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CORPORATE GOVERNANCE MANAGEMENT TOWARDS COMPANIES INCLUDING IN LQ45 INDEX

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ABSTRACT : This research investigates the effects of managerial ownership, institutional ownership and independent board of commissioners on earnings management either simultaneously or partially. Population of this research are companies listed on Indonesian Stock Exchange that registered in LQ45 index from 2014-2018. The type of this research is descriptive study and using secondary data from the financial reports. This research uses multiple linear regression technique, using firm size as a control variable. where the results of this research show that simultaneously managerial ownership, institutional ownership, independent board of commissioners, and firm size have significant effect to earnings management. Partially, institutional ownership have no significant effect to earnings management, managerial ownership have no significant effect to earnings management and independent board of commissioners have no significant effect to earnings management.

Keywords: "institutional ownership, managerial ownership, independent board of commissioners, firm size, earnings management".



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INTRODUCTION

The income statement of a company will depict the real condition of the company's finances in the current year. In the income statement should be listed facts that occur in the field, Karna will help the internal and external parties in making decisions. External parties that are investors will be greatly assisted by the information that is clear and factual generated in profit reports, while the internal party that is the management of the company will easily utilize the information contained in the income statement as an accountability to external parties i.e. investors and readers of financial statements.

Investors will always see the information contained in the income statement, one of which is profit, income information is often the target of engineering through the action of the management opportunistic to maximize its satisfaction. These opportunistic actions are done by selecting a specific accounting policy, so that profit can be set, raised or lowered accordingly. Management behaviour to measure profit in accordance with the wishes is known as profit management.

Profit management is an effort from the management of the company to audit or influence the information in the financial statements in order to manipulate the stakeholders who want to know the performance and condition of the company (Sulistiyanto, 2014). This action is very detrimental to many of the parties in a relatively long period of time can interfere and harm the company. The action of profit management or efforts to influence this financial statement is very contrary to the purpose of the financial statement itself where the understanding of financial statements by Financial Accounting Standards (SAK) is "as a media provider of information concerning financial position, performance, and change of financial position of a company that is beneficial to a number of users of financial statements in the decision of economic decisions.

LITERATURE REVIEW

1. *Agency Theory*

Agency theory is a conflict that occurs when the separation between the company or the shareholder as the principal with the manager of the company or the manager as an agent. Conflicts that occur is the difference in interest between the two parties, and according to the view (Jensen & Meckling, 1976) The principal and the agent seeks to maximize prosperity respectively.

2. *Corporate Governance Theory*

Corporate Governance is a method and procedural which is used by BOC and executive to make strategic direction, expectation of achievement of company objectives, monitoring and evaluation of risk management and ensuring the use of resources responsibly, (IFAC 2012). (Sutojo & Siswanto, 2013) explained that

Corporate Governance is the means or mechanism used to convince the capital to obtain a return in accordance with the invested investment.

3. Institutional Ownership Theory

Institutional ownership is the percentage of shares owned by the institution. Institutional ownership is a tool that can be used to reduce conflicts of interest (Pasaribu, 2016), while according to (May Yuniati, 2016) institutional ownership is the level of shareholding by the institution within the company, measured by the institutional-owned stock proportions at the end of the year expressed in percentages.

Institutional ownership is a condition where institutions have shares in a company. These institutions can be government institutions, private institutions, domestic and foreign (Widarjo, 2010). According to (Widiastuti, 2013) Institutional ownership is a shareholding by the agency from external. The institutional ownership structure is the percentage of shares owned by the institutional authorities of the total shares of the company in circulation. Institutional parties include insurance companies, banks, investment firms and ownership by other institutions. In institutional ownership does not expose institutional value to the company's parent.

4. Managerial Theory of Ownership

Managerial ownership is the percentage of votes related to the shares and options owned by the board of directors and managers of the company. (Boediono, 2005). The proportion of shareholding by the company's management will influence the manager's behaviour in the management of the company's financial statements, if the manager participates in shares ownership then the manager will act like a shareholder who will make the level of financial statements become qualified (Mahariana, 2014). According to Jensen and Meckling (Hikmah, 2013) that the profit management emerged because of an agency conflict that is a difference of interest between the owner (principal) and the management of the company (agent).

