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The Effect of Good Corporate Governance Mechanism, and Earning Management on Company Financial Performance

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Abstract

The purpose of this study was to examine the effect of GCG mechanisms, and earnings management on financial performance. From the good corporate governance variables, researchers used proxies to the number of board of directors, institutional ownership, managerial ownership, the proportion of independent board of directors, a number of audit committees. Also revealed the influence of earnings management on financial performance. This study uses a sample of 25 manufacturing companies listed on the Indonesia Stock Exchange by using purposive sampling that is financially published reports between 2012-2016. The method of analysis of this study uses multi-regression and single regression. The results of this study indicate that (1) Board of directors has no effect on earnings management, (2) Institutional ownership does not have a significant positive affect on earnings management, (3) Managerial ownership does not have a meaningful influence on earnings management, (4) The presence of the Independent Board of Commissioners has no significant effect on earnings management, (5) The size of the audit committee does not have a having a meaning or purposeaffecton earnings management, (6) Simultaneously GCG are not has a significant influence on earnings management, (7) Earnings management has no significant causal factor on financial performance, and (8) GCG mechanisms and earnings management together affect finance performance.

Index terms — GCG, earning management, financial performance.

The Effect of Good Corporate Governance Mechanism, and Earning Management on Company Financial Performance Yayan Nuryana ? & Dwi Asih Surjandari ?

Abstract-The purpose of this study was to examine the effect of GCG mechanisms, and earnings management on financial performance. From the good corporate governance variables, researchers used proxies to the number of board of directors, institutional ownership, managerial ownership, the proportion of independent board of directors, a number of audit committees. Also revealed the influence of earnings management on financial performance. This study uses a sample of 25 manufacturing companies listed on the Indonesia Stock Exchange by using purposive sampling that is financially published reports between 2012-2016. The method of analysis of this study uses multi-regression and single regression. The results of this study indicate that (1) Board of directors has no effect on earnings management, (2) Institutional ownership does not have a significant positive affect on earnings management, (3) Managerial ownership does not have a meaningful influence on earnings management, (4) The presence of the Independent Board of Commissioners has no significant effect on earnings management, (5) The size of the audit committee does not have a having a meaning or purposeaffecton earnings management, (6) Simultaneously GCG are not has a significant influence on earnings management, (7) Earnings management has no significant causal factor on financial performance, and (8) GCG mechanisms and earnings management together affect finance performance.

Keywords: GCG, earning management, financial performance. Abstrak-Tujuan dari penelitian ini adalah untuk menguji pengaruh mekanisme GCG, dan manajemen laba terhadap kinerja keuangan, Dari variabel GCG peneliti menggunakan proksy jumlah dewan direksi, kepemilikan institusional, kepemilikan manajerial, proporsi dewan komisaris independen, dan jumlah komite audit, Penelitian ini juga mengungkap pengaruh manajemen laba terhadap kinerja keuangan. Penelitian ini menggunakan sampel dari 25 perusahaan manufaktur yang terdaftar di Bursa Efek Indonesia dengan menggunakan purposive sampling yang dipublikasikan secara finansial laporan di antara 2012-2016. Metode analisis penelitian ini menggunakan multi regresi dan regresi tunggal. Hasil penelitian ini menunjukkan bahwa (1) Dewan direksi tidak berpengaruh terhadap manajemen laba, (2) Kepemilikan institusional tidak berpengaruh signifikan positif terhadap manajemen laba, (3) Kepemilikan manajerial tidak memiliki pengaruh signifikan terhadap manajemen laba, (4) Kehadiran Dewan komisaris Independen tidak berpengaruh signifikan terhadap manajemen laba, (5) Ukuran Komite audit tidak berpengaruh signifikan terhadap Introduction he issue of Good Corporate Governance is always a hot topic for discussion, especially among economists and business people in Indonesia. Since the onset of the financial crisis in various countries, especially Indonesia in 1997, which eventually turned into an Asian financial crisis which was seen as a result of weak Good Corporate Governance practices in Asian countries. Tjager, et al., ??2003). The failure of several companies and the emergence of financial malpractice cases is unexpectedpractice of Corporate Governance. Because of this, GCG finally became an important issue, especially in Indonesia, which felt the most severe due to the crisis. Also the number of violations committed by issuers in the capital market handled by the Capital Market and Financial Institution Supervisory Agency (Bapepam-LK) shows the low quality of GCG practices in our country.

