THE EFFECT OF PROFIT MANAGEMENT AND CORPORATE GOVERNANCE MECHANISMS ON FIRM VALUE IN THE CONSUMER GOODS INDUSTRY IN MANUFACTURING COMPANIES LISTED ON THE INDONESIA STOCK EXCHANGE 2014-2018

Henny Rahayu, SE., M.Ak
Sekolah Tinggi Ilmu Ekonomi Indonesia, Jakarta

Dr. Iman S. Suriawinata, SE., MBA., M.Com (Hons), Ak., CA
Sekolah Tinggi Ilmu Ekonomi Indonesia, Jakarta

Dr. Rimi Gusliana Mais, SE., M.Si., CSRS., CSRA
Sekolah Tinggi Ilmu Ekonomi Indonesia, Jakarta

Abstract

This research aims to determine the influence of profit management and the mechanism of corporate governance to the value of the company in the consumer goods industry in the manufacturing company listed on the Stock exchange. This research uses the sample of manufacturing Company of consumer goods industry as many as 15 companies listed on the Indonesia Stock exchange with a period of five years that is 2014-20178 and the number of observations 75. This research uses secondary data with data collection techniques using documentation methods from the official website of Indonesia Stock Exchange and authorized and analyzed using Software Eviews version 10.

Based on the results of studies that have been done to analyse profit management has no significant influence on the company's value. The mechanism of corporate governance shows in the proxy independent Commissioner has positive effect on the company's value. And the results showed negative results to the mechanism of corporate governance moderate profit management to the value of the company. But identifying increased corporate governance in order to have Independent commissioner's presence in the board of directors reveals more about the opportunistic side of the company's profit management.

Keywords: Earning Management , Corporate Governance and Firm Value

I. INTRODUCTION

Manufacturing companies are companies engaged in processing raw materials into semi-finished goods or into finished goods that can be processed or used directly by consumers. Manufacturing companies listed on the Indonesia Stock Exchange (IDX) are divided into three types, namely the basic and chemical industrial sector, various industrial sectors, and the consumer goods industry sector (Siti, 2018). In this study, the authors chose the consumer goods industry sector because manufacturing companies in the consumer goods industrial sector produce the most basic necessities needed by society along with the increasing population growth in Indonesia. The sub-sector of manufacturing companies in the consumer goods industry sector is the industrial sector engaged in the food and beverage sector, cigarettes, pharmaceuticals, cosmetics and household goods, as well as household appliances. Companies engaged in the consumer goods industry sector have high operating activities, so that the company must be able to manage each of its activities properly in order to gain profits and be able to maximize profitability and be able to control the turnover of working capital.

The purpose of establishing a company is the first to achieve maximum profit or maximum profit. The second is to prosper the company owner or share owners, and the third is to maximize the company value which is reflected in the market price (Ajeng: 2017). Firm value is the investor's perception of the company's success rate which is often associated with the stock price. A high stock price makes the company value high, and increases market confidence not only in the company's current performance, but also in the company's future prospects. Increasing the value of the company is an achievement in accordance with the wishes of the owners because the welfare of the owners will also increase Maximizing the value of the company is very important for a company, this means maximizing the main objectives of the company. Company value is considered important because it reflects the company's performance which can affect investors' perceptions of the company. Firm value is measured by the Tobins' Q ratio, which is the ratio between the market value of physical assets and their replacement value (Utsman et.al, 2016).

Investors in the capital market will choose to invest in the capital market by looking at stocks that have high prospects. The prospects seen by these investors include looking at the company's ability to achieve the level of profitability or the company's ability to earn profits targeted by management. In addition, what investors see is the ability to finance debt and also interest (Brigham and Houston, 2010: 33). Anaja and Onoja (2015), investors also tend to be interested in seeing the profitability of a company listed in the financial statements. Through financial reports, investors can find out the financial performance of a company, including creating profits. The risk description and expected return of a stock can be assessed based on both qualitative and quantitative information. In addition, various accurate considerations and analyzes need to be carried out by investors before buying, selling, or holding stocks to achieve the expected optimal level of return (Pierto & Wagenhofer, 2014).