5. Independent Board of Commissioners

The independent Board of Commissioners is a person appointed to represent independent shareholders (minority shareholders) and designated parties not in the capacity of representing any party and solely appointed based on the background of the knowledge, experience, and the professional connection he has to fully perform the task in the interest of the company (Agoes, 2014). Based on the regulation of the Financial Services Authority No. 55/POJK. 04/2015, independent Commissioner is a board of Commissioners originating from outside the public company and has fulfilled the requirements stipulated in the regulation of the Financial Services Authority No. 33/POJK. 04/2014.

6. Profit Management theory

Profit management is an ability to "manipulate " options available and take the right choice to be able to reach the expected profit level (Stice, 2014). According to (Weston, 2014), "profit management is an intervention in the process of external financial reporting with the intention of obtaining personal gains. From the above, profit management can be concluded management action in the internal financial reporting process for the purpose of the personal benefit of the manager or company by raising, leveling up, or lowering the reported profit from the unit to which it is responsible.

HYPOTHESIS DEVELOPMENT

Institutional ownership is a stock of companies owned by institutions or institutions (insurance companies, banks, investment firms, and other institution ownership), the existence of institutional ownership is allegedly able to provide surveillance mechanisms aimed at aligning various interests in the company (Maharani, 2014). High institutional ownership can minimize profit management practices based on the above explanation, the first hypothesis in this study is:

H1 : *Institutional ownership has a negative and significant influence on profit management*

With managerial ownership will make the management position equal to the owner of the company that can align or unite the interests of management with shareholders so that the management will act just like the investor in general and will not do profit management in order to know the state of the company that about with the existence of managerial ownership in the company will reduce the management action. Research has stated that managerial ownership has a significant negative influence on profit management. Based on the explanation above, the second hypothesis in this study was:

H2: *Managerial ownership has a negative and significant influence on profit management*

Profit management can be minimized with better surveillance mechanisms. The independent Board of Commissioners is believed to provide improvement to corporate supervision. With the inclusion of the Board of Commissioners from external companies will increase the effectiveness of the Board in supervising management to prevent misserving financial statements or fraudulent in presenting financial statements.

H3: *The independent Board of Commissioners has a significant and negative influence on profit management*

RESEARCH METHOD

The research was designed using hypothesis test research, conducted by combining cross sectional and time series studies. The population in this research is the company which is included in the LQ45 index listed on the Indonesia Stock exchange for the year 2014-2018. The sample selection technique is done by purposive sampling method, with the following criteria ;

1. Samples are companies included in the index of LQ45 in the Indonesian stock exchange annually from 2014 to 2018.
2. Samples are companies included in the LQ45 index which publishes the full annual report containing financial statements and audit reports to the public.

Research Object

Based on the sample selection criteria, obtained 33 companies included in the LQ45 index meet the criteria of purposive sampling, thus observing as many as 165 objects for the five-year range of research.

RESULT AND DISCUSSION

1. Normality test

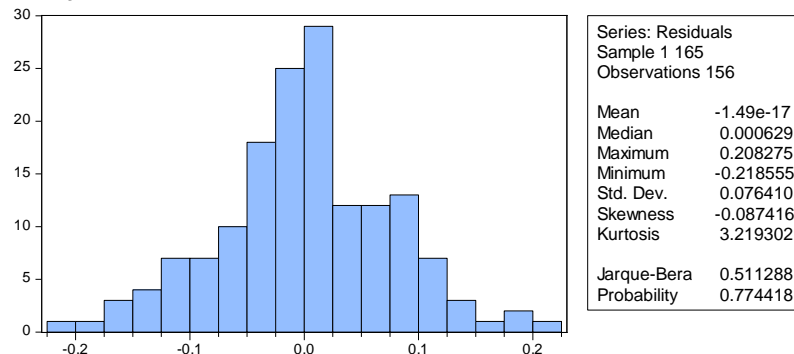


Figure 1: Normality test results

Based on the normal residual normality test obtained a probability value of 0.511 for variable residues. It can be concluded that all research variables are worth more.

2. Multicholinerity Test

Table 1 : Multicholinerity test Results

Variance Inflation Factors
Date: 12/26/19 Time: 16:50
Sample: 1 165
Included observations: 156

Variable	Coefficient Variance	Uncentered VIF	Centered VIF
X1KI	0.000739	7.176034	1.106961
X2KM	0.148016	1.105413	1.061702
X3DKI	0.002702	13.97419	1.195384
X4UK	2.11E-05	173.2490	1.194138
C	0.006374	165.9111	NA

Sumber Olahan Data

From table 2, the VIF value of each independent variable is less than 10. By doing so, each independent variable has not occurred the symptoms of multicollinearity and intervariable Independent has no correlation.