Of the many sources of information presented by the company, one of the fountainhead of information used by external parties in assessing the company's performance is financial statements. However, the communication made by the company using the financial statements can be unfavorable and not transparent, which is caused by the involvement of management interests in the report. In this case, management influences the financial statements for the management's interests. The influence on the financial statements is part of the company's earnings management ??Nur, 2012). Therefore, the implications that arise from the existence of strong GCG in a company are expected to affect the relationship between earnings management and earnings quality (Rifani, 2013).

1 T

2 Literature Review a) Agency Theory

The separation of ownership by the principal with agent control in an organization tends to cause agency conflict between the principal and the agent, counterinsurgency is likely due to the agent not always acting by the principal's interests, thus triggering agency costs. With financial statements made with accounting numbers, it is expected to minimize conflicts between interested parties.

3 b) Good Corporate GovernanceMechanism

According to Nina (2013), the mechanism of Good Corporate Governance can be classified into two groups, namely internal and external drive line system. The internal device, is a way to control companies by using internal structures and processes such the general meeting of shareholders (GMS), the composition of the board of directors, a composition of the board of commissioners, and meeting with the board of directors. The external mechanism is a way to influence companies in addition to using internal carrying into action, such as control by companies and market control.

4 c) Board of Directors

Pursuant to Article 1 number 5 of Act Number 40 of 2007, the Board of Directors is a Company Organ authorized and fully responsible for managing the Company for the benefit of the Company, in accordance with the purposes and objectives of the company and representing the company, both inside and outside the court in accordance with the provisions articles of Association. Thus, the Board of Directors is the management of the Company acting for and on behalf of the Company

5 d) Institutional Ownership

Institutional ownership is the ownership of shares of companies owned by institutions or institutions (insurance companies, banks, investment companies, government, and other institutional proprietor According to Yahya Harahap in his book Limited Liability Law (p. 475), the existence and legal position of the Independent Commissioner in the Board of Commissioners Organ environment is genuine expected to be independent.

Independent Commissioners must have nonaffiliated terms with any party, especially: a) Not affiliated with the company's principal shareholders. b) Does not have an association with members of the company's board of directors. c) Does not have any affiliation with other members of the board of commissioners.

6 g) Audit Committee

The Indonesia Stock Exchange (IDX) and the Capital Market Supervisory Agency (BAPEPAM) require public companies to have an audit committee. The audit committee is a committee formed by the company's board of commissioners (Ningtyas et. Al., 2014). The existence of an audit committee is expected to reduce agency conflicts so that the quality of financial reports submitted to interested parties is increased and can be trusted so that it can help growing the value of the company in the eyes of investors.

7 h) Earning management

According to Subramanyam and Wild (2010: 133-134), there are two main methods of earnings management, namely: a) Profit transfer is earnings management by moving profits from one period to another. Profit transfer can be done by accelerating or delaying the recognition of income or expense. b) Earnings management through classification, namely earnings can be determined by particular classifying expenses (and revenue) in certain parts of the income statement. The general form of earnings management through classification is to move charge below the line or report coston extraordinary and non-repetitive items so that analysts do not consider it crucial.

8 i) Financial performance

According to Fahmi (2014: 2) states that financial performance is an analysis carried out to see the extent to which a company has implemented by using the rules of financial implementation accurate and correctly, such as by making a financial report that has met the standards and provisions in IFRSs (Financial Accounting Standards) or GAAP (General Accepted Accounting Principle) So financial performance is an illustration of the company's financial condition for a certain period. Its function is to measure the success of a company that focuses on financial statements.

9 j) Previous research i. Research Muh. Arief Ujiyantho in 2007

Arief Ujiyantho in 2007 concerning the Mechanism of Corporate Governance, Earning Management and Financial Performance (Studies in Companies going public in the Manufacturing Sector) concluded that: 1) Institutional ownership does not significantly influence earnings management; 2) Managerial proprietor has a significant negatively effect on earnings management; 3) The proportion of independent board of directors has a significant positive impression to earnings management; 4) The number of commissioners does not significantly affect earnings management; 5) The influence of institutional ownership, managerial ownership, the proportion of independent board of commissioners and the number of board of commissioners jointly tested with a significant level of effect on earnings management; and 6) earnings management (discretionary accruals) does not significantly influence financial performance (cash flow return on assets).

10 k) Framework

11 i. The Effect Good Corporate Governance with proxies the Board of Directors toearning Management

The board of directors is tasked with reviewing management's performance to ensure that the company is run well and protect the interests of shareholders (Subhan, 2011). Ardiansyah's (2014) research results show that the board of directors has a negatively effect on earnings management. This has meaning, the more the board of directors will improve the monitoring function of direction so that it can reduce earnings management practices.