Jensen and Meckling (1976: 5) see the contract between shareholders and managers as an agency relationship, where shareholders are the principals who authorize managers as agents to manage the company on behalf of shareholders. Because profit is one of the important indicators that investors must pay attention to, there is a company encouragement to carry out earnings management. Earning management actions have led to several cases, including the Garuda Indonesia Group which posted a net profit of USD 809.85 thousand or the equivalent of IDR 11.33 billion (assuming an exchange rate of IDR 14,000 per US dollar) for the 2018 financial year. This figure jumped sharply compared to 2017 which suffered a loss of USD 216.5 million.

OJK, as the reference authority and must be respected, has decided that the transaction between Garuda and Mahata is a lease agreement. This is totally different from the opinion of Garuda Management and Garuda Commissioners that the income is royalty income which is subject to PSAK 23. On October 31, 2018 Garuda Management and PT Mahata Aero Teknologi (Mahata) entered into an amended cooperation agreement, most recently with amendment II. December 26, 2018, regarding the provision of in-flight connectivity services and in-flight entertainment and content management. In this case, according to the Commissioner, the income is not yet recognized. The Financial Accounting Standards also require companies to recognize their income on an accrual basis, that is, income can be recognized even though the cash flow has not been received partly / completely by the company. This basis is different from the cash basis which recognizes the company's income only when cash flows have been received by the company. From this perspective, what management does gets theoretical-legal legitimacy (projustisianews.id, 2019).

The first factor that can affect firm value is earnings management. The income incresing pattern can have a positive effect on company value, but on the other hand, the income decreasing pattern has a negative effect (I Putu, et.al: 2017). The second factor affecting firm value is through good corporate governance or corporate governance. The Forum for Corporate Governance in Indonesia (FCGI, 2001) has formulated the objectives of Corporate Governance which are to create added value for all interested parties. Independent Commissioners have a positive effect on firm value in banking companies in 2011-2014 (Andi, et al.: 2016), while research conducted by Zanera et al.: 2013 shows that independent commissioners have no effect on firm value.

II. LITERATURE REVIEW

2.1 Research Review

The research conducted by Amarjit, et.al (2018) aims to examine whether earnings management practices that affect and possibly benefit the management of Indian companies have an impact on company performance and whether earnings management affects other stakeholders. This study applies a co-relational research design. A sample of 250 firms was selected from the Top 500 Companies listed on the Bombay Stock Exchange (BSE) for a period of 4 years (from 2009-2012). The findings of this study indicate that the more intense earnings management practices are, the greater the adverse effect on the return on company assets in the following year. This study also finds that to some extent, the market realizes that management is acting with selfish motives and responds by lowering the company's stock price and market value. This study contributes to the literature on the relationship between several features of earnings management and firm performance, and firm value. This research is limited to Indian companies where the company performs intense earnings management. The findings may be of use to financial managers, investors, financial management consultants, and other stakeholders.

Dechow, et.al (1995) entitled "Detecting Earning Management" evaluates various alternative models to detect accrual based earnings management. Comparisons were made to five models, namely, (1). The Healy Model (1985) considers non-discretionary accruals (NDA) to be unobservable. (2). De Angelo Model (1986) This model uses total accruals for the last period (divided by total assets for the previous period) to measure non-discretionary accruals. (3). Jones Model (1991) proposes a model that rejects the assumption that non-discretionary accruals are constant. This model tries to control the effect of changes in the company's economic condition on non-discretionary accruals. (4). Modified Jones Model, this model is made to eliminate the conjunctor tendency contained in The Jones Model. And (5). Industry Model, Industry Adjusted Model (Dechow and Sloan, 1991) Tests are carried out to determine the ability of the model by applying statistical testing.

Dewi, et.al (2012) research results that there is a conflict between management and owner, which is called an agency problem. Which arises because of the separation of ownership and management of a company. Management must increase company value. On the other hand, management wants to achieve their own goals disregarding the interests of the owner. Accounting information that is supposed to be management's report for owners is often used to take management opportunities, maximizing their own actions by making earnings management. Therefore, it is necessary to study whether management's income is carried out by management to affect firm value. Earnings management here can be done in two ways, through real activities manipulation and accrual manipulation (Roychowdhury, 2006). The Investment Opportunity Set (IOS) is an opportunity to grow a firm's investment decisions in the form of a combination of assets held and future growth options (Myers, 1977).

