ATLANTIS PRESS

Advances in Economics, Business and Management Research, volume 127

Annual International Conference on Accounting Research (AICAR 2019)

The Influence of Profit Management, Corporate Governance, and Size of Companies Toward Company Values with Corporate Governance as Moderation in Manufacturing Companies in the Basic and Chemical Industry Listed on Indonesia Stock Exchange 2013-2017

Ari Sarah Sofura*, Irvan Noormansyah
Department of Accounting
Sekolah Tinggi Ilmu Ekonomi Indonesia
Jakarta, Indonesia
*sarahsofura@gmail.com

Iman Sofian Suriawinata
Department of Management
Sekolah Tinggi Ilmu Ekonomi Indonesia
Jakarta, Indonesia
iman.suriawinata@stei.ac.id

***Abstract*—This study aims to determine the effect of earnings management, corporate governance, and company size partially on firm value with corporate governance as moderating. This study uses a sample of manufacturing companies in the basic industry and chemical sectors as many as 27 companies listed on the Indonesia Stock Exchange in 2013-2017 and a total sample of 135 companies. This study uses panel data, calculated from data on the Indonesia Stock Exchange and stocks-ok and analyzed Eviews software version 10. The results of this study partially are earnings management has an influence on firm value, corporate governance has an influence on firm value, firm size has an influence on corporate value and corporate governance has a negative effect as a moderator between earnings management and company size on firm value.**

Keywords: Tobin's Q, discretionary accrual, corporate governance, size

I. INTRODUCTION

The development of financial accounting research and earnings management behaviour is no longer only in the context of information (information perspective) but also in an opportunistic perspective (opportunistic perspective) [1]. The information perspective is a view that states that earnings management is a managerial policy to express the manager's personal expectations about the company's future cash flow. While the opportunist perspective has a causal relationship, where earnings management is defined as an opportunist's effort to influence the information presented by utilizing the ignorance of others about the actual information [1]. Corporate Governance as a process and structure implemented in running a company with the main objective of increasing shareholder value in the long run while still paying attention to the interests of other bettors [2]. While the size of the company does not affect the value of the company in the LQ-45 index study period 2010-2014 [3]. A large company has good governance.

II. LITERATURE REVIEW

The more intense the practice of earnings management, the greater the adverse effect on the rate of return on the company's assets the following year [4]. The study also found that to some extent, the market realized that management acted with selfish motives and responded by lowering stock prices and firm market value. Mule and Mukras which states in corporate finance, company size is a major factor in determining the success of a company [5]. However, the results of this study state that company size does not have a statistically significant impact on the company's market value.

A. Theory of Agency

Kasmir says the agency relationship is an agreement between managers and shareholders [6]. Agency theory according to Eisenhardt says there are three basic human assumptions used [7], namely:

- Basically, humans have properties that give priority to personal needs (self-interest).
- Humans have a limited mindset about understanding in the future (bounded rationality).
- Humans always avoid risk (risk-averse).

Earnings Management Practitioners categorize earnings management as cheating, but instead, academics say that earnings management is not cheating. After the common thread over this disagreement, earnings management is an effort to change, hide, and delay financial information [1].

B. Corporate Governance

Agoes says, "Corporate governance is good governance as a system that regulates the relationship of the role of the board of commissioners, the role of directors, shareholders and other stakeholders" [8]. The implementation of corporate governance is carried out by all parties in the company, with the main actor is the company's top management who is authorized to set company policies and implement those policies.

C. Independent Board of Commissioners

According to Forum for Corporate Governance in Indonesia (FCGI), independent commissioners are proportionally equal to the number of shares owned by minority shareholders [9]. The minimum requirement for independent commissioners is 30% of all members of the board of commissioners.

III. Methods

In this study the object of research consists of independent variables, namely earnings management proxied by discretionary accruals (DA), corporate governance proxied by the board of commissioners and company size proxied by the size of company assets, moderating variables between corporate governance and earnings management and corporate governance with company size, as well as the dependent variable of company value which is proxied by Tobin's Q. The subjects in this study are the Basic and Chemical Industrial Companies listed on the Stock Exchange in 2013-2017.