12 ii. The Effect of Good Corporate Governance with the proxy of institutional ownership on earnings management

According to Permanasari (2010) states that institutional ownership has a very important role in minimizing agency conflicts that occur between managers and shareholders. The existence of institutional investors is considered capable of being an effective monitoring mechanism in every decision taken by the manager. This is because institutional investors are involved in strategic taking so that they do not easy believe in earnings manipulation. Raja et al. ??2014) concluded that the maximum the institutional ownership, the ultimate the voting power and encouragement of these financial institutions to oversee management to limit earnings management actions.

iii. The effect Good Corporate Governance with proxy managerial ownership on earnings management Wardani (2011), said that an increase in managerial ownership in a company encourages managers to create company performance optimally and motivates managers to act carefully because they share the consequences for their actions. Earnings management can be carried out by managers by choosing assured accounting procedures that are considered most profitable for managers. One way to reduce conflict between principals and agents can be done by increasing managerial ownership of a company (Wiranata and Nugrahanti, 2013). Sudibyo (2013) proved that managerial ownership has a significant positive effect on earnings management.

13 iv. Effect of Good Corporate Governance with independent commissioner proxy on earnings management

In Indonesia, it is often the case that commissioners only act passively and do not even carry out their veryelemental oversight role on the board of directors. The board of commissioners is often considered to have no benefit. This can be seen in the fact that many commissioners do not have the ability, and cannot show their independence "(FCGI, 2012).

14 v. Good Corporate Governance Influence with the proxy of the number of audit committees on earnings management

The more the number of audit committee meetings, the more it will be able to reduce earnings management actions by company management. "Audit committee formal meetings are important for the success of the audit committee's performance. The number of meetings is determined based on the size of the company and the size of the assignment given to the audit committee "(Pamudji & Trihartati, 2010 in Yendrawati 2015). The existence of independence, educational background, and formal meetings are expected to reduce the practice of earnings management in the company.

15 vi. Effect of Earning Management on Financial Performance

The manager as a company manager has ample space to carry out policies regarding using methods in preparing financial statements. This influence encourages managers to make earnings management in to increase company profits, Waseemullah, Safi. I. and Shehzadi, A. (**??**015 **??**011) in his research stated that many studies conducted stated that companies that have a large board size cannot coordinate, communicate, and make better decisions than companies that have smaller boards.

16 ii. Effect of managerial ownership on financial performance

The proportion of managerial shares in the company indicates a common interest between the owner and the company manager. This similarity of interests will motivate managers to improve their performance so that it will have an impact on the company's financial performance. Based on research conducted by Indarti, Gill, Obradovich and Ming Hsiang in the research of Puniayasa and Triaryati (2016) which gives results that managerial ownership has a positive effect on the company's financial performance.

17 iii. Effect of institutional ownership on financial performance.

Institutional ownership is the percentage of shares of both private and government institutions at home and abroad. Supervision of the company will increase along with the high institutional ownership and management can act in line with the wishes of shareholders, the company's financial performance will increase. According to Nur'aeni in the research of Puniayasa and Triaryat (2016), which gives results that institutional ownership has a positive and significant effect on the company's financial performance.

18 iv. Effect of independent board of directors on financial performance

The supervisory function of the board of directors is to oversee the policies of the board of directors in running the company and provide advice to the board of directors. With a large number of members of the board of commissioners, the oversight of the board of directors have become much better, advice and input for the board of directors has become more numerous. So that the performance of the management is better and also affects the company's performance (Adestian, 2014).

19 v. Influence of the Audit Committee on financial performance

Romano et al. (2012) found that there was a negative relationship between the number of audit committees and the company's financial performance. With fewer audit committees, internal control will improve, increasing awareness of board activities and decisions that will ultimately increase the company's profitability. The existence of an independent audit committee is one of the characteristics of the audit committee. Independence is an necessary factor that must be owned by the audit committee. The role of an independent audit committee is expected to reduce opportunistic behavior carried out by company managers.

20 Figure 1

The The companies that were sampled in this study were 25 (twenty-five) companies, namely companies that were by the criteria described above.

21 a) Variable Operational Variables and Definitions

The variables that will be explained in this study are: a) Dependent Variable or y variable, the dependent variable to be discussed in this study is financial performance; financial performance is the company's fundamental performance. Monetary performance in this study was measured using a cash flow return on assets (CFROA). CFROA is calculated from profit before interest and tax plus depreciation divided by total assets)Intervening Variables (Intervening Variables). b) The intervening variables to be discussed in this study are earnings management. Earnings management is measured by the value of discretionary accruals. c) Independent variable (Independent Variable) or variable x, the independent variable that will be discussed in this study is a good corporate governance mechanism as measured by the number of board of directors, institutional ownership, managerial ownership, size of the independent board of directors, and audit committee.