According to Kallapur and Trombley (1999), companies with high IOS have a greater opportunity to grow in the future compared to companies with low IOS which causes companies with high growth opportunities to have high information asymmetry between managers and owners and there is a high tendency for managers. to manipulate profits. This study aims to examine the effect of earnings management, both through real-manipulation of activities and manipulation of accrual activities, with firm value with IOS as a moderating variable in the Indonesia Stock Exchange. The sampling method was purposive sampling, with the criteria being that companies listed in Malaysia and the Indonesian Stock Exchange were exchanged and had complete 2008 research variable data. This study analyzed with moderator regression analysis (MRA) and found that there was an effect of earnings management, both through real manipulation activities and accrual activity manipulation, with firm value with IOS as the moderator variable on the Malaysia and Indonesia Stock Exchanges.

Research conducted by Bhundia (2012) discusses and compares free cash flow in companies listed on the Indian Stock Exchange with an emphasis on earnings management. The main objective of this study is to investigate the difference between free cash flow on the Indian Stock Exchange with an emphasis on earnings management. Free cash flow data and statistics and earnings management variables are measured by Len and Poulsen (1989) and the Jones Model. The results of this study indicate that there is a significant positive relationship between earnings management and free cash flow and confirm that companies that have better free cash flow will encourage management to carry out earnings management.

Research conducted by Ruiz (2016), the purpose of this study is to review the literature on earnings management and the implications of the latter for stakeholders and companies. Using the Web of Science database, researchers investigated the most cited papers on this topic. A classification of causes that drives managers to manipulate earnings is presented. We also explored papers showing the trade-offs faced by managers among two techniques typically recognized in the earnings management literature, real activities, accrual manipulation, and when they are used. One of the main implications of management's revenue is a decrease in the quality of information in the financial statements, which can mislead stakeholder decisions.

Vakilifard and Mortazaki's research (2016) in an article that examines the relationship between leverage and accrual-based earnings management. Real earnings management are management actions that deviate from normal business practices which are carried out with the main objective of achieving profit targets, while accrual earnings management is aimed at the existence of Discretionary Accruals. This research assumes that indebted companies will manage their income through real activities manipulation. Therefore, this study aims to examine whether Leverage encourages a shift from accrual-based earnings management to real activity-based earnings management. The sample of this research is 188 companies listed on the Tehran Stock Exchange during the period 2008-2013. Data were analyzed using regression analysis with penel data. The results show that managers tend to be more involved in real earnings management than accrual-based earnings management when company leverage increases.

Sucuahi, et.al (2016) The main objective of each company is to maximize the company's assets or value. Maximizing the value of the company is very important for the company because it means increasing shareholder wealth as well. This study aims to determine whether there is a significant influence between company profiles such as industry, company age and profitability with firm value using Tobin's Q model. Proponents selected 86 diversified companies in the Philippines by compiling and analyzing 2014 annual financial reports on the Philippine Stock Exchange (PSE) for research purposes and also using a predictive correlational design. Frequency, Mean and Multiple Regression were used to determine the significant influence between the independent and dependent variables. Multiple regression reveals that of the three factors that are considered to influence firm value using Tobin's Q, only profitability shows a significant positive impact on firm value.

2.2 Earning Management

Earnings management can be defined as an action taken through the selection of accounting policies to obtain certain objectives, for example to increase company value or for the personal benefit of company management (Scott, 2015: 383). Meanwhile, according to Wirakusuma (2016) Earnings management is a deliberate process, with financial accounting standards constraints to direct earnings reporting at a certain level. According to Schipper in Riske and Basuki (2013) earnings management is a condition in which management intervenes in the process of preparing financial reports for external parties so that it can increase, level and decrease earnings. Earnings management is one of the factors that can reduce the credibility of financial reports, increase bias in financial reports and can interfere with financial statement users who believe that the engineered figures are real or unengaged.

Lisa (2012) Earnings management practice has two main characteristics, namely informative and opportunistic. Opportunistic earnings management practices are closely related to agency problems in the company. Agency problems that occur within the company will encourage managers as agents to practice earnings management to fulfill their personal interests which are usually contrary to the interests of the principal.