IV. Results and Discussion

A. Descriptive Statistics

The value of companies in this industry is not yet stable. This is indicated by a maximum value of 8.08 and a minimum value of 0.10, while the average value of basic and chemical industry companies is 1.25. From 27 observation companies, there are 15 companies that have above-average stock prices. The standard deviation for all sample companies 1.13 indicates that this figure is lower than the average firm value, which means that the firm value data in this study does not vary. The size of the company's stock price can reflect the value of the company. The value of companies in this industry is not yet stable. This is indicated by a maximum value of 8.08 and a minimum value of 0.10, while the average value of basic and chemical industry companies is 1.25. From 27 observation companies, there are 15 companies that have above-average stock prices. The standard deviation for the entire sample value of the company 1.13, this shows a number lower than the average value of the company, which means that the firm value data in this study does not vary.

TABLE I. DESCRIPTIVE STATISTICS

	Obs	Mean	Median	Max	Min	Std. Dev
TB	135	1,25	0,86	8,08	0,10	1,1301
DA	135	0,00	-0,01	0,38	-0,13	0,0497
CG	135	0,41	0,33	0,75	0,29	0,1129
SIZE	135	13,91	13,71	17,67	11,4 0	1,4649
DA_CG	135	0,00	0,00	0,11	-0,04	0,0173
SIZE_CG	135	5,64	5,06	11,24	3,80	1,5943

STDEVTB = Standard Deviasi TB; DA = *Discretionary Accruals*; CG = *Corporate Governance*; DA_CG = *Discretionary Accruals**Corporate Governance ; SIZE_CG = SIZE*Corporate Governance;

B. Multicollinearity Test Results

Based on the test results, it is known that the coefficient between variables is less than 10. Then it can be concluded that the data do not have multicollinearity problems.

TABLE II. MULTICOLLINEARITY TEST RESULT

Variable	Coefficient *Variance*	Uncentered *VIF*	Centered *VIF*
C	1. 026588	121. 3286	NA
a	3. 462253	1. 006988	1. 006988
CG	0. 694663	14. 67224	1. 039387
SIZE	0. 004108	94. 97713	1. 034306

Source: Output Eviews 10.

C. Heteroscedasticity Test Result

TABLE III. HETEROSCEDASTICITY TEST RESULTS

Likelihood ratio	Value	Df	Probability
	317. 4854	27	0. 0000
LR test summary:			
	Value	**Df**	
Restricted LogL	-194. 5462	129	
Unrestricted LogL	-35. 80347	129	

Source: Output Eviews 10.

Based on the probability value for each independent variable, the probability value at 0,000 is less than 0.05. Then it can be concluded that heteroscedasticity does not occur.

D. Cross-Section Correlation Test Results

TABLE IV. CROSS-SECTION CORRELATION TEST RESULTS

Test	Statistic	d. f.	Prob.
Breusch-Pagan LM	627. 4118	351	0. 0000
Pesaran scaled LM	10. 43249		0. 0000
Pesaran CD	5. 695819		0. 0000

Source: Output Eviews 10.

Based on the table above, it is obtained the value of the probability> 0.05, it can be concluded that there is no problem of cross-correlation between companies.

E. Hausman Test

TABLE V. HAUSMAN TEST

Test Summary	Chi-Sq. Statistic	Chi-Sq. d. f.	Prob.
Cross-section random	5. 527891	4	0. 2373

Source: Output Eviews 10.

1) Correlated random effects: Based on the results of the Hausman test, so it can be concluded that the Random Effect Model is more appropriate than the Fixed Effect Model.

F. Random Effect Model Cross-Section

TABLE VI. RANDOM EFFECT MODEL CROSS-SECTION

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	-17. 50898	3. 343558	-5. 236632	0. 0000
DA	8. 452890	3. 043006	2. 777809	0. 0063
CG	44. 30657	13. 03906	3. 397988	0. 0009
SIZE	1. 284040	0. 230676	5. 566429	0. 0000
*DA*CG*	-18. 49339	8. 900729	-2. 077739	0. 0397
*SIZE*CG*	-3. 043621	0. 900030	-3. 381688	0. 0010
	Effects Specification			
			S. D.	**Rho**
Cross-section random			0. 794246	0. 5294
Idiosyncratic random			0. 748789	0. 4706
	Weighted Statistics			
R-squared	0. 081800	*Mean dependent var*		0. 486844
Adjusted R-squared	0. 046211	*S. D. dependent var*		0. 771241
S. E. of regression	0. 753211	*Sum squared resid*		73. 18506
F-statistic	2. 298462	*Durbin-Watson stat*		0. 968665
Prob(F-statistic)	0. 048760			
	Unweighted Statistics			
R-squared	0. 155308	*Mean dependent var*		1. 253138
Sum squared resid	144. 5696	*Durbin-Watson stat*		0. 490365

Source: Output Eviews 10.