22 b) Analysis technique

In conducting data analysis, each variable is: A= total assets of the company i in period t-1.

Ev Revit = change in net sales of company i in period t.

It Recit = change in accounts receivable i in period t. PPE it = property, plant, and equipment company I in period t.

? 1, ?2, ?3 = the parameters obtained from the regression equation.

? it = error term company I in period t.

g) Financial performance is measured using the cash flow return on assets (CFROA). CFROA is

The Effect of Good Corporate Governance Mechanism, and Earning Management on Company Financial Performance calculated from profit before interest and tax plus depreciation divided by total assets.

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24 D c) Data Normality Test

To improve the results of the data normality test, the researchers used the Kolmogorov-Smirnov test. In the K-S test, a data is said to be normal if the asymptotic value is significantly more than 0.05, then the data is normally distributed and vice versa, if the p-value is smaller than 0.05, then the data is not normally distributed (Ghozali, 2013).

25 d) Multicollinearity Test

The purpose of this test is to test whether the regression model found the correlation between independent variables. If there is a correlation or occurs, it is called a problem of multicollinearity (multicolor). By looking at the tolerance value and variance inflation factor (VIF). Common values used to indicate the presence of multicollinearity are tolerance values <0.10 or equal to VIF values> 10 (Ghozali, 2013).

26 e) Autocorrelation Test

Autocorrelation test aims to test whether in the linear regression model there is a correlation between confounding errors in the period t-1 (previously). In the Durbin Watson distribution list table with various values ? Decision making on whether or not there is autocorrelation is as follows: DW <dl = there is a positive autocorrelation value, dl <DW value <du = cannot be concluded, du <DW value <4-du = no autocorrelation, 4-du <DW <4-dl = cannot be concluded, DW> 4-dl = there is negative autocorrelation. Ghozali (2011).

27 f) Heteroscedasticity Test

Heteroscedasticity test aims to test whether in the regression model there is a variance inequality from residual one observation to another observation, one way to detect there whether or not heteroscedasticity is to test the park, and see the scatterplot graph between the dependent predictive value of ZPRED and the SRESID residual. If the significance probability value is above the 5 percent confidence level and on the scatterplot graph, the points spread above and below the zero on the Y axis, it can be concluded that the regression model does not contain heteroscedasticity.

28 Ghozali (2011) g) Multiple Regression Test

Multiple regression is a regression that has one dependent variable and more than one independent variable. The results of the regression analysis to test the hypothesis proposed above are : Y = 0,018 + 0,098 X1 + 0,006 X2 + (-0,134) X3 + 0,161 X4 + 0,496 X5 + (-0,010) X6 + ?, To examine the effect of corporate governance mechanisms on earnings management, multiple regression analysis is used: Y= -0,142 + 0,006 X1 -0,012 X2 + 0,138 X3 -0,130 X4 -0,038 X5

29 h) T-test

This test is conducted to test the ability of independent variables (GCG, earnings management, financial performance). If the t-statistic value of the calculation results is higher than the t-table value, then the alternative hypothesis which states that an independent variable individually affects the dependent variable. Ghozali (2011).

30 i) Test F

The statistical test F basically shows whether all independent or free variables included in the model have a joint influence on the dependent / dependent variable. The testing criteria used by the researcher is if: F count > F table then H0 is rejected and Fcount <Ftable then H0 is accepted.

31 j) Determination Coefficient Test (R2)

The coefficient of determination (R^2) is used to measure how much the ability of the model in explaining the variation of the dependent variable. The value of determination is determined by the value of Adjusted R Square. The coefficient of determination is between zero and one. A small R2 value means that the ability of independent variables in explaining the variation of the dependent variable is very limited. A value close to one means that the independent variables provide almost all the information needed to predict the variation of the dependent variable. Ghozali (2011).

IV. The value of N in the table shows the number of samples used in the study for 2012-2016 with 25 manufacturing companies, namely 125 samples, according to the observations in this study. In the table can be seen that financial performance has a value between -0.0829 to 0.58 with an average of 0.131 and a standard deviation of 0.12, while for the amount of earnings management in the table shows that the profit of earnings management is between -0.88 to 0.4 with an average of 0.007 and a standard deviation of 0.1287, the board of directors averaged 5.56 with a standard deviation of 3.033, institutional ownership has a minimum value of 0.32, a maximum value of 0,98, the mean value is 0.70, and the standard deviation is 0.157.

