THE INFLUENCE MODEL OF GOOD CORPORATE GOVERNANCE AND THE MECHANISM OF ASYMMETRIC INFORMATION IN MINIMIZING THE PRACTICE OF EARNINGS MANAGEMENT IN COMPANIES INCLUDED IN THE LQ 45 AND REGISTERED ON IDX

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ABSTRACT

Companies cannot deny that the agency theory is inevitable. Agency theory implies the existence of asymmetric information between the managers as agents and owners as principals. The presence of asymmetric information is going to impact earnings management in the companies. The solution to minimize the impact of earnings management as an asymmetric information is the existence of good corporate governance mechanisms that are effective. This research aims to find out the influence model of good corporate governance and the mechanism of asymmetric information in minimizing the earnings management in companies included in the LQ 45 and registered on IDX during the period from 2010 until 2013. The method used is verificative-descriptive method. Data analysis is done with a classic assumption test, multiple linear regression analysis and the coefficient of determination. As for the hypothesis testing using the test t (partial) and test f (simultaneous). The results of this research as a partial model of good corporate governance mechanisms indicates that good corporate governance affects negatively significant on the earnings management while asymmetric information has no effects on earnings management. A simultaneous model of good corporate governance mechanism and the influence of asymmetric information in minimizing the earnings management in companies included in the LQ 45 and registered on IDX during the period from 2010 until 2013.

Key words: Model of Good Corporate Governance, the Mechanism of Asymmetric Information and The Earnings Management.

Introduction

Companies cannot deny that the agency theory is inevitable. Agency theory implies asymmetric information between the managers as agents and owners as principals. As an agent, manager is morally responsible to optimize the gains of the owner (principal), but on the other hand, managers also have an interest in maximizing their welfare. Therefore, there is a likelihood that the agents do not always act in the best interest of the principal or desired by the principal (Jensen and Meckling, 1976).

The asymmetric information arises when managers are more aware of internal and external information, as well as the prospects of the company in the future compared with the information known by the shareholders and other stakeholders. These conditions provide an opportunity for managers to act opportunistic, which is to benefit himself, even when it is explained that in the agency theory the company has many conflict of interests between managers and shareholders, managers with creditors or among shareholders, creditors and managers due to the existence of an agency relationship. According to Jensen and Meckling (1976), the indicator of reduced asymmetric information can be seen in the presence of a complete financial statement disclosure or transparency.

According to PSAK 1 paragraph 05, the financial statements is a means of communication between internal parties of the company which is the management and external parties associated with the company. While the objective of financial statements is to provide information about the financial position, performance and cash flows of the company that are beneficial to the users of financial statements in order to make economic decisions and demonstrate accountability of management for the use of the resources entrusted to them. Complete financial statements include a balance sheet, income statement, reports the change in equity, cash flows statement and notes to the financial statements (PASK no. 1 paragraph 07). However, the phenomenon is the information given or made not in accordance with the actual conditions of the company. This condition is called information asymmetry (asymmetric information).

Proposed by Belkaoui (2006) earnings management occurs when managers use their judgment in financial reporting and transaction structure to change the financial statements. If the manager does not succeed in achieving its earnings targets, then the management will strive to make modifications in the reporting by choosing to apply the accounting method that can show more profits achievement in order to demonstrate the performance of the company that is managed to meet the expectations of stakeholders. However, if it is carried out continuously, it can be interpreted that the company is in a bad condition and very risky.

One of many ways to minimize the earnings management as the impact of the asymmetric information is to apply good corporate governance mechanisms which are effective. Proposed by Lin et.al (2006) that earnings management tends to occur in companies with high organizational composition. But having large proportion of independent board and high institutional equity ownership can reduce the practice of earnings management in the companies.

According to some previous research that earnings management is strongly influenced by the occurrence of high asymmetric information in the company and mechanism of good corporate governance that are less effective or independent. Meanwhile, if the company continuously practices earnings management, it indicates the condition of the company that has performed less well, so it should be anticipated as soon as possible. Results of this study was supported by SitiAenurRohmah (2014), AndraZeptian (2013), RestuAgusti (2013).

