}} + \alpha_3 \frac{PPE_{it}}{A_{i,t-1}} + \varepsilon_{i,t}$$

The accrual earnings management indicator is obtained by determining the value of Discretionary Accruals (DA) by means of the difference between total accruals and normal accruals from the above model, namely:

$$DA_{it} = \frac{TA_{it}}{A_{i,t-1}} - NA_{i,t}$$

Information:
TAit = Total accruals of company i in year t
NIit = net profit of company i in year t
CFOit = Company i operating cash flow in period t
NAit = normal accrual value of company i in period t
Ai, t-1 = total assets of company i in period t-1
ΔRevit = Change in company revenue from year to year
ΔARit = Change in receivables of company i in period t
PPEit = sales of company i in period t
Real Earnings Management
Real activity management is the difference between operating practices and normal operating practices (Roychowdhury, 2006). To detect earnings management actions through manipulation of real activities proxied into cash flow operations (CFO), discretionary expense (DISEXP) and production costs (PROD).
1. Abnormal Cash Flow Operation (CFO)
The regression model for normal operating activities cash flow replicates from Roychowdhury's (2006) research, namely:

$$CFO_{it}/A_{i,t-1} = \alpha_0 + \alpha_1(1/A_{i,t-1}) + \alpha_2(S_{it}/A_{i,t-1}) + \alpha_3(\Delta S_{it}/A_{i,t-1}) + \varepsilon_{it}$$

1. Abnormal Discretionary Expense (DISEXP)

To calculate the normal level of discretionary costs the researcher used the following regression model

$$DISEXP_{it}/A_{i,t-1} = \alpha_0 + \alpha_1(1/A_{i,t-1}) + \alpha_2(S_{it}/A_{i,t-1}) + \alpha_3(\Delta S_{it}/A_{i,t-1}) + \varepsilon_{it}$$

1. Abnormal *Production Cost* (PROD)
The estimation model for normal production costs with the following regression formula:

$$PROD_{it}/A_{i,t-1} = \alpha_0 + \alpha_1(1/A_{i,t-1}) + \alpha_2(S_{it}/A_{i,t-1}) + \alpha_3(\Delta S_{it}/A_{i,t-1}) + \varepsilon_{it}$$

Information:
CFOit = cash flow from company i operations in period t
DISEXPit = Discretionary expense company i in period t
PRODit = production cost of company i in period t
Ai, t-1 = total assets of company i in period t
Sit = sales of company i in period t
ΔSit = the difference in sales of company i in period t
Good Corporate Governance (GCG). This study uses the Corporate Governance Index which is the main proxy for measuring corporate governance practices in the company. The use of the corporate governance index is expected to reflect the implementation of corporate governance more comprehensively. The corporate governance index used in this study refers to the score calculated by the IICD (Indonesia Institute of Corporate Governance).
There are 3 (three) control variables used in this study, among others : Firm SIZE measured by total asset of the firm, LEVERAGE, measured by total debt to total asset, and sales GROWTH as measured by current sales minus prior period sales divided by sales prior period.

Method of Analysis

The analytical method used by first doing the classical assumption test with four tests of normality test, autocorrelation test, multicollinearity test and heteroscedasticity test. Meanwhile, to test the hypothesis using the coefficient of determination (R2), F statistical test and t statistical test. This study uses multiple linear regression research methods that describe the relationship of several variables, so that a variable can be predicted from other variables. The research model for multiple linear regression functions can be written with the following equation:
Accrual Earnings Management

$$DA = \alpha + \beta_1 INDXCG + + \beta_2 SIZE + \beta_3 LEV + \beta_4 GROWTH + \varepsilon$$

Real Profit Management
First Model

$$RM = \alpha + \beta_1 INDXCG + + \beta_2 SIZE + \beta_3 LEV + \beta_4 GROWTH + \varepsilon$$

Real earnings management is divided into three kinds of measurements, namely:
Abnormal Cash Flow:

$$ACFO = \alpha + \beta_1 INDXCG + \beta_2 SIZE + \beta_3 LEV + \beta_4 GROWTH + \varepsilon$$

Abnormal Discretionary Expense

$$ADISEXP = \alpha + \beta_1 INDXCG + \beta_2 SIZE + \beta_3 LEV + \beta_4 GROWTH + \varepsilon$$