32 Result and Discussion

33 a) Statistik Deskriptif

Managerial ownership has a minimum amount of 0.00 a maximum value of 0.26, a mean value of 0.05, and a standard deviation of 0.07, the proportion of independent commissioners produces an average value of 0.39 with a standard deviation of 0.12 and a value minimum of 0.27, the Audit Committee outcome an average value of 3.01 with a standard deviation of 0.37 and a minimum benefit of 2.0

34 b) Data Normality Test

Normality test is done by using the Kolmogorov-Smirnov test; if the significance value of Kolmogorov-Smirnov is higher than ?(0.05), then the data is ordinarily distributed. The table above shows that the variable has a value of 0.130 which means that its natural value (0.130>0.05) and distributed samples have been considered normal, in this case testing the classical assumption shows that the data is normally distributed, the data is considered normal.

35 c) Multicollinearity test

To see whether there is a perfect multicollinearity that causes the estimation of the regression coefficient cannot be determined, and the addition of independent variables has no effect at all, multicollinearity test is used. From the multicollinearity test table which shows that the VIF value in the table above is not more than 10 and the tolerance value is not less than 0.1, then it can be stated that multiple linear regression models are free from multicolinerity, so the test results are said to be reliable or reliable.

36 d) Autocorrelation Test

Autocorrelation test aims to test whether multiple linear regression models have a correlation between confounding errors in period t-1.This study uses the Durbin-Watson test.

37 e) Multiple Regression Test Results

38 i. T-test

39 D

Based on the t-test obtained t-count 1.376 (1.376 < t-table = 1.98010) and earnings management value greater than 0.05 (sig t 0.172> 0.05), it can be concluded that H01 is accepted which means that earnings management does not have a positive effect on performance financial, The effect of the number of board of directors based on t test obtained t count 1.545 (1.545 < t table = 1.98010), the board of directors produced positive but not significant, institutional ownership variables did not affect the company's financial performance, this can be seen from the coefficient value of -0.134 with a t value of -1.927 and a significance value of 0.056, the significance value is greater than 0.05 (0.056> 0.05), the test results show that managerial ownership has a negative and significant effect on the company's financial performance. This can be seen from the coefficient value of 0.161 with a t value of 1.047 and a significance value of 0.297, the significance value is higher than 0.05 (0.297 <0.05) which means that the third hypothesis is accepted, in the visible table the results of the study indicate that the commissioner independent does not affect the company's financial performance. This can be seen from the coefficient value of 0.496 with a t value of 5.552 and a significance value of 0.000 the significance value is less than 0.05 (0.000 <0.05), and for the audit committee, the results of the study indicate that the audit committee has no positive effect and significant to the company's financial performance. This can be seen from the coefficient value of -0.010 with a t value of -0.380 and a value signifikanceof 0.704 the significance value is greater than 0.05 (0.704> 0.05).

ii. F Test Tabel 7: From the table above obtained F-count value of 0.663 while F-table at 95% confidence level (? = 0.05) Degrees of freedom df1 = 5 (6-1), and df2 = 119 (125-6), amounting to 2.29 with a significance level 0.652 which is greater than 0.05. Based on the calculation of Fcount <F-table (0.663 <2.29), then H0 accepted and H1 refused. This gives the meaning of giving that the independent variables, namely the board of directors, institutional ownership, managerial ownership, the proportion of independent board of directors and audit committee together do no affect on earnings management. From the results of hypothesis testing and the ratio between F count with F table , the F count value is greater than F table **??**9,397> 2,18). it can be concluded that H0 is rejected which means that good corporate governance and earnings management together influence on the company's financial performance. From the table above, it can be seen that the coefficient (r) is equal to 0.569. This value shows that the correlation or relationship between Good Corporate Governance and earnings management with the company's financial performance does not have a strong relationship because it has a correlation value> 0.50. While the value of Adjusted R (the coefficient of determination) produced a number of 0.289, which means that the variation or behavior of the independent variable is able to explain the behavior or variation of the dependent variable by 28.9% while the remaining 71.1% is a variation of other independent variables that affect performance finance.

V.