2.3 Corporate Governance

2.3.1 Definition of Corporate Governance

Agoes (2013: 101) "corporate governance is a system of good governance as a system that regulates the relationship between the roles of the board of commissioners, the role of directors, shareholders and other stakeholders." The implementation of corporate governance is carried out by all parties in the company, with the main actors being top management of the company is authorized to establish company policies and implement those policies. Corporate Governance according to the Study (2011: 1) is "A process and structure used by company organs (Shareholders / Capital Owners, Commissioners / Supervisory boards and Directors) to increase business success and corporate accountability in order to realize long-term shareholder value with keep paying attention to the interests of other stakeholders, based on laws and regulations and ethical values ".

2.3.2 Aspects of Corporate Governance

The structure of GCG (good corporate governance) in a company may determine the success or failure of a company. In a company, the board plays a very significant role, even a major role in determining the company's strategy. Indonesia is a country that uses a two tier system, where the board consists of a board of commissioners and a board of directors. The board of commissioners is the party that carries out the monitoring function of management performance, while the board of directors is the party that performs the daily operational functions of the company (Wardhani, 2017).

Wardhani (2017) The structure of GCG (good corporate governance) in a company will greatly determine the value of the company and the health level of the company. Important aspects of corporate governance that companies need to understand in order to compete in the business world are: (1). There is a balance between the parts of the company, namely, the General Meeting of Shareholders (GMS), Commissioners and Directors. (2). Fulfillment of corporate responsibility as a business entity in society to all stakeholders. (3). There are shareholder rights to obtain correct and correct information at the required time regarding the company. (4). There is the same treatment for shareholders, especially minority shareholders and foreign shareholders through disclosure of material and relevant information.Aspek Corporate Governance

2.3.3 Principles of Corporate Governance

The principles of Corporate Governance which become indicators, as explained by the Organization for Economic Cooperation and Development (OECD), is :

1. Transparency (Transparency). Transparency, namely the openness of all policies and actions taken in a timely, clear and comparable information manner with circumstances concerning finance, management and company ownership. To maintain rationality (belief) in running a business, companies are required to provide information that is relevant and understandable to interested users.
2. Accountability (Accountability). Accountability is the clarity of functions, structures, systems and responsibilities of company elements, in which case it is necessary to create effective supervision based on the distribution of power between commissioners, directors, and shareholders. If this principle is applied properly, there will be clarity of functions, rights, obligations and

authorities as well as responsibilities between shareholders, the board of commissioners and the board of directors.

3. Responsibility. The form of corporate responsibility is company compliance with applicable regulations, including: tax matters, industrial relations, environmental protection, maintaining a conducive business environment with the community and so on. By applying this principle, it is hoped that the company will make the company aware that in its operational activities, the company also has a role to be responsible to shareholders as well as to other stakeholders.

4. Independent (Independence). In essence, this principle requires that the company be managed professionally without any conflict of interest and without pressure or intervention from any party that is not in accordance with applicable regulations.

5. Justice (Fairness). The principle of fairness (fairness) is the principle of fair treatment for all shareholders. Justice here is defined as the equal treatment of shareholders, especially minority shareholders and foreign shareholders, from fraud, and insider misconduct. In carrying out its activities, the company must always pay attention to the interests of shareholders and other interests based on the principles of fairness and equality.

2.3.4 Organs and Structure of Corporate Governance

Nurazizah (2016) In the organs and structure of corporate governance consists of: (1). General Meeting of Shareholders (GMS), (2). Board of Commissioners, and (3). Directors. Each of these components has an important role in the effective implementation of corporate governance. In supporting the effectiveness of the implementation of its duties and responsibilities, the Board of Commissioners is obliged to establish an Audit Committee, a Risk Monitoring Committee and a Remuneration and Nomination Committee. Where the appointment of committee members can be made by the board of directors based on the decision of the board of commissioners meeting. The board of commissioners must ensure that the committees that have been formed carry out their duties effectively. In this study, researchers used the Independent Board of Commissioners as an indicator of corporate governance (Nurazizah, 2016).