3. Heteroskedastisitas Test

1. Institutional ownership using a proxy comparison between the number of shares owned by the institution to the number of shares circulation

$$KI = \frac{\text{Number of institutional shares}}{\text{Total outstanding shares}} \times 100\%$$

2. Managerial ownership using a proxy comparison of the number of shares owned by the management of the shares in the amount circulating

$$KM = \frac{\text{Number of shares management}}{\text{Total outstanding shares}} \times 100\%$$

3. Board of Commissioners of Independent using comparative proxy
The number of independent commissioners of the company with the

$$DKI = \frac{\text{Independent Board of Commissioners}}{\text{Number of Board of Commissioners}} \times 100\%$$

4. Descriptive statistics

Table 2 descriptive statistical variable of research can be obtained an overview of the characteristics of data from research variables. The Data used has been a normal tridistic and has been through the test stages of classical assumptions including multicollinearity test, heteroskedastisity and autocorrelation.

Table 2 : Descriptive statistical variables research

	KI	KM	DKI	UK	DTA
Mean	0.569	0.003	0.424	17.671	0.049
Median	0.567	0.000	0.400	17.399	0.038
Max	0.999	0.154	0.800	21.843	0.510
Min	0.000	0.000	0.142	14.958	-0.204
Std.dev	0.246	0.016	0.129	1.470	0.105
Obser	165	165	165	165	165
Cross Section	33	33	33	33	33

4. Autocorrelation test

Table 3 : Autocorrelation test Results

R – squared	Adjusted R- squared	DW Stat	dL	dU
0.0731	0.0485	1.7938	1,7085	1.7825

Sumber Olahan Data

From the table 3 It can be known value Durbin-Watson stat table Durbin-Watson All independent variables are located in the positive correlation area i.e. $DU < DW < 4-DU$. So it can be concluded that the entire variable in the research based on the data panel is not occurring autocorrelation.

In accordance with the 1st hypothesis, institutional ownership has no effect on profit management. Based on the results of testing T statistic gained institutional ownership has a value of T count 1.1198 with a probability of significance of 0.2645. It indicates that the value of T-statistic significance is greater than 0.05 ($p > 0.05$). The higher the level of shares ownership of other institutions in the company will make the level of fraud to manipulate the financial statements that are likely to be reduced, but the large shares owned by the managerial parties can not be used as a reference to reduce profit management, because of the large amount of institutional ownership but with the performance of poor institutional shareholders or not to carry out its function as an institutional share owner, the action of profit management or manipulation of financial statements may occur due to less supervision of the management Institutional.

In accordance with the 2nd hypothesis, managerial ownership has no effect on profit management. Based on the results of testing T statistic gained institutional ownership has a value of T-1.2319 with a probability of significance of 0.2199. It indicates that the value of T-statistic significance is greater than 0.05 ($p > 0.05$). With the ownership of the manager will reduce the action of profit management, because managers will tend to be cautious in making financial

statements as reasonably as possible in accordance with accounting standards rules or managers will reduce the action of profit management or manipulation of equity reports for the benefit of investors and also himself.

In accordance with the 3th hypothesis, Independedn Board of Commissioners has no effect on profit management. Based on the results of testing T statistic gained institutional ownership has a value of T count 1.4729 with a probability of significance of 0.1431. It indicates that the value of T-statistic significance is greater than 0.05 ($p > 0.05$).

The small large share ownership owned by the Independent party does not necessarily affect the managerial parties in drafting financial statements and does not necessarily reduce profit management, because of the large ownership of the independent Commissioner does not necessarily produce maximum performance preformance run its duties as a supervisory board and so vice versa the little ownership does not necessarily have poor performance of the Commissioner Independe, so the small ownership is not necessarily a reference of a company doing profit management because it depends on the performance of supervision and function Commissioner whether it is maximal in carrying out its duties or not. Therefore, in this research, the Board of Commissioners has no influence on profit management

CONCLUSION

The variables used to detect profit management on financial reporting in the company were included in the LQ45 index at IDX in 2014-2018. It can be concluded that institutional ownership, managerial ownership, the independent Board of Commissioners and the size of the company as co-shared control variables simultaneously affect profit management and can explain profit management measures of 7.30% while the 92.70% is explained by the factors outside the study.

While the independent variable is institutional ownership, managerial ownership, the independent Board of Commissioners partially does not affect profit management. Only control variables that affect profit.

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