Abnormal Production Cost

$$APROD = \alpha + \beta_1 INDXCG + \beta_2 SIZE + \beta_3 LEV + \beta_4 GROWTH + \varepsilon$$

Result and Discussion

Table 1. Descriptive Statistics

	N	Minimum	Maximum	Mean	Std. Deviation
ACCRUAL	186	-.1098	.4403	.095718	.0807801
REAL	186	-.8880	.9490	.139065	.3821079
ACFO	186	-.2310	.3010	.030634	.1033262
ADISEXP	186	-.2950	.3620	.115027	.1466277
APROD	186	-.5810	.6380	-.006677	.2301590
INDXCG	186	60.2700	82.3600	69.251022	5.4380215
LEV	186	.0940	.9240	.443941	.1956068
SIZE	186	11.2670	17.4810	14.099801	1.4228226
GROWTH	186	-.2180	.4560	.118833	.1108776
Valid N (listwise)	186				
Information: ACCRUAL: Accrual earnings management, REAL = Real activity management which is the sum of the proxies for Abnormal Cash Flow Operation (AbnCFO), Abnormal Discretionary Expense (Abn DISEXP), and Abnormal Production Cost (Abn PROD), ACFO = Abnormal cash flow operation, ADISEXP = Abnormal discretionary expense, APROD = Abnormal production, INDXCG: Implementation of Good Corporate Governance as measured by the Corporate Governance Index. LEV = Leverage (debt to asset ratio), which is measured by the percentage of total debt to total assets. SIZE = company size (natural log of total assets). GROWTH = Growth opportunities proxied in sales growth.					

Sumber : data diolah 2016

Table 1 shows the total number of samples used in the 4 years of observation totaling 186. In this study, the samples used were manufacturing companies. In this study, the sample used was issuers in the manufacturing sector from 2015 to 2018. Accrual activity earnings management is an initial method of earning management that is widely practiced by management by selecting accounting policies. The descriptive statistical results table above shows that the average (mean) ACCRUAL from 2010 to 2013 is 0.095718, meaning that the average accrual activity earnings management activity is 0.095%. The maximum ACCRUAL value is 0.44% by HMSP issuers in 2012, while the minimum ACCRUAL value is -0.11% by VOKS issuers in 2013. The standard deviation or data deviation is 0.08%, meaning that this data is scattered around the average. the average is or is in the area ± 3, so it is good to analyze

Real activity earnings management is obtained from the sum of the Abnormal Cash Flow Operation (AbnCFO), Abnormal Discretionary Expense (Abn DISEXP), and Abnormal Production Cost (Abn PROD) proxies. The descriptive statistical results table above shows that the average (mean) REAL from 2010 to 2013 is 0.139065, meaning that the average real activity earnings management activity is 0.14%. The maximum REAL value is 0.95% by SCCO issuers in 2010, while the minimum REAL value is -0.89% by DVLA issuers in 2010. The standard deviation or deviation of data is 0.38%, meaning that this data is scattered around the the average is or is in the area ± 3, so it is good to analyze

Abnormal cash flow (ACFO) is the difference from the actual cash flow from operating activities with normal cash flow which is then calculated using the estimated regression coefficient from each industry. The descriptive statistical results table above shows that the average (mean) ACFO from 2010 to 2013 was 0.030634, meaning that the average earnings management activity with an abnormal cash flow proxy was 0.03%. The maximum value of ACFO is 0.3% by INAI issuers in 2012, while the minimum ACFO value is -0.23% by BTON issuers in 2010. The standard deviation is 0.1%, meaning that this data is scattered around the average or is located in the area ± 3, so it is good to analyze.

Abonormal discretionary expense is the difference between actual discretionary expense and normal discretionary expense which is calculated using the estimated regression coefficient for each industry. The descriptive statistical results table above shows that the average (mean) ADISEXP from 2010 to 2013 was 0.115027, which means that the average earnings management activity with an abnormal discretionary expense proxy is 0.12%. The maximum value of ADISEXP is 0.36% by BTON issuers in 2010, while the minimum value of ADISEXP is -0.29% by DVLA issuers in 2010. The standard deviation is 0.15%, meaning that this data is scattered around the average or is in the area ± 3, so it is good to analyze.