2.3.5 Independent Board of Commissioners

According to the Limited Liability Company Law Number 40 of 2007 paragraph 6, the board of commissioners is as follows: "The board of commissioners is a corporate organ that is tasked with conducting general and / or specific supervision in accordance with the articles of association and providing advice to the board of directors". Meanwhile, according to the KNKG (2006) defining the board of commissioners is as follows: "The board of commissioners is part of a company organ that has the duty and responsibility of collectively to supervise and provide advice to the board of directors and ensure that the company implements GCG. However, the board of commissioners may not participate. as well as in making operational decisions ". Some of the criteria for independent commissioners are as follows:

1. Independent commissioner has no affiliation with the majority shareholder or controlling shareholder of the company;

2. Independent commissioners have no relationship with other directors and / or commissioners;
3. Independent commissioners do not have concurrent positions at other affiliated companies;
4. Independent commissioners must understand the laws and regulations in the capital market;
5. Independent commissioners are proposed and elected by minority shareholders who are not the controlling shareholder in the GMS.

2.4 Firm Value

Maximizing company value is one of the most relevant goals in this era of intense competition, especially for companies that have gone public. The goal of companies that go public where their shares are traded on the stock market is to maximize the value of shares because the value of existing shares is a reflection of the wealth of its shareholders or investors. Thus, companies whose ownership is owned by the public, company value is associated with the value of shares circulating in the market (Suripto, 2015: 01).

Rinnaya, et.al (2016) Company value is a certain condition that has been achieved by a company as an illustration of public trust in the company after going through an activity process for several years, namely from the time the company was founded until now. Firm value is very important because high company value will be followed by high shareholder wealth (Bringham Gapensi, 1996). Wealth of shareholders and the company is represented by the market price of the shares, which is a reflection of investment, financing and asset management decisions.

Firm value is more proxied by Tobin's Q, where this ratio is a valuable concept because it represents the state of the financial market estimates about the return on incremental investment. If the q-ratio is above one, this indicates that the investment in the asset generates a return which gives a higher value than investment expenditure, this will stimulate new investment. If the q-ratio is below one, investment in assets is not attractive. So the q-ratio is a more accurate measure of how effectively management uses economic resources in its power. With the following formula:

$$\boldsymbol{tobin's\ q = \frac{(MVE+DEBT)}{TA}} \qquad (2.10)$$

Information :

Q : Company Value
MVE : Market Value Of Equity
DEBT : Book Value of total debt
TA: : Book Value of Equity

III. RESEARCH METHODS

The research strategy used in this research is to use a quantitative analysis approach, namely research where the data is obtained and analyzed in the form of numbers, starting from data collection, interpretation of the data and the appearance of the results. This research was conducted hoping to describe and be able to answer problems or research questions. Sujarweni (2014) quantitative research is a type of research that produces findings that can be achieved using statistical procedures or other methods of quantitative (measurement).

The population used in this research is manufacturing companies in the consumer goods sub-sector, totaling 53 companies listed on the Indonesia Stock Exchange for the period 2014, 2015, 2016, 2017 and 2018. The reason for using this sector is because manufacturing companies in the consumer goods industry produce the most basic needs. needed by society along with the increasing population growth in Indonesia. Sampling in this study was carried out using purposive sampling method. The criteria for researchers in taking samples in this study are as follows: (1). Have complete audited financial reports for the period 2014 - 2018. (2). Did not experience negative profit during the 2014 - 2018 period, because the company experienced losses that exceeded the accumulated retained earnings from previous years.

The research object consists of independent variables, namely earnings management as proxied by discretionary accruals (DA), corporate governance which is proxied by the proportion of independent board of commissioners, as well as the dependent variable on firm value as proxied by Tobin's Q. The subject of this research is the Consumer Goods Industry Company which listed on the IDX in 2014-2018 so that it meets the sampling criteria.

The data analysis technique used in this research is quantitative analysis with statistical calculation techniques. The data analysis technique includes model selection test, classic assumption test which includes normality test, heteroscedasticity, autocorrelation, and multicollinearity which aims to check the accuracy of the model so that it is unbiased and efficient, descriptive statistical test, panel data regression analysis, hypothesis testing and R2 or explanatory test. power. In this study, a statistical data processing tool called Eviews Software Version 10 will be used.

IV. RESEARCH RESULTS AND DISCUSSION

The data used in this study are sourced from the financial statements of companies that have gone public and have been audited during the 2014 - 2018 period. Based on the sample determination criteria, a total sample of 15 companies was selected with a population of 75 companies. The following are the names of the companies selected to be the object of research.