Based on these results, the researcher is interested to further study, how exactly the asymmetric information models and mechanisms of good corporate governance are implemented in companies that practice earnings management. Results of this research can provide input to minimize the occurrence of earnings management. Companies that will be studied are the companies included in the LQ 45 and listed on the Indonesia Stock Exchange that practice earnings management during the period of 2010 until 2013.

The aim of this research is to determine the condition of asymmetric information, the mechanism of good corporate governance and earnings management in the companies included in the LQ 45 and is listed on the Indonesia Stock Exchange during the period of 2010 until 2013 and to determine the influence of asymmetric information and good corporate governance mechanisms in minimizing earnings management in the companies included in the LQ 45 and listed on the Indonesia Stock Exchange during the period of 2010 until 2013 either partially or simultaneously.

It is expected that the results of this study can be used as a reference knowledge and can provide insight and information about the asymmetric information and good corporate governance mechanism in minimizing earnings management for stakeholders and management.

Literature review

According to IlyaAvianti (2010), AndraZeptian (2013) and NCG (2006), it can be concluded that the mechanism of good corporate governance is a framework or structure within the organization who has a very important role in implementing the principles of good corporate governance.

In determining the mechanism of good corporate governance the first indicator is the composition of the independent board by calculating the percentage (%) number of independent members of the board, divided by total board of directors in the company. The second is the number of audit committee to determine the number of audit committee in the company.

According to Beaver (1996), “asymmetric information is to describe the two conditions of investors in stock trading which are informed investors and less informed investors.” Information asymmetry is a situation where the manager has access to information on the prospects of the company otherwise shareholders do not have the broad information as owned by the manager. These conditions encourage managers to present information that is not true, especially if the information relates to the measurement of the performance of managers.

This asymmetry arises when managers more aware of the internal information and future prospects of the company compared with its shareholders and other stakeholders. Thus, to measure the asymmetry in the company we can use the operated *relative bid-ask spread* (RestuAgusti 2010).

Earnings management by Utami (2005), "*some ability to increase of net income or decrease reported net income at will*." Meaning that earnings management is the practice of how to maximize and minimize profits, including income smoothing in accordance with the wishes of the manager. Then Assih and Gudono (2000) states that earnings management is a process that is done deliberately to the generally accepted accounting principles (GAAP) to lead to the targeted reported earnings.

Fisher and Rozenzwig (1995) suggests that earnings management is the manager's actions by increasing (decreasing) reported income from that units that it has that do not have any relation with the increases or decreases in the company's profitability in the long term.

The pattern of earnings management can be done for example by (1) **taking a bath pattern** that is by regulating the company's profit for the year to be very high or low compared to the previous year or the following year (2) **The pattern of income minimizing** which makes the period of the current year's profit lower than the previous year. This technique is often done with the intent of political and relative taxation, and (3) **income patterns maximization** that earnings management by way of making profits for the current year to be higher than the actual profit.

Thinking framework

Proposed by SitiAenurRokhmah (2014), that the asymmetric information, the size of the company, independent board and managerial ownership simultaneous affect earnings management. Then AndraZeptian and Abdul Rohman (2013), states that the factors of corporate governance (independent directors and auditor quality) have proven to have effect on earnings management. This indicates that the application of corporate governance mechanism is quite effective in minimizing the occurrence of earnings management practices.

Welvin I Guna and Arleen Herawaty (2010), suggest that leverage, audit quality, and profitability have an effect on earnings management. Meanwhile, institutional ownership, management ownership, audit committees, independent directors, independent and company size have no effect on earnings management. Then research by DwiLusi (2013), shows that the directors and audit quality, as well as the size of the company have significant influence in explaining the earnings management measured by discretionary accruals.

Surya Sari (2012) in his research stating the importance of good corporate governance mechanism in controlling the practice of earnings management, which can mislead the parties concerned on the financial statements. According to agency theory, conflict of interests arising between principal and agent can be avoided or minimized through the implementation of good corporate governance mechanism (Setiawan, 2006).

Research conducted by Xie, et.al (2004) shows that the market reacts positively to the announcement of the appointment of members of the audit committee, especially the financial experts who are independent are able to protect the interests of shareholders from the earnings management practice undertaken by the management, in this case the existence of good corporate governance mechanism can help minimize the practice of earnings management. This research was supported by the results of research from Carcello et.al (2006) that reveals earnings management can be minimized by the audit committee and independent professionals in the field of finance.