In the random effect cross-section model, there are better results where there are five variables that show significance (α = 5%). The adjusted R2 value is 0.046211. The probability value of the f-stat at 0.048760 means that the model is significant. And the Durbin-Watson stat value of 0.490365 which is not yet close to the range of number 2.

Based on the results of data analysis regression calculations, that:

1) Analysis of the effect of earnings management on company value: Statistically, earnings management showed a positive significance result of 0.0063 which states that if earnings management value is considered zero, then the value of the company is 0.0063. Profit Management has a regression coefficient of 2.777809, meaning that each scale of earnings management increases by 1 unit, then the company's value index increases by 2.777809. Earnings management has a positive effect on firm value. Earnings management is used by basic and chemical industry companies in an information perspective where managerial policies regarding the expression of the company's cash flow in the future. These results are consistent with research by Abdallah and Suryani [10]. Management performs its duty well to side with shareholders by increasing the value of the company without prioritizing personal interests.

2) Analysis of the effect of corporate governance on company value: Statistically, corporate governance shows a positive significance result of 0.0009 which states that if the value of corporate governance is considered zero, then the value of the company is 0,0009. Corporate governance has a regression coefficient value of 3.397988, meaning that each scale of corporate governance increased by 1 unit, then the index of company value increased by 3.397988. Corporate Governance has a positive effect on company value. The positive influence of the strong control mechanism of the independent commissioners on management. This is in accordance with the research of Alfinur [11].

3) Analysis of the effect of company size on firm value: Statistically, the size of the company shows the results of a positive sign of 0.0000 which states that if the value of the size of the company is considered zero, then the value of the company is in a fixed state. The size of the company has a regression coefficient value of 5.566429, meaning that each company size scale increases by 1 unit, then the index of company value increases by 5.566429. Company size has a positive effect on earnings management. The bigger the company, the more it increases the value of the company. This is according to research by Rudangga [12]. A large company makes it possible to open investment as an expansion step.

4) Analysis of corporate governance moderating profit management to company value: Statistically Corporate Governance moderates the relationship between earnings management and firm value as a result of a negative significance of 0.0397 which states that if there is an association with a moderating relationship, the value of the company indicates a value of 0.0397. Moderation of corporate governance has a regression coefficient of -2.077739, meaning that every corporate governance weakens the relationship between earnings management and firm value of a 1 unit scale, the index of corporate value decreases by -2.077739. Corporate governance has a negative effect on the relationship between earnings management and firm value. This is the same as the research of Suriawinata and Correia [13]. Good Corporate Governance is one way to eliminate special management engineering efforts to make regulations with its requirements, which are used by companies to disclose certain information compulsorily and voluntarily.

5) Corporate governance analysis moderates company size to company value: Statistically, Corporate Governance moderates the relationship between earnings management and firm value as a result of a negative significance of 0.0010, which states that if there is an association with a moderating relationship, then the value of the company shows a value of 0.0010. Moderation of corporate governance has a regression coefficient of -3.381688, meaning that every corporate governance weakens the relationship between firm size and firm value of 1 unit scale, then the index of company value decreases by -3.381688. Corporate governance has a negative effect on the relationship between earnings management and firm value.

From the whole point of the research results can be described through the calculation of real data from several companies. PT. Semen Batubara Persero (SMBR) is a size company with a large enough scale, within the company, there is a pretty good corporate governance in the number 0.3333. Good corporate governance makes the company not involved in earnings management practices. The value of this company reached the highest value of the company value of 8,08264. In accordance with the size of the company which is quite large at 15,39858, PT. Semen Batubara Persero is able to have high company value.

In this study, PT. Semen Gresik (SMGR) is a very large scale company size, in that company, there is corporate governance only at 0.2851. Poor corporate governance makes the company involved in earnings management practices. This can be seen from the earnings management statistics which show up to 0.38084. This company has a firm value of only 3,41219 statistics. This is not balanced by the size of the company which is quite large at 17.67182.