Abonormal production cost is the difference between the actual production cost and the normal production cost, which is calculated using the estimated regression coefficient from each industry. The table of descriptive statistical results above shows that the average (mean) APROD in 2010 to 2013 is -0.006677, meaning that the average earnings management activity with an abnormal production cost proxy is -0.01%. The maximum APROD value is 0.64% by LMPI issuers in 2011, while the minimum APROD value is -0.58% by CPIN issuers in 2010. The standard deviation is 0.23%, meaning that this data is scattered around the average or is located in the ± 3 area, so it is good to analyze.

This study uses an independent variable, namely the Corporate Governance Index, which is obtained from the survey results through the Indonesia Institute of Corporate Governance (IICD). Each score / value produced is a percentage with a maximum value of 100%. Each score is determined by the IICD through each assessment criteria for Good Corporate Governance (GCG) practice in each company. The descriptive statistical results table above for the Corporate Governance Index variable shows an average value of 69.25 or about 69.25%. These results indicate that the average company in this study falls into the fair category, which means that only a few requirements in implementing GCG are fulfilled by the company. The assessment is in accordance with the criteria for the assessment of Good Corporate Governance (GCG) practices established by the IICD. Another thing can also be said that the average Indonesian manufacturing companies in this study do not have a high awareness of the importance of implementing GCG. The maximum INDXCG value was 82.36% by KAEF issuers in 2013, while the INDXCG minimum value was 60.27% by BUDI issuers in 2010. The standard deviation is 5.44%, meaning that this data is spread far from the average or is in outside the area ± 3, so it is necessary to do an outlier.

Leverage ratio is the proportion of total debt to shareholder equity. The descriptive statistical results table above for the Leverage variable shows an average value of 0.443941. This indicates that the average company in this study makes debt the main source of financing for the company's operations compared to other ways. This result is also supported by the statement of Bunkanwanicha et al. (2006), which states that on average companies in Indonesia have a larger proportion of debt. The maximum LEV value is 0.92% by EKAD issuers in 2013, while the minimum LEV value is 0.09% by TCID issuers in 2010. The standard deviation is 0.2%, meaning that this data is scattered around the average or is in in an area of ± 3, so it is good to analyze.

Company Size (SIZE) is a characteristic of a company in relation to the company structure. Firm size is measured using Ln (total assets). The table of descriptive statistics results above shows that the average (mean) SIZE from 2010 to 2013 was 14.099801, meaning that the average sample company used had total assets of IDR 14.1 trillion and was classified as a company that had very good conditions. This indicates that companies with larger total assets are expected to have the ability to fulfill all of their liabilities in future periods. The maximum SIZE value is 17.48 by GGRM in 2011, which means that GGRM in 2014 has a large total asset in its business activities of IDR 17.48 trillion. The minimum SIZE value was 11.27 by LMSH in 2010, which means that in 2010 LMSH had total assets of Rp. 11.27 trillion. The standard deviation is IDR 1.42 trillion, meaning that this data is scattered around the average or is in an area of ± 3, so it is good to analyze.

The last control variable is GROWTH. The table of descriptive statistical results of the variable growth opportunity for the company which is proxied in sales growth has an average (mean) of 0.118833, which means that the average sample company has a growth of 11.88%. The maximum value of GROWTH was 0.46 by SCCO in 2010, which means that SCCO in 2010 experienced a growth in its business activities of 0.46%. The minimum GROWTH value of -0.22 by the 2013 MRAT means that the MRAT in 2013 has decreased by 0.22%. The standard deviation is 0.11%, meaning that this data is scattered around the average or is within an area of ± 3, so it is good to analyze.

The influence of Good Corporate Governance on Discretionary Accrual

Table 2. Result of Accrual Model

	Unstandardized Coefficients		Standardized Coefficients		
Model	B	Std. Error	Beta	t	Sig.
1(Constant)	-.102	.084		-1.214	.226
INDXCG	.002	.001	.101	1.179	.240
LEV	-.054	.031	-.130	-1.721	.087
SIZE	.008	.005	.141	1.713	.088
GROWTH	.042	.053	.057	.779	.437

a. Dependent Variable: ACCRUAL
Sumber : data diolah 2016

Based on the results of the multiple linear regression analysis that has been done, it shows that good corporate governance has no effect on earnings management in accrual activities as indicated by a regression coefficient of 0.002 and a significance value of 0.24. The results of the research tests carried out are not in accordance with the existing theory, where in accrual activities the results are not significant, namely the application of Good Corporate Governance has no effect on earnings management in accrual activities. Based on the descriptive statistical table, the companies sampled in this study have an average accrual activity earnings management of 0.09, which means that the value is very small when compared to the average real activity earnings management of 0.14. These results indicate that the current tendency of managers to shift from accrual activities to real activities. Thus, the smaller the accrual activity carried out by the manager, the more difficult the accrual activity is to detect, so that Good Corporate Governance has no effect on earnings management in this activity. So it can be concluded that the presence or absence of Good Corporate Governance does not affect managers in practicing accrual earnings management.