Then Richardson (1998) reveals that the relations between the asymmetric information and the level of earnings management is very flexible, in the sense that if the asymmetric information in acompany is relatively low, it is most likely that earnings management is rarely done, and vice versa. If the asymmetric information is high, it will encourage management to do even greater earnings management.

Wiwik et al (2012), based on test results obtained by the hypothesis that the independent commissioner and audit committee have an effect on real earnings management, whereas institutional ownership has no effect on real earnings management. Asymmetric information has a positive influence on earnings management, meaning the higher the level of management information asymmetry, the higher the profit will be.

Restu and Tyas (2013), studies prove that the asymmetric information, the size of the company and managerial ownership have an effect on earnings management. This means that together any changes in information asymmetry, the size of the company and managerial ownership affect earnings management. Similarly, the results of EniKusumawati et al (2010), shows that there are differences in earnings management practices in companies listed on the index of sharia and the conventional index.

Bedard et.al, Abbot et.al, Wardani and Joseph (2001), reveal the expertise in accounting and finance, audit committee meetings regularly have an effect on earnings management because it can increase the oversight, so that earnings management can be minimized.

Pearce and Zahra (1992) reveal in their theory that the function of the audit committee effective supervision related to the amount of resources owned by audit committee, said the larger the size of the audit committee, the company will have sufficient resources to oversee the operations of the company as a whole, so that governance and corporate performance will always be achieved effectively, which ultimately will reduce earnings management practices. Expressed also by Susiana (2007)that the application of effective and independent corporate governance mechanism aims to ensure that management action has been aligned with the interests of shareholders.

If seen from the results of previous research which has been described above, it can be assumed that in order to minimize the practice of earnings management in the company, there has to be good corporate governance mechanism which are effective and independent and asymmetric information which is relatively very small. With the good corporate governance mechanism which are effective and independent, there will be effective oversight, thus motivating resources within the company to do its best performance, especially the performance of the overall company.

Based on the above framework, the mechanism of good corporate governance and the information asymmetry have an effect on earnings management either partially or simultaneously.

Research object and methodology

The object of this research is good corporate governance mechanism and minimization of information asymmetry in earnings management in LQ 45 companies and listed on the Indonesia Stock Exchange, period Of 2010 until 2013. Methods used are descriptive and verification method. Regression verification method using *multiple regression analysis*. Operationalization of variables consisted of the first dependent variable (XI) i.e. **good corporate governance mechanisms** (IlyaAvianti; 2010, AndraZeptian; 2013 and NCG; 2006) includes the percentages (%) by an independent indicator of the number of commissioners divided by the total commissioners in companies and the amount of the company's audit committee. The second dependent variable (X2) information asymmetry ((Beaver: 1996) with indicator SPREAD = (asti, t - bidi, t) / {(actionable, t + bidi, t) / 2} x 100 and dependent variable. While the independent variables (Y) earnings management by Utami (2005) using a Jones model.

The population used in this study are all companies listed on the Indonesia Stock Exchange who enter the category of LQ 45 during the period of 2010 until 2013 and have positive earnings and are not included in the company's financial and banking institutions. Because the financial and banking institutions are more controlled by the central bank and Indonesia Financial Services Authority, so it will be different from other companies, as well as forms or types of financial statements.