Tabel 4.1 Sample Company Name

No.	NAMA PERUSAHAAN	Kode
1	AKASHA WIRA INTERNATIONAL TBK. PT	ADES
2	CAHAYA KALBAR. PT	CEKA
3	INDOFOOD ICBP SUKSES MAKMUR TBK. PT	ICBP
4	INDOFOOD SUKSES MAKMUR TBK. PT	INDF
5	MULTI BINTANG INDONESIA TBK. PT	MLBI
6	NIPPON INDOSARI CORPORINDO TBK. PT	ROTI
7	SEKAR BUMI TBK. PT	SKBM
8	SIANTAR TOP TBK. PT	STTP

9	ULTRA JAYA MILK INDUSTRY AND TRADING COMPANY TBK. PT	ULTJ
10	GUDANG GARAM TBK. PT	GGRM
11	HANJAYA MANDALA SAMPOERNA TBK. PT	HMSP
12	WISMILAK INTI MAKMUR. TBK	WIIM
13	DARYA VARIA LABORATORIA TBK. PT	DVLA
14	KIMIA FARMA TBK. PT	KAEF
15	PYRIDAM FARMA TBK. PT	PYFA

Source: *Indonesian Capital Market*, www.idx.co.id

4.1 Descriptive statistics

In this study, descriptive analysis was used to describe all the research variables of the sample companies during the study period. The results of descriptive statistics are presented in the table below:

Tabel 2. Descriptive Statistics Results

	TOBINSQ	EM	CG	ROA	DER	TATO	SIZE
Mean	2.893535	0.000690	0.383413	0.113843	0.404616	1.340406	15.17535
Median	1.729937	-0.00188	0.333333	0.084256	0.389814	1.205227	14.66670
Maximum	12.75315	0.337915	0.500000	0.526704	0.751778	3.104759	18.38545
Minimum	0.235815	-0.15801	0.142857	0.009007	0.140557	0.546345	11.98020
Std. Dev.	3.331076	0.070143	0.098547	0.104157	0.137975	0.585286	1.761576

Source : Attachment Eviews 10, secondary data processed (2020)

4.2 Classic Assumption Test

1. Multicollinearity Test

The multicollinearity test aims to test whether the regression model finds a high or perfect correlation between the independent variables. A good regression model should not have a correlation between the independent variables. The multicollinearity test between variables can be identified by using the correlation value between independent variables. The model is declared free of multicollinearity if the VIF value is <10. The following are the multicollinearity test results in the table below.

Tabel 3. Multicollinearity Test Results

Date: 03/12/20 Time: 05:18
Sample: 1 75
Included observations: 75

Variable	Coefficient Variance	Uncentered VIF	Centered VIF
C	2.873145	111.8477	NA
EM	105.3824	19.91687	1.991491
CG	3.208976	19.56108	1.197007
ROA	3.106670	2.861923	1.294540
DER	1.630187	11.58148	1.192010
TATO	0.090268	7.501290	1.187708
SIZE	0.009626	87.44037	1.147286

Source : Attachment Eviews 10, secondary data processed (2020)

Based on the table above, it shows that the centered VIF value is below 10, thus, multicollinearity does not occur between the independent variables.

2. Heteroscedasticity Test

In this study, the Heteroscedasticity Test was performed using the Cross-section Heteroscedasticity LR test. In the test, the Cross-section Heteroscedasticity LR test if the prob chi-square value is> than 0.05 then there is no heteroscedasticity problem. The following are the results of the heteroscedasticity test in the table below:

Tabel 4. Hasil Uji Heteroskedastisitas Cross-section

Panel Cross-section Heteroskedasticity LR Test
Null hypothesis: Residuals are homoskedastic
Equation: Q_ORI
Specification: TOBINSQ C EM CG EM_CG ROA DER TATO SIZE

	Value	df	Probability
Likelihood ratio	175.4000	15	0.0000

Sumber :Lampiran Eviews 10, data sekunder diolah (2020)

Dapat dilihat dari hasil output di atas bahwa nilai probability 0.000 < 0,05, yang berarti bahwa data dianalisis dalam penelitian ini berdasarkan Cross-section Heteroskedasticity LR test terdapat masalah heteroskedastisitas. Maka pengujian dilanjutkan dengan Panel Period Heteroskedasticity LR Test dengan hasil sebagai berikut:

Tabel 5. Hasil Uji Heteroskedastisitas Period

Panel Period Heteroskedasticity LR Test
Null hypothesis: Residuals are homoskedastic
Equation: Q_ORI
Specification: TOBINSQ C EM CG EM_CG ROA DER TATO SIZE

	Value	df	Probability
Likelihood ratio	68.72024	15	1.0000

Source : Attachment Eviews 10, secondary data processed (2020)

It can be seen from the results of the output above that the probability value is 1,000 <0.05, which means that the data analyzed in this study is based on the Panel Period Heteroscedasticity LR test, there is no heteroscedasticity problem.

3. Correlation Test

A. Autocorrelation test

The autocorrelation test aims to test whether in the linear regression model there is a correlation between confounding errors in a certain period and errors in the previous period. If there is a correlation, it is called an autocorrelation problem. Regression models are performed using the test. Durbin Watson. The following is the autocorrelation test in the table below:

Tabel 6. Durbin Watson Test Results

du	1.7698
DW	0.4412
4-du	2.2302

Source : Attachment Eviews 10, secondary data processed (2020)

Based on the table above, it can be seen that the Durbin-Watson (DW) value of the regression model is 0.4412 smaller than the value of du = 1.7698 and DW is smaller than the value (4-du) = 2.2302, so it can be concluded that there is a positive autocorrelation problem in the model.

B. Cross Correlation Test

The cross correlation test aims to test whether in the linear regression model there is a correlation between one company and another. If there is a correlation, it is called a cross correlation problem. Here is the cross correlation test on the table below:

Tabel 7. Cross Correlation Test Results

Residual Cross-Section Dependence Test
Null hypothesis: No cross-section dependence (correlation) in residuals
Equation: Q_ORI
Periods included: 5
Cross-sections included: 15
Total panel observations: 75
Note: non-zero cross-section means detected in data
Cross-section means were removed during computation of correlations

Test	Statistic	d.f.	Prob.
Breusch-Pagan LM	166.9254	105	0.0001
Pesaran scaled LM	4.273255		0.0000
Pesaran CD	2.729830		0.0630

Source : Attachment Eviews 10, secondary data processed (2020)

Based on the table above, it is known that the correlation test results with the residual cross-section dependence test did not occur cross-correlation problems because the probability value of CD magnification was > 0.05.

4.3 Selection of Panel Data Analysis Method

Selection of the estimation method used in this study is to use the Hausman test. The Hausman test is conducted to select a more precise estimation method between Fixed Effect compared to Random Effect. If the Hausman test shows the output prob. value> 0.05, then the method chosen is the Random Effect. However, if the Hausman test results show a prob value. <0.05, the more appropriate method is Fixed Effect.

Tabel 8. Hausman Test Resault

Correlated Random Effects - Hausman Test
Equation: Untitled
Test cross-section random effects

Test Summary	Chi-Sq. Statistic	Chi-Sq. d.f.	Prob.
Cross-section random	21.827027	6	0.0013

Source : Attachment Eviews 10, secondary data processed (2020)

From the results of the Hausman Test above the prob value. the value of is equal to 0.0013 which means less than 0.05. So from this Hausman Test, the more appropriate method is the fixed effect.

4.4 Significance Test

After performing the classical assumption test, it can be concluded that the data in this study occurs multicollinearity in the regression model, while the autocorrelation test occurs with autocorrelation problems and the heteroscedasticity test occurs with heteroscedasticity problems. Then for the estimation model selection test using the fem model based on period, the fem period model in order to produce the best estimate, from the fem period model it is done using Cross-Section none, period fixed, GLS based on period and using robust standard errors with the White Cross-Section method.

Tabel 9. FEM-Period Test Resault

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	-1.746026	0.542931	-3.215929	0.0021
EM	3.290267	2.882822	1.141336	0.2581
CG	0.465985	0.214048	2.177010	0.0332
EM*CG	-8.882227	8.182695	-1.085489	0.2818
ROA	7.305196	0.626671	11.65715	0.0000
DER	-0.302681	0.171743	-1.762411	0.0829
TATO	-0.205444	0.046133	-4.453350	0.0000
SIZE	0.111742	0.034804	3.210585	0.0021

R-squared	0.712802	F-statistic	14.21465
Adjusted R-squared	0.662657	Prob(F-statistic)	0.000000
		Durbin-Watson stat	0.441277

Source : Attachment Eviews 10, secondary data processed (2020)

Based on the results of the panel data regression output, the R2 value is 0.712802. This means that the ability of the EM (X1) and CG (X2) variables in explaining the variation of the TOBIN'S Q (Y) variable is 71.28%, while the remaining 28.72% is explained by other independent variables that are not included in the research model this.