Effect of Good Corporate Governance on Real Earnings Management

Table 3. Real Activity Multiple Linear Regression Test

	Unstandardized Coefficients		Standardized Coefficients		
Model	B	Std. Error	Beta	t	Sig.
1 (Constant)	1.369	.322		4.249	.000
INDXCG	-.022	.005	-.313	-4.518	.000
LEV	.819	.119	.419	6.875	.000
SIZE	-.013	.018	-.048	-.714	.476
GROWTH	.913	.203	.265	4.489	.000

Based on the results of the multiple linear regression analysis that has been done, it shows that Good Corporate Governance has a negative effect on earnings management as indicated by a regression coefficient of -0.022 and a significance value of 0.000. In addition, the value of the real itself comes from the sum of each proxies, namely through abnormal cash flow, abnormal discretionary expense, and abnormal production. Judging from the results, the proxies for abnormal cash flow are not significant, and the remaining proxies, namely abnormal discretionary expense, and abnormal production are significant and have a negative effect. Thus these results can further strengthen that Good Corporate Governance can suppress real activity earnings management practices. The negative relationship obtained explains that the better the implementation of Good Corporate Governance in the company, the lower the value of earnings management in real activities.

Effect of Good Corporate Governance on Proxy Earnings Management Abnormal Cash Flow

Table 4. Multiple Linear regression test (ACFO)

Model	Unstandardized Coefficients		Standardized Coefficients	t	Sig.
	B	Std. Error	Beta		
1 (Constant)	.057	.100		.572	.568
INDXCG	-.002	.002	-.079	-1.001	.318
LEV	.210	.037	.398	5.711	.000
SIZE	.000	.006	.003	.035	.972
GROWTH	-.153	.063	-.165	-2.439	.016

a. Dependent Variable: ACFO

Based on the results of the multiple linear regression analysis that has been carried out, it shows that Good Corporate Governance has no effect on earnings management with an abnormal cash flow proxy as indicated by a regression coefficient of -0.002 and a significance value of 0.318. The test results are not in accordance with the existing theory, where the results are not significant or Good Corporate Governance does not affect real activities through abnormal cash flow, which means whether or not Good Corporate Governance managers continue to carry out earnings management through abnormal cash flow.

Effect of Good Corporate Governance on Proxy Profit Management Abnormal Discretionary Expense

Table 5. Multiple Linear Regression Test (ADISEXP)

Model	Unstandardized Coefficients		Standardized Coefficients	t	Sig.
	B	Std. Error	Beta		
1(Constant)	.722	.136		5.294	.000
INDXCG	-.009	.002	-.329	-4.307	.000
LEV	.220	.050	.294	4.370	.000
SIZE	-.007	.008	-.065	-.884	.378
GROWTH	.032	.086	.024	.367	.714

a. Dependent Variable: ADISEXP

Based on the results of the multiple linear regression analysis that has been done, it shows that Good Corporate Governance has a negative effect on earnings management with an abnormal discretionary expense proxy as indicated by a regression coefficient of -0.009 and a significance value of 0.000. This means that the better the implementation of Good Corporate Governance in the company, the lower the earnings management practice through abnormal discretionary expense.

Effect of Good Corporate Governance on Profit Management, Proxy Abnormal Production

Table 6. Multiple Linear Regression Test (APROD)

Model	Unstandardized Coefficients		Standardized Coefficients	t	Sig.
	B	Std. Error	Beta		
1 (Constant)	.591	.187		3.157	.002
INDXCG	-.012	.003	-.274	-4.107	.000
LEV	.389	.069	.330	5.616	.000
SIZE	-.006	.010	-.039	-.611	.542
GROWTH	1.035	.118	.499	8.761	.000

a. Dependent Variable: APROD

Based on the results of the multiple linear regression analysis that has been carried out, it shows that Good Corporate Governance has a negative effect on earnings management with a proxy for abnormal production as indicated by a regression coefficient of -0.012 and a significance value of 0.000. This means that the better the implementation of Good Corporate Governance in the company, the lower the earnings management practice through abnormal production.