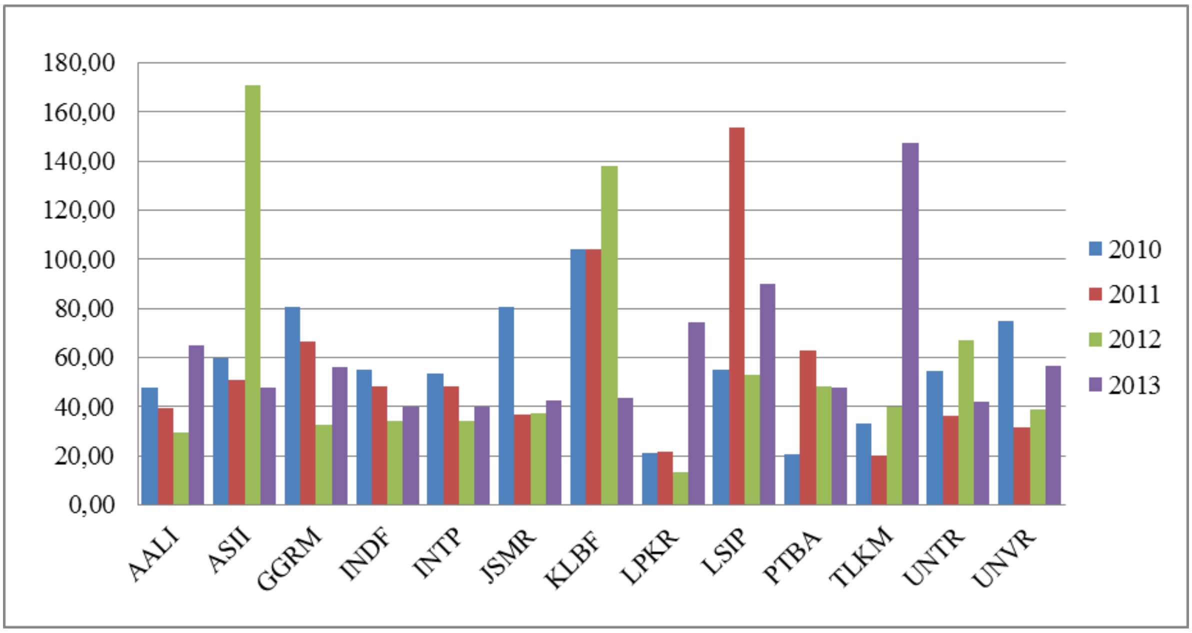
Results and discussion

The population in this study are all companies listed on the Indonesia Stock Exchange in the category of LQ 45 period of 2010 until 2013. The criteria used in the study sample were companies that published their financial statements for the period of 2010 until 2013, and had positive earnings and not included as financial and banking institutions. Based on data from the Indonesia

Stock Exchange in 2010 until 2013, the population of companies that enter the category of LQ 45 and publish financial reports as many as 23, but based on the above criteria, the sample in this study only used 13 companies.

Based on the results of field research on information asymmetry condition of the companies included in the LQ 45 during the period of 2009 until 2013 are as follows:

Figure1: Information Asymmetry Condition of Companies Included in LQ 45



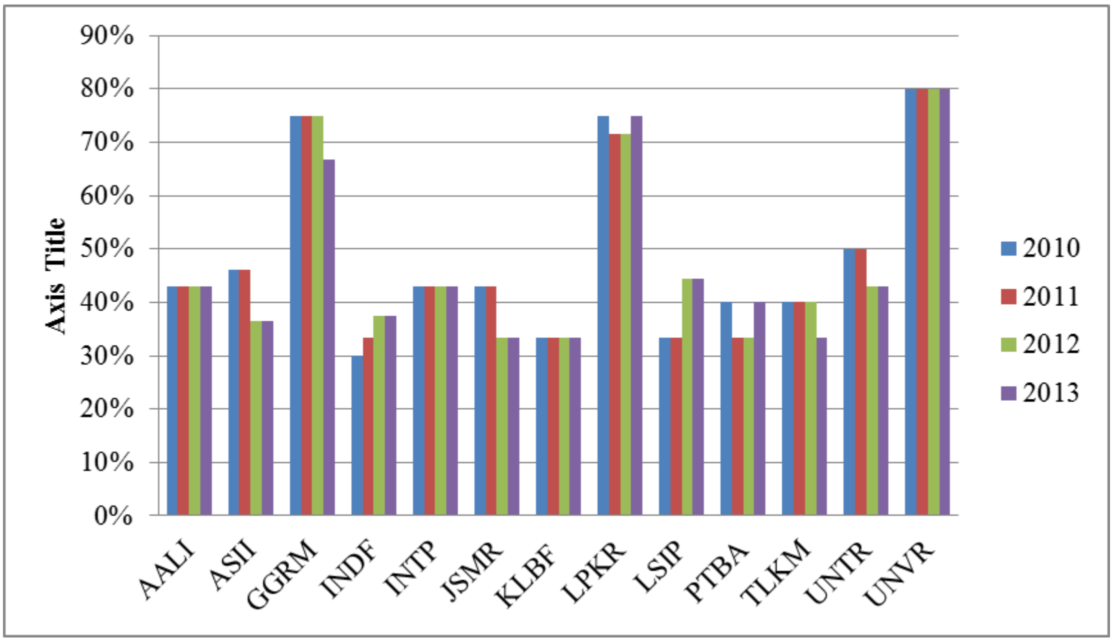
(Source: Data of Processed Financial Statements)