40 Discussion

41 Effect of GCG on Earning Management. ? Board of Directors on earnings management

The t count of good corporate governance with the proxies of the board of directors 1.105 <t table is 1.98010 and the significance is greater than 0.05 (sig.t 0.271> 0.050) so that it can be decided H01 is accepted which means that GCG with the proxy number of the board of directors has no effect on management profit. The ineffectiveness of supervision by the board of directors will lead to a decline in performance which causes a decrease in the ability of the board to control management and prevent fraud from management in managing the company which includes fraud in earnings management (Ayuanti, et all 2012). with Ujiyanto and Pramuka (2007) which stated a negative relationship between the size of the board of directors and earnings management. And this research is not in line with Ardiansyah's (2014) research which concluded that the board of directors has a significant effect on earnings management practices, this shows that more food boards will be able to reduce earnings management activity.

42 ? Institutional ownership of earnings management

The t-count of institutional ownership was -0.135 <1.980, the count was smaller than t-table, and the significance was higher than 0.05 (sig.t 0.893> 0.050), and because t-count was between (t-table -1.98010 and + 1.98010), so that H03 can be accepted.

Which means that GCG with institutional ownership proxies does not affect earnings management. Investors do not consider numbers in the financial statements because the only concern is profit, this amount triggers management to meet the target (Novia 2012). The results of this study support the findings of previous researchers namely Ujiyanto and Scouting (2007: 16) that institutional ownership does not significantly influence earnings management. And this research is in line with Ardiansyah's (2014) research which concluded that institutional ownership does not affect earnings management practices.

43 ? Managerial ownership of earnings management

The t-count of managerial ownership is 0.701 <1.98010 Significance is higher than 0.05 (sig.t 0.485> 0.050), and t-count is between (t-table -1.98010 and + 1.98010) so that H04 can be decided, which means ownership managerial has no effect on earnings management, the process of preparing financial statements involves management, and this proves that financial statements are misused by management which will affect the amount of profit displayed, and this is a form of managerial intervention intentionally in the process of determining earnings, usually to meet the objectives Personally ??Gustina & Wijayanto, 2015). This analysis is consistent with the research of Boediono (2005; in Praditia, 2010) which states that the application of managerial ownership mechanisms is less contributing to controlling earnings management actions.

? Independent board of commissioners on earnings management The t-count value of the independent board of directors was -1,132 <1,98010.The significance is higher than 0.05 (sig.t 0.260> 0.050), so it can be decided that H05 is accepted which means that the independent board does not affect earnings management. This research is in line with Ardiyansah's research (2015) which concluded that an independent board did not affect on earnings management, the appointment of independent commissioners is not intended to uphold good corporate governance but only fulfill regulations. So that more and more independent commissioners will make earnings management increase instead of decreasing.

44 ? Audit committees on earnings management

Audit committee's t-count value -1,111 <1,98010, t-count is smaller than t-table and significance is greater than 0,05 (sig.t 0,269> 0,050), so that H06 can be accepted. Which means the audit committee does not affect on earnings management. This research is not supported by the results of Klein's (2002) study in Eka (2011) which provides empirical evidence that companies form audit committees reporting earnings with smaller discretionary accruals compared to companies that do not form an audit committee and audit committee with a small number (few) may experience a lack of resources to distribute the mandated audit committee assignments, and to oversee the operations of larger and more complex companies.

Based on the calculation of Fcount <Ftable (0.663 <2.29), then H0 is accepted and H1 is rejected. This gives the meaning of giving that the independent variables, namely the board of directors, institutional ownership, managerial ownership, the proportion of independent board of directors and audit committee together have no effect on earnings management.

45 Effect of earnings management on financial performance

Based on the t test obtained t count 1.376 (1.376 < t table = 1.98010) and earnings management value greater than 0.05 (sig t 0.172> 0.05), this shows that each increase in one unit of earnings management as measured by Discreationary accruals will lead to an increase in earnings quality of 1.376, it can be concluded that H01 is accepted which means that earnings management does not have a positive effect on financial performance. These findings are consistent with research conducted by Afriyenti (2009) and Ujiyantho and Bambang (2007), who found evidence that accrual earnings management does not affect company performance.

46 Effect of GCG on Financial Performance

? The influence of the Board of Directors on financial performance From the results of the board of directors' testing based on the t test, it was found that t-count was 1.545 (1.545 < t-table = 1.98010), the board of directors produced positive but not significant. so that it can be decided H02 is accepted which means that the number of directors does not have a positive affect on financial performance, the view of resources dependence is that the company will depend on its board to be able to manage its resources well. But with a larger number of directors, companies cannot coordinate, communicate and make better decisions than companies that have fewer directors ??Jensen, 1993; ??ipton and Lorsch, 1992; ??ermack, 1996). ? Effect of institutional ownership on financial performance.