4.2 Discussion

1. The effect of Good Corporate Governance on Discretionary Accrual or Accrual Earnings Management

Based on the results of the multiple linear regression analysis that has been done, it shows that good corporate governance has no effect on earnings management in accrual activities as indicated by a regression coefficient of 0.002 and a significance value of 0.24. This study uses the Good Corporate Governance index as the main proxy for measuring the accrual activity earnings management practice in the company. The use of the Good Corporate Governance index is expected to reflect the implementation of Good Corporate Governance more comprehensively. Chtourou et al. (2001) stated that the consistent implementation of Good Corporate Governance can be an obstacle to earnings management activities. Accrual earnings management is one of the earning management activities that is often carried out by managers, because accruals are an easy component to play with because the accrual component does not require physical cash evidence. Thus the researcher wants to see whether Good Corporate Governance can suppress earnings management practices in accrual activities carried out by managers. There is a statement according to Chung and Hsiang (2007) and Lia (2011), namely that the better the implementation of Good Corporate Governance in the company, the smaller the earnings management in accrual activities, so that accrual activities can be suppressed by the implementation of good Good Corporate Governance. by the company. However, the results of the research tests carried out are not in accordance with the existing theory, where in accrual activities the results are not significant, namely the application of Good

Corporate Governance has no effect on earnings management in accrual activities. Based on the descriptive statistical table, the companies sampled in this study have an average accrual activity earnings management of 0.09, which means that the value is very small when compared to the average real activity earnings management of 0.14. These results indicate that the current tendency of managers to shift from accrual activities to real activities. Thus, the smaller the accrual activity carried out by the manager, the more difficult the accrual activity is to detect, so that Good Corporate Governance has no effect on earnings management in this activity. So it can be concluded that the presence or absence of Good Corporate Governance does not affect managers in practicing accrual earnings management.

The influence of Good Corporate Governance on Real Earnings Management

Based on the results of the multiple linear regression analysis that has been done, it shows that Good Corporate Governance has a negative effect on earnings management as indicated by a regression coefficient of -0.022 and a significance value of 0.000. In detecting Real Earnings Management or real earnings management activities, this study uses the Good Corporate Governance index as the main proxy with the hope of reflecting the implementation of Good Corporate Governance more comprehensively. Chtourou et al. (2001) stated that the consistent implementation of Good Corporate Governance can be an obstacle to earnings management activities. Real earnings management is one of the earning management activities carried out by managers by showing a good short-term performance of the company, but has the potential to reduce the company's value in the future. There is an agency conflict between managers and owners, so a Good Corporate Governance mechanism is needed to regulate and control the company by creating added value for all stakeholders (Monks, 2003). Thus, researchers want to see whether Good Corporate Governance can suppress earnings management practices in real activities carried out by managers. There is a statement according to Eva et al. (2015) that the implementation of Good Corporate Governance can suppress earnings management practices in real activities. The results show that it is in line with the existing theory, where the value of the real itself comes from the sum of each of its proxies, namely through abnormal cash flow, abnormal discretionary expense, and abnormal production. Judging from the results, the proxies for abnormal cash flow are not significant, and the remaining proxies, namely abnormal discretionary expense, and abnormal production are significant and have a negative effect. Thus these results can further strengthen that Good Corporate Governance can suppress real activity earnings management practices. The negative relationship obtained explains that the better the implementation of Good Corporate Governance in the company, the lower the value of earnings management in real activities.