Based on Figure 1. The condition of information asymmetry of each company annually fluctuated with an average in 2010 amounted to 56.89%, in 2011 amounted to 55.34%, in 2012 amounted to 56.61% and in 2013 amounted to 60.93%. During the fourth period, the condition of highest information asymmetry occurred in the year 2012 which is equal to 170.9% occurred in ASII, in 2011 is equal to 153.5% occurred in LSIP, in 2013 amounted to 147.47% occurred in TLKM and in 2010 amounted to 104.27%, which occurred in KLBF. While the smallest information asymmetry during 4 periods occurred in 2012 in LPKR by 13.6%, in TLKM which occurred in 2011 amounted to 19.80%, in PTBA which occurred in 2010 and INDF that occurred in the year 2013 by 39.70%.

With the fluctuating of information asymmetry for 4 periods in the LQ 45 companies studied, it illustrates that the companies studied for the past 4 periods have proven unstable in terms of managing their companies. It proves that fluctuation in the companies providing the opportunity for management to use information that they have to manipulate finances in an effort to maximize their own welfare, although there are also companies that do not do this, but it is relatively very small. It also indicates the principal often have access to internal and external information which is limited, while the agents as actors have a very extensive information both external and internal, and they thoroughly know the real performance of the company. This condition often causes conflict of interests between the agent and the principal, where the principal is only interested in dividends and stock value increasing, while the agent is motivated by the manager by the variety of financial compensation to be received, according to the company promise.

Based on the processed data related to independent directors on the companies included in the LQ 45 during the period of 2010 until 2013 are as follows:

Figure2: Condition of the Composition of Independent Directors

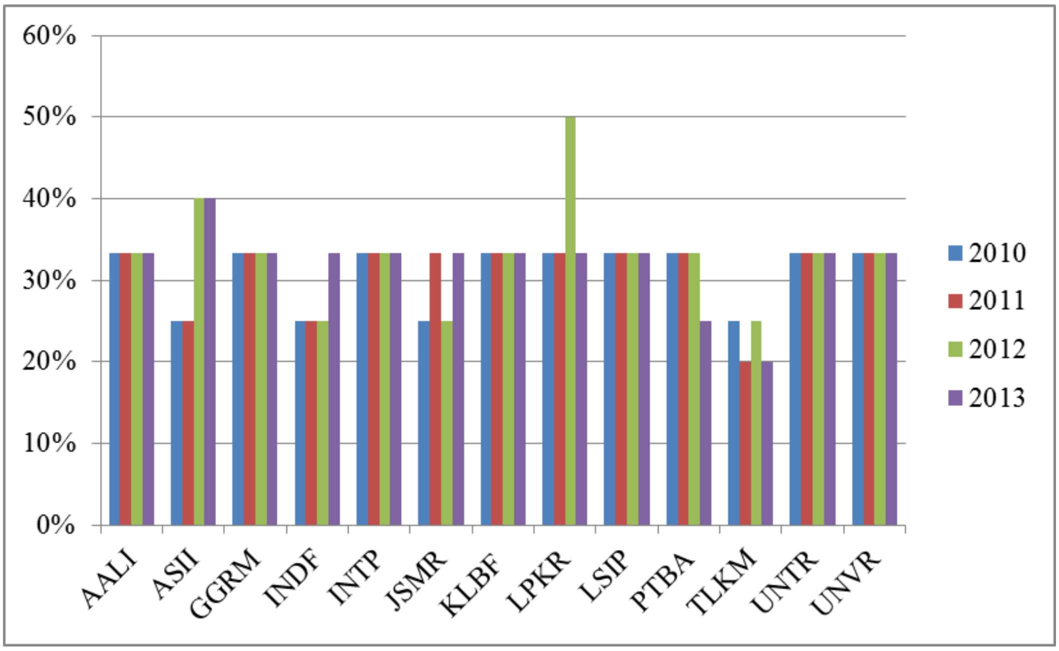


(Source: Processed Financial Statements Data)