The test results show that the institutional ownership variable does not affect the company's financial performance, this can be seen from the coefficient value of -0.134 with a t value of -1.927 and a significance value of 0.056, the significance value is greater than 0.05 (0.056> 0, 05), the results of this study are not in line with Puniayasa and Triaryat (2016), which gives results that institutional ownership has a positive and significant effect on the company's financial performance. ? Effect of managerial ownership on financial performance The results of managerial ownership testing have a negative and significant effect on the company's financial performance. This can be seen from the coefficient value of 0.161 with a t value of 1.047 and a significance value of 0.297, the significance value is greater than 0.05 (0.297> 0.05) which means that the third hypothesis is accepted. Thus, the results of this study are in accordance with the results of research conducted by Siallagan and Machfoedz (2006) which states that managerial ownership negatively affects the company's financial performance. But not in line with Puniayasa and Triaryati (2016) which gives results that managerial ownership has a positive effect on the company's financial performance. ? The influence of an independent board of directors on financial performance The results showed that independent commissioners have an effect on the company's financial performance. It can be seen from the value of t independent board 5.552> 1.98010, because t is between (ttable -1.98010 and + 1.98010). The significance of less than 0.05 (0.00 sig.t <0.050), so it can be decided H05 is rejected, which means that the independent board positive effect on financial performance [of the company, which means that the fourth hypothesis is rejected. Thus, the results of this study are not in accordance with the results of research conducted by Kusumawati and Riyanto (2005) which states that independent commissioners do not affect the company's financial performance. ? Effect of the number of audit committees on financial performance The results of the audit committee tcount -0.380 <1.98010, because t is between (ttable -1.98010 and + 1.98010), and the significance is greater than 0.05 (sig.t 0.704> 0.050) so it can be decided H06 is accepted which means that the audit committee does not have a positive effect on financial performance. These results are consistent with the research (Adestian, 2014) which Based on the F test obtained F count of 9.339 (F count 9.3397> F table ??.18). The sig value is smaller than 0.05 (sig F 0,000 <0.05), it can be concluded that H0 is rejected which means that good corporate governance and earnings management variables together influence the company's financial performance. This is not in accordance with the results of the research by Yusriati, et al, (2010) which stated that there was no relationship between the implementation of corporate governance on financial performance mediated by earnings management actions.

47 VI.

48 Conclusion

From the results of data analysis and the discussion in the previous chapter can be concluded as follows:

1. Mechanisms of good corporate governance, namely the board of directors, institutional ownership, managerial ownership, the proportion of independent board of directors and audit committee together have no effect on earnings management. 2. Earnings management as measured by Variable discretionary accruals does not have a significant effect on cash flow return on assets. 3. Good corporate governance and earnings management together affect the company's financial performance.

VII.

49 Limitations

The limitations of this thesis are as follows:

1. In this study the number of samples classified as relatively small classification is 25 companies out of the number of 139 manufacturing companies. 2. The author's references are not yet complete to support the writing process of this thesis, so there are many deficiencies in supporting the proposed theory 3. The variables used in this study are still limited, while there are many other variables that may also affect the company's financial performance. 4. Measurement of earnings management using only one measurement tool, namely MJM (Jones madel method), it is feared that measurement using only one model cannot reflect whether the company is indicated to implement earnings management or not.

50 Practical Contributions

The results of the research will be beneficial for shareholders (investors) andcompanies go public and their managers:

1. This research for investors can be taken into consideration in choosing issuers as a place to invest by considering the application of the Good Corporate Governance mechanism and earning management practices that affect the financial performance seen in the company's annual report. 2. The results of this study for companies can be used as input by management as an agent in determining policies related to the implementation of Good Corporate Governance and Management, its effects on financial performance. [1] [2]

e) Managerial ownership
According to Sujono and Soebiantoro in Lestari's research (2013) stated that managerial ownership is sharedbyoprintpany
management as measured by the percentage of the number of shares owned by management. A Good Corporate Governance can be created by increasing managerial ownership in a company.

[Note: f) Proportion of Independent CommissionersAccording to Article 1 number 2 jo.]