Effect of Good Corporate Governance on Profit Management, Proxy Abnormal Cash Flow

Based on the results of the multiple linear regression analysis that has been carried out, it shows that Good Corporate Governance has no effect on earnings management with an abnormal cash flow proxy as indicated by a regression coefficient of -0.002 and a significance value of 0.318. This study uses the Good Corporate Governance Index as the main proxy for measuring earnings management practices in the company. The use of the Good Corporate Governance Index is expected to reflect the implementation of Good Corporate Governance more comprehensively. Real earnings management with abnormal cash flow proxies is one of the fraudulent activities committed by managers. In detecting real activity earnings management, this study refers to research conducted by Roychowdhury (2006), namely through abnormal cash flow proxies, due to evidence of managers managing earnings through abnormal cash flow. By looking at these conditions, a Good Corporate Governance Index is needed to be able to detect real activities through abnormal cash flows. There is a statement according to Eva et al. (2015) that the implementation of Good Corporate Governance can suppress earnings management practices in real activities. However, the results are not in accordance with the existing theory, where the results are not significant or Good Corporate Governance does not affect real activities through abnormal cash flow, which means whether or not Good Corporate Governance managers continue to carry out earnings management through abnormal cash flow.

Effect of Good Corporate Governance on Proxy Profit Management Abnormal Discretionary Expense

Based on the results of the multiple linear regression analysis that has been done, it shows that Good Corporate Governance has a negative effect on earnings management with an abnormal discretionary expense proxy as indicated by a regression coefficient of -0.009 and a significance value of 0.000. This study uses the Good Corporate Governance Index as the main proxy for measuring earnings management practices in the company. The use of the Good Corporate Governance Index is expected to reflect the implementation of Good Corporate Governance more comprehensively. Real earnings management with abnormal discretionary expense as the second proxy after abnormal cash flow performed by managers. In detecting real activity earnings management, this study refers to research conducted by Roychowdhury (2006), namely through the proxy of abnormal discretionary expense, because there is evidence that shows that managers carry out earnings management through abnormal discretionary expense. By looking at these conditions, a Good Corporate Governance Index is needed to be able to detect real activities through abnormal discretionary expenses. There is a statement according to Eva et al. (2015) that the implementation of Good Corporate Governance can suppress earnings management practices in real activities. The results are in line or in accordance with existing theories, where the result is that Good Corporate Governance has a negative effect on real activities through abnormal discretionary expense, which means that the better the implementation of Good Corporate Governance in the company, the lower the practice of earning management through abnormal discretionary expense.

The Effect of Good Corporate Governance on Profit Management for Proxy Abnormal Production

Based on the results of the multiple linear regression analysis that has been carried out, it shows that Good Corporate Governance has a negative effect on earnings management with a proxy for abnormal production as indicated by a regression coefficient of -0.012 and a significance value of 0.000. This study uses the Good Corporate Governance Index as the main proxy for measuring earnings management practices in the company. The use of the Good Corporate Governance Index is expected to reflect the implementation of Good Corporate Governance more comprehensively. Real earnings management with abnormal production proxies, which is the third proxy after abnormal cash flow and abnormal discretionary expenses incurred by managers. In detecting real activity earnings management, this study refers to research conducted by Roychowdhury (2006), one of which is through abnormal production proxies, because there is evidence that shows that managers carry out earnings management through abnormal production. By looking at these conditions, a Good Corporate Governance Index is needed to be able to detect real activities through abnormal production. There is a statement according to Eva et al. (2015) that the implementation of Good Corporate Governance can suppress earnings management practices in real activities. The results are in line or in accordance with existing theories, where the result is that Good Corporate Governance has a negative effect on real activities through abnormal production, which means that the better the implementation of Good Corporate Governance in the company, the lower the earnings management practice through abnormal production.

Conclusions And Suggestions

Based on the results of data analysis and hypothesis testing, it can be concluded that:

1. Good Corporate Governance as measured by the corporate governance index has no effect on discretionary accruals or accrual earnings management. This indicates that the presence or absence of the implementation of Good Corporate Governance in a company does not affect managers in practicing earnings management through accrual activities.
2. Good Corporate Governance using a corporate governance index has a negative effect on real earnings management or real earnings management. This indicates that the better the implementation of Good Corporate Governance in a company, the lower or lower the practice of earning management through real activities is, this is in accordance with the objectives of Good Corporate Governance, namely to suppress and minimize earnings management practices.
3. Good Corporate Governance as measured by the corporate governance index has no effect on abnormal cash flow. This indicates that the presence or absence of the implementation of Good Corporate Governance in a company does not affect managers in practicing abnormal cash flow proxy earnings management. So among real earnings management proxies, managers tend to practice earnings management through this activity compared to the other two proxies.
4. Good Corporate Governance using corporate governance index has a negative effect on abnormal discretionary expense. This indicates that the better the implementation of Good Corporate Governance in a company, the less earnings management practice through abnormal discretionary expense will be.
5. Good Corporate Governance using corporate governance index has a negative effect on abnormal production. This indicates that the better the implementation of Good Corporate Governance in a company, the less earning management practices through abnormal production proxies will be.