V. Conclusions

Earnings management practices have a positive effect on firm value. This states that earnings management is used by management as a step for future cash flow information. Corporate governance in the proxy of independent directors has a positive effect on company value. These results are consistent with Meindarto and Lukiastuti researchs [14]. The position of an independent commissioner does not have a direct financial context, which can be an intermediary between management and shareholders. Company size is proven to have a positive effect on firm value. These results are in accordance with the research of Rudangga [12]. Thing this connects the greater the company, the more the value of the company increases. Corporate governance is proven to weaken the influence of earnings management on firm value. These results are in accordance with Sulistyanto and Sri research [1]. The management will behave in a cheating manner by practicing earnings management for personal gain. The existence of an independent party is able to reveal the error that is opportunity. Corporate governance is proven to weaken the relationship of company size with firm value. These results are consistent with research by Hapsoro and Hartomo [15]. The number of large-scale companies that have implemented corporate governance does not guarantee that the company has value in accordance with the size of the company. Independent parties are able to reveal that there are many assets that are not used efficiently, so the company has a high asset value.

References

[1] H. Sulistyanto and Sri, Manajemen Laba: Teori dan Metode Empiris. Jakarta: Grasindo, 2014.

[2] Hamdani, Good Corporate Governance (Tinjauan Etika dalam Praktik Bisnis). Jakarta: Mitra Wacana Media, 2016.

[3] H.D. Wahyudi, Chuzaimah, and D. Sugiarti, "Pengaruh Ukuran Perusahaan, Profitabilitas, Kebijakan Dividen, dan Keputusan Investasi terhadap Nilai Perusahaan (Studi Penggunaan Indeks Lq-45 Periode 2010-2014)," BENEFIT Jurnal Manajemen dan Bisnis, vol. 1, no. (2), 2016.

[4] A. Gill, "Earnings Management, Firm Performance and The Value of Indian Manufacturing Firms," International Research Journal of Finance and Economics, vol. 116, 2013.

[5] R.K. Mule and M.S. Mukras, "Financial Leverage and Performance of Listed Firms in a Frontier Market: Panel Evidence from Kenya," European Scientific Journal, vol. 11, no. (7), pp. 534-550, 2015.

[6] Kasmir, Analisis Laporan Keuangan. Jakarta: Gramedia, 2017.

[7] K. Eisenhardt, "Agency Theory: An Assesment and Review," Academy of Management Review, vol. 14, pp. 57-74, 1989.

[8] S. Agoes, Auditing Petunjuk Praktis Pemeriksaan Akuntan oleh Akuntan Publik Edisi 4 Buku 1. Jakarta: Salemba Empat, 2013.

[9] Forum for Corporate Governance in Indonesia (FCGI), Peranan Dewan Komisaris dan Komite Audit dalam Pelaksanaan Corporate Governance (Tata Kelola Perusahaan), Edisi ke-2, Jilid II. Jakarta: FCGI, 2001.

[10] Z. Abdallah and D. Suryani, "Pengaruh Manajemen Laba terhadap Nilai Perusahaan dengan Kualitas Audit sebagai Variabel Pemoderasi," JIPI, vol. 2, no. (1), 2018.

[11] Alfinur, "Pengaruh Mekanisme Good Corporate Governance (GCG) terhadap Nilai Perusahaan pada Perusahaan yang Listing di BEI," Jurnal Ekonomi Modernisasi, vol. 12, no. (1), 2015.

[12] I.G.D. Rudangga, "Pengaruh Ukuran Perusahaan, Leverangedan Profitabilitas terhadap Nilai Perusahaan," E-Jurnal Management Unud, vol. 5, no. (7), 2016.

[13] I.S. Suriawinata and T.A. Correia, "The Moderating Effect of Corporate Governance on The Relationship between Earnings Management and Firm Value Indonesia Evidence," Atlantis Pers Annual International Conference on Accounting Research, vol. 73, 2018.

[14] A. Meindarto and F. Lukiastuti, "Pengaruh Corporate Governance Terhadap Nilai Perusahaan pada Perusahaan Perbankan yang terdaftar di BEI tahun 2011-2014," Telaah Bisnis, vol. 17, no. (2), pp. 145-168, 2016.

[15] D. Hapsoro and A.B. Hartomo, "Keberadaan Corporate Governance sebagai Variabel Moderasi Pengaruh Financial Distress Terhadap Earnings Management," Jurnal Ekonomi dan Bisnis, vol. 19, no. (1), 2016.