In Figure 2 above, it can be seen that the amount of the composition of the independent directors of each company annually varied with an average composition of independent directors for the year 2010 amounted to 49%, in 2011 by 48%, for the years 2012 and 2013 respectively by 31%. Viewed as a whole during the fourth period is above 30%, meaning that for 4 average periods the companiescommissioners have an average of 70%. This composition implies the number of independent directors is still in minimum amount. Thus, the supervision held still less effective and objective.

Conditions of the audit committee on the companies included in the LQ 45 during the period of 2010 until 2013 are as follows:

Figure3: Condition of Audit Committee Composition



(Source: Processed Financial Statements Data)

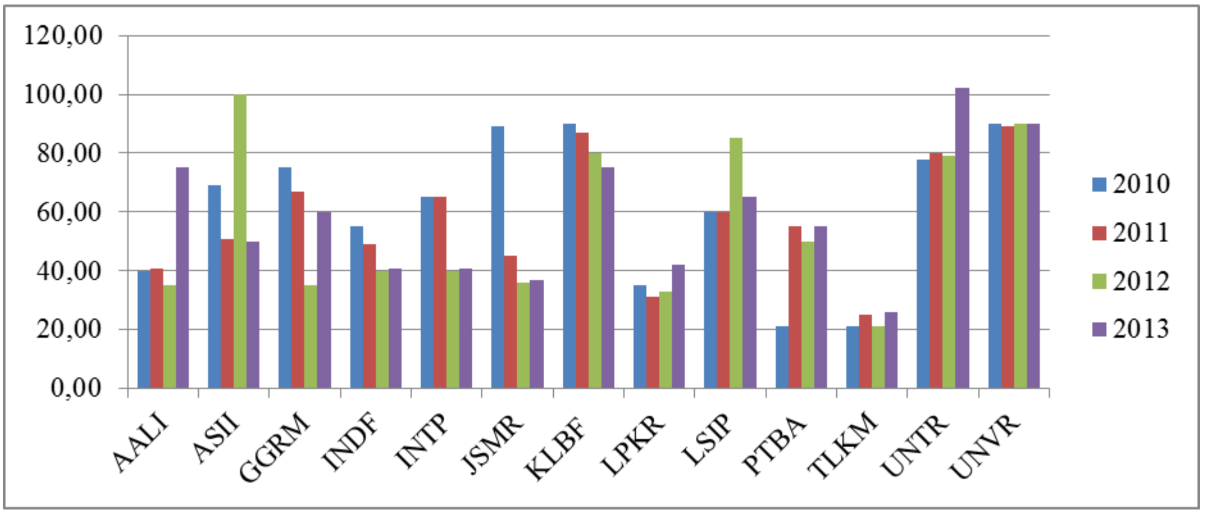
In table and Figure 3 above, it can be seen that the amount of the composition of the audit committee of each company every year is nearly the same value as the average composition of the audit committee for 2010 and 2011 by 31%, for the year 2012 amounted to 33% and for 2013 by 32%. The greatest composition of the audit committee is in LPKR by 50% in 2012, and in ASII by 40% respectively 2012-2013. The smallest composition of the audit committee occurred in TLKM by 20% in 2011 and 2013. This condition implies that every company audit committee has already qualified and optimal feasibility.

It is known that the audit committee is one of the few committee established by the board of directors, which is in general to be able to work appropriately in a complex business environment. Thus, the right hand commissioners have generally been able to help in managing the company.

An optimal audit committee indicating that the audit committee in the companies studied had high confidence level from the society, so it will audit the companies with high level of accuracy to maintain the public trust, and have the audit program is considered to be more accurate and effective than the KAP auditors of the non-big four (Isnanta, 2008).