Based on the results of descriptive statistical tables, it can explain the relationship between accrual earnings management and real earnings management, where the results show that the current tendency of managers to shift from accrual activities to real activities with the average accrual value is smaller than the real average value. .

Based on the conclusions outlined, there are several suggestions that are expected to be useful, including:

1. In accordance with the results obtained that accrual earnings management cannot be suppressed, so in further research, it is expected to consider using other variables not only the corporate governance index, for example managerial ownership, institutional ownership, foreign ownership, and the audit committee.
2. It is advisable to conduct research on earnings management not only on manufacturing issuers, but also on other issuers, be it the main sector, the banking sector or the service sector.
3. Further research that will examine earnings management again can focus more on real earnings management, because through the results obtained, the measurement is in accordance with the existing theory, where earnings management can be detected and suppressed through Good Corporate Governance.

References

[1] Akers, Michael D., Giacomino, Don, E., Bellovary, Jodi L. (2007). Earnings Management and Its Implications. The CPA Journal Online. http://www.nysscpa.org/cpajournal/2007/807/essentials/p64.htm

[2] Chen, Ken Y., Randal J. Elder dan Yung-Ming Hsieh. 2007. Corporate Governance andEarnings Management: The Implications of Corporate Governance Best-Practice Principles for Taiwanese Listed Companies. http:/www.ssrn.com.

[3] Choy, L. (2003). Impact of Earnings Management Flexibility. University of Rochester. Unpublished Dissertation.

[4] Chtourou, S.M., J. Bedard, and L. Courteau. 2001. Corporate Governance and Earnings Manajement. http:/www.ssrn.com.

[5] Cohen, D., Dey, A., Lys, T. (2008). Real and Accrual Based Earnings Management in the Pre and Post Sarbanes-Oxley Period. The Accounting Review, 83(3), 757-787

[6] Cohen, D., Zarowin, P. (2010). Accrual-based and Real Earnings Management Activities Around Seasoned Equity Offerings. Journal of Accounting and Economics, 50 (1): 2-19

[7] Dechow, P., and Skinner, D.J. (2000). Earnings Management: Reconciling the Views of Accounting Academics, Practitioners, and Regulators. Accounting Horizons, 14, 235-250.

[8] Istianingsih. (2020). Impact of Corporate Governance in Supply Chain Management. International Journal of Supply Chain Management. Vol. 9, No. 3, June 2020.

[9] Istianingsih. (2020). The Effect Of Corporate Social Responsibility And Good Corporate Governance On Pharmaceutical Company Tax Avoidation In Indonesia. Systematic Reviews in Pharmacy. Vol 11, Issue 12.

[10] Jensen, M., Meckling, W (1976). Theory of The Firm: Managerial Behaviour, Agency Cost, and Ownership Structure. Journal f Financial Economics, 3, 305-380

[11] Jones, J. (1991). Earnings Management During Important Relief Investigations. Journal of Accounting Research, 29 (2), 193-228

[12] Jiraporn, P., G.A. Miller, S.S. Yoon dan Y.S. Kim, 2006, Is earnings management opportunistic or beneficial? An agency theory perspective, International Review of Financial Analysis, doi:10.1016/j.irfa.2006.10.005

[13] Lo, Kin. (2008). Earnings Management and Earnings Quality. Journal of Accounting and Economics, 45, 350-357

[14] Organization for Economic Coperation and Development (OECD). 2004. The OECD Principles of Corporate Governance. (Online), (http://www.oecd.org).

[15] Roychowdury, Sugata. (2006). Earnings Management Through Real Activities Manipulation. Journal of Accounting & Economics, 42, 335-370.

[16] Schipper, K., (1989). Commentary on Earnings Management. Accounting Horizons,3, 91-102

[17] Scott, W.R. (2015). Financial Accounting Theory 6th Edition. Toronto: Prentince Hall

[18] Zang, Amy Y. (2011). Evidence on the Trade-Off between Real Activities Manipulation and Accrual-Based Earnings Management. The Accounting Review,87, 675-703.