Figure 1:

[1] © 2019 Global Journals

[2] The Effect of Good Corporate Governance Mechanism, and Earning Management on Company Financial Performance © 2019 Global Journals

m) Hypothesis Development
Based on the description in the previous background section, the formulation of the problem in this study is:
1. Good corporate governance mechanisms, in this case, the board of directors, institutional ownership, managerial ownership, theproportion independent board of directors, and audit committee empirically influencing both individually and individually to the earnings management of manufacturing companies on the Indonesia Stock Exchange?
Year 2. Does earnings management have an empirical effect on the financial performance of manufacturing com
2019
earnings management affects financial performance?
III. Research Methodology Sample Selection

A Population of this research is all manufacturing companies listed in Indonesia Stock Exchange for the year 2012 -2016 that fulfill few requirements. The requirements used to determine the sample are:
a) Manufactur companies that go public or listed in Indonesia Stock Exchange for the year 2012 -2016.
(b) Manufactur companies still operate until 2016. c) Have data regarding institutional ownership,
)
D
managerial ownership, independent board of directors, audit committee, and the size of the Board of Directors.
d) Using Rupee currency.

Good Corporate Governance Mechanisma
1. Board of Directors
2. Institutional Ownership
3. Managerial Ownership 4. Indepen

5. Audit Committee
Earning Management

Figure 2:

1

	N	Minimum	Maximum	Mean	Std. Deviation
Financial Performance	125	-,08	,58	,1312	,12006
Earning Management	125	-,88	,40	,0071	,12974
Board Of Directors	125	2	18	5,56	3,033
Institusional Ownersship	125	,32	,98	,7073	,15767
Managerial Ownership	125	,00	,26	,0507	,07339

Figure 3: Table 1 :

2

Unstandardized
Residual

Figure 4: Table 2 :

3

Coefficients a

	Model	Unstandardized Coefficients B	Std. Error	Standardized Coefficients Beta	T	Sig.	Collinearity Statisti Tolerance	VIF
	(Constant)	,018	,100		,180	,858		
	Earning Management	,098	,071	,106	1,376	,172	,973	1,028
	Board Of Directors	,006	,004	,149	1,545	,125	,619	1,616
1	Institusion Ownership	-,134	,070	-,177	-1,927	,056	,684	1,463
	Managerial Ownership	,161	,154	,098	1,047	,297	,651	1,536
	Independent Of Board of Commissioners	,496	,089	,502	5,552	,000	,702	1,424
	Audit Commite	-,010	,026	-,031	-,380	,704	,870	1,150

a. Dependent Variable: Financial Performance

Figure 5: Table 3 :

4

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Durbin-Watson
			Model Summary b		
1	,569 a	,323	,289	,10124	1,835

a. Predictors: (Constant), Audit Commitee, Managerial Ownership, Earning Management, Board of Independen Commissioner, Institusional Owner of Directors

b. Dependent Variable: Financial Performance

Data processed by SPSS 21

Figure 6: Table 4

5

Model	Unstandardized Coefficients		Standardized Coefficients	t	Sig.
	B	Std. Error	Beta		
(Constant)	,142	,129		1,106	,271
Board Of Directors	,006	,005	,126	1,105	,271
Institusion Ownership	-,012	,090	-,015	-,135	,893
Managerial Ownership	,138	,198	,078	,701	,485
Board Of Independen Commissioner	-,130	,115	-,121	-1,132	,260
Audit Commitee	-,038	,034	-,107	-1,111	,269

Data Prosses By SPSS21

Figure 7: Table 5 :

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1	Model	Unstandardized Coefficients B Std. Error ,161 ,154 ,018 ,1	
	Managerial Ownership (Constant) Earning Management Board Of Directors Institusion Ownershhip		
	Board Of Independent Commissioner	,496	,089
	Audit Commitee	-,010	,026

Sourses : Data prosses by SPSS 21

Figure 8: Table 6 :

ANOVA a

	Model	Sum of Squares	Df	Mean Square	F	Sig
	Regression	,057	5	,011	,663	,65
1	Residual	2,031	119	,017		
	Total	2,087	124			

a. Dependent Variable: Earning Management

b. Predictors: (Constant), Audit Commitee, Managerial Ownership, Board of Independent Commissioner, Institusion Ownership, Board of Directors

Data prosses by SPSS 21

Figure 9:

8

Model					ANOVA a			
				Sum of Squares	Df	Mean Square	F	Sig.

a. Dependent Variable: Financial Performance
b. Predictors: (Constant),Audit Commitee, Managerial Ownership, EarningManagement, Board of Independent Commissioners, Institusions Ownership, Board Of Directors
Data prosessed by SPSS 21

Figure 10: Table 8 :

9

						Year 2019 Volume XIX Issue I Version I ( ) D
1	Regression	,578	6	,096	9,397,000	Global Journal of Management and Business
	Residual	1,209	118	,010	b	Research
	Total	1,787	124			

Figure 11: Table 9 :

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