Furthermore, management conditions on the companies included in the LQ 45 during the period of 2010 until 2013 are as follows:

Figure4: Condition of Earnings Management Composition



(Source: Processed Financial Statements Data)

In Figure 4, it is indicated that the magnitude of earnings management practiced of each company annually fluctuated with an average composition of earnings management for the year 2010 amounted to 60.62%, for the year 2011 amounted to 57.31%, for the year 2012 amounted to 55.69%, and for the year 2013 amounted to 58.38%. The composition of this earnings management might indicate the management of the company under investigation is not optimal yet, so that the impact on earnings management practiced by the company have an average above 50%.

Composition in terms of earnings management done by the companies researched imply that a lot of the companies, where managers often make an effort to maximize and minimize profits, including the income smoothing in accordance with the wishes of the manager. Then, as proposed by Assih and Gudono (2000) that earnings management is a process that is done deliberately in the range of generally accepted accounting principles (GAAP) to lead to reported earnings.

To determine the effect of information asymmetry and good corporate governance mechanism to earnings management in the companies studied in LQ 45 we use verification method which is *multiple regression analysis*. Where previously some testing are done and the test results are normally distributed. Then autocorrelation test, the results are there is no problem of autocorrelation in the data being tested. Then Hesteroskedasticity test results are the same and does not have autocorrelation in the data being tested. Multicollinearity the last test, with the results of two independent variables there were no correlation of multicollinearity and can be used to predict earnings management during the observation period.

After all four tests conducted to test the hypothesis, followed by a multiple regression analysis, the results are as follows:

Tabel 1: Multiple Regression Analysis

Model		Unstandardized Coefficients		Standardized Coefficients	T	Sig.
		B	Std. Error	Beta		
	(Constant)	72,979	7,641		9,551	,000
1	X1	-,627	,159	-,487	-3,954	,000
	X2	,124	,083	,185	1,500	,140

(Source: Output of SPSS version 20)

Based on the above table, it can be obtained linear equation as follows:

Earnings management = 72,979 - 0,627 (*good corporate governance mechanism*) + 0,124 (information asymmetry) + e

From the equation above, it can be explained that the constant value of 72.979 states that when the independent variable mechanism of good corporate governance and information asymmetry is zero, then the value of earnings management would be an increase of 72.979.

Good corporate governance mechanism value (X1) has a negative coefficient of 0.627, showed the opposite relationship. This means that if the other variables remain (unchanged) or equal to zero, then the increase in variable of good corporate governance mechanism (X1) of the unit will reduce earnings management value of 0.627.

Information asymmetry value (X2) has a coefficient of 0.124 which means that if the other variables remain (unchanged) or equal to zero, then the increase in information asymmetry variable (X2) of the unit will increase the value of earnings management amounted to 0.124.

Analysis of the coefficient of determination shown in Table 2 below:

Tabel2: Summary Model[b]

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	,510[a]	,260	,229	20,183

a. Predictors: (Constant), X2, X1
b. Dependent Variable: Y

(Source: Output of SPSS version 20)

From the calculation result R (correlation) of 0.510 or 51% stating that R is the interval 0.40 to 0.599, which means the relationship between variables (good corporate governance mechanism, information asymmetry and earnings management) were moderate. Then R^2 (R Square or determination) of 0,260 or 26% which means that the influence of the independent variable on the dependent variable that can be explained by this equation is only by 26% and the remaining 74% are influenced by other factors that are not included in the model of this research. This implies that the conditions of information asymmetry and good corporate governance mechanism can increase or decrease the earnings management. Although there are many other influences. Based on the results of the partial hypothesis testing to prove a significant influence of good corporate governance mechanism and minimize information asymmetry in earnings management can be seen in Table 3 as follows:

Tabel3: t Test Analysis

Model		Unstandardized Coefficients		Standardized Coefficients	T	Sig.
		B	Std. Error	Beta		
	(Constant)	72,979	7,641		9,551	,000
1	X1	-,627	,159	-,487	-3,954	,000
	X2	,124	,083	,185	1,500	,140

(Source: Output of SPSS version 20)

Based on the calculation above, it may explain the effect of good corporate governance mechanism to earnings management through partial test (t test) to test the good corporate governance mechanism to earnings management that shows a significant level in the Sig column. The values obtained 0,000 less than the value of 0.05. Thus, the null hypothesis is rejected H0 or H1 accepted. It can be concluded with the acceptance of the partial H1 means good corporate governance mechanism have a significant effect on earnings management. This shows the size of the mechanism of good corporate governance are key determinants to reduce or minimize earnings management practices undertaken by management.