4.5 Panel Data Regression Analysis

The panel data regression equation in which the EM (X1) and CG (X2) variables are independent variables that affect the TOBIN ”S Q (Y) variable as the dependent variable are as follows:

$$TOBIN'S\ Q_{it} = -1.7460 + 3.2902EM_{it} + 0.4659CG_{it} + \varepsilon_{it}$$

With the explanation that:

a. A constant value of -1.7460 indicates that the EM and CG variables if the value is 0 then the TOBIN'S Q has a value of -1.7460.
b. The regression of EM (X1) is 3,2902 with a positive value, so this means that each one unit increase in EM will add to the TOBIN'S Q value of 3,2902 units assuming the other variables are constant.
c. The regression of CG (X2) is 0.4659 with a positive value, so this means that each increase in CG by one unit will increase the TOBIN'S Q value of 0.4659 units assuming the other variables are constant.

4.6 T test (Test of Individual Significance)

Based on the table above, the t test can be explained with the results as follows:

H_1: EM Affects TOBIN's Q

The significant value of the effect of EM on TOBIN'S Q is 0.2581 with a positive regression of 3.2902. Because the significant value of the effect of the ME variable on TOBIN'S Q> 0.05, the hypothesis is rejected. The results of this study indicate that earnings management (EM) has no effect on firm value (TOBIN'S Q). This finding is not in accordance with the view that earnings management is informative so that it can affect firm value. This study is not in line with the research of Indriani et.al (2014) which states that earnings management has a significant effect on firm value.

H_2: CG Affects TOBIN's Q

The significant value of the influence of CG on TOBIN'S Q is 0.0332 with a positive regression of 0.4659. Because the significant value of the influence of the CG variable on TOBIN'S Q <0.05, the hypothesis is accepted. The results of this study indicate that CG has a significant positive effect on TOBIN's Q. This positive influence is from the strong control mechanism of the independent commissioners on management. This is in accordance with the research of Alfinur (2016) and Amyulianthy (2012). The effective contribution made by the board of commissioners provides a higher quality financial report preparation process. This has a direct effect on firm value.

V. CONCLUSIONS AND SUGGESTIONS

5.1 Conclusion

Based on the results of research conducted to analyze the effect of earnings management and corporate governance mechanisms on firm value in the consumer goods industry in manufacturing companies listed on the IDX for the 2014-2018 period, it can be concluded as follows:

1. The results of this study indicate that earnings management does not have a significant effect on firm value. This study does not find evidence that earnings management is carried out to increase firm value. Referring to the agency theory that managers (agents) as company managers know more about company information than owners (shareholders), which causes information asymmetry (information asymmetry). The manager is obliged to give a signal regarding the

condition of the company to the owner. The signal given is a reflection of company value through disclosure of accounting information such as financial reports.

2. The results of this study indicate that the corporate governance mechanism in the independent commissioner proxy has a positive effect on firm value. This positive influence is caused by a strong control mechanism from the independent commissioner to management, where this control mechanism is a vital role for the creation of GCG.

5.2 Suggestions

Based on the results of research and statistical data processing, there are operational suggestions and scientific development, including:

1. For Issuers. It is recommended that the company determine the earnings management accrual or real, so that the effect can be seen more deeply.

2. For Investors. Company value can describe the performance of a company. Therefore, investors who invest in publicly traded companies should pay attention to the profitability variable as a consideration in making appropriate and profitable investment decisions later.

3. Science Development. For further research, you should use a sample of companies with profit and loss so that the results of the study can be generalized, add the research period and use the most recent annual reports to describe the latest conditions, and use other analysis tools by adding several other variables.

4. To examine the effect of earnings management on risk, other sectors of companies listed on the Indonesian stock exchange can then use to provide comprehensive research information.

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