Good corporate governance mechanism which isproxied by independent commissioners negatively affects the value of the coefficient of -0.62. This means that an independent commissioner with earnings management has the opposite relationship. Companies that have a lot of independent commissioners who make his role to oversee and advise the board of directors and is responsible for ensuring companies to implement good corporate governance, will be run smoothly so as to minimize the practice of earnings management.

The results are consistent with research conducted by Halima (2008). But not in line with research conducted by Welvin and Arleen (2010) and Eko (2013). These results indicate that the presence of independent directors in the company to be one of the mechanisms of good corporate governance in minimizing earnings management.The influence of information asymmetry on earnings management, based on the partial test (t test) to test the asymmetric information on the management showed a significant level in the Sig column. The values obtained 0.140 more than the value of 0.05. Thus, the null hypothesis H0 accepted or H1 rejected. Ho can be concluded with the receipt of partial information asymmetry means no significant effect on earnings management. Information asymmetry occurs when management more aware of the condition and prospects of the company compared to stakeholders or other shareholders. Things that make the information asymmetry has no effect on earnings management, is likely to occur because of the unintended errors in previous financial reporting.

The results are consistent with research conducted by Ilham (2013) on the effect of information asymmetry and capital adequacy ratio to earnings management. The results states that the information asymmetry has no effect on earnings management. Also the research results are consistent with research conducted by olyvia (2010), Miranti (2011) and Adriyani (2011) which states information asymmetry has no significant effect on earnings management. This study is not in line with research conducted by Restu and Tyas (2013), and Ni and Ni Wayan made (2014) which states information asymmetry has a significant positive effect on earnings management.

Based on F test (simultaneous) that has been conducted between the mechanism of good corporate governance and enterprise information asymmetry with earnings management are as follows (Table 4).

Tabel4
ANOVA[a]

Model		Sum of Squares	Df	Mean Square	F	Sig.
	Regression	6998,739	2	3499,370	8,590	,001[b]
1	Residual	19961,261	49	407,373		
	Total	26960,000	51			

a. Dependent Variable: Y
b. Predictors: (Constant), X2, X1

(Source: Output of SPSS version 20)

From the above table, it indicates the level of sig. The value of 0.001 is less than the value of 0.05. Thus, H0 is rejected or H1 is accepted. With the acceptance of H1, the mechanism of good corporate governance (independent directors) and information asymmetry simultaneously have significant effect on earnings management. Good corporate governance mechanism by proxy independent commissioner and audit committee can play a role in minimizing earnings management, a growing number of independent directors and audit committee, the supervision will be carried out effectively and objectively and independently, so that earnings management practices will be reduced.

The results are consistent with research conducted by SitiAenur (2014) that the information asymmetry and good corporate management mechanism simultaneously affect the earnings management.

Conclusions

1. The condition of good corporate governance mechanism are proxied by an independent commissioner and audit committee and information asymmetry on each company varies annually in terms of its capacity and needs. Also the condition of the magnitude of earnings management in the company LQ 45studied in each company fluctuates in each year. This condition indicates that these companies are not optimal yet in managing themselves for 4 years (2010 until 2013).
2. Partially, the mechanism of good corporate governance which is proxied by independent directors and audit committee has a significant negative effect on earnings management, while the information asymmetry has no significant effect on earnings management. Simultaneously, good corporate governance mechanism which is proxied by an independent commissioner and audit committee as well as information asymmetry significantly affect earnings management by 26%. This implies, if the independent directors and the audit committee with the same effective money monitoring and objective and asymmetry carried out by the companies are small, then these companies will be able to minimize the earnings management practices, and vice versa. But if oversight is only conducted by the board of directors and audit committee but not accompanied by the minimization of information asymmetry, then the practice of earnings management cannot be resolved.

Recommendations

1. The companies shall promptly add the number of additional independent directors in order to be more effective at supervision. Conflict of interests must be addressed immediately, one of the solutions is through the implementation of good corporate governance.
2. The companies should be able to reduce the occurrence of information asymmetry and apply good corporate governance mechanism effectively, as this can minimize the practice of earnings management. For further research is to investigate other variables that can affect earnings management.

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