

The Influence of Financial Factors on Profit Management with Good Corporate Governance as a Moderating Variable (Empirical Study on Manufacturing Companies in the Goods and Consumption Industry Sector listed on the Indonesia Stock Exchange 2015-2019)

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DOI: <https://doi.org/10.52403/gijash.20220711>

ABSTRACT

This study aims to analyze that (1) the influence of financial factors on earnings management; (2) the influence of financial factors on earnings management is moderated by good corporate governance. The population of this study are all manufacturing companies in the goods and consumption industrial sector listed on the Indonesian stock exchange in 2015-2019. The sample was selected using purposive sampling method and resulted in a selected sample of 175 companies. Analysis of the data used is the Partial Least Square method. The results of the study indicate that financial factors have a significant and significant effect on earnings management. With the magnitude of the influence of 70.5% while 29.5% is influenced by other factors. The results of the study of financial factors on earnings management with good corporate governance as a moderating variable and significant influence. The magnitude of the influence is 15.8% while 84.2% is influenced by other factors.

Keywords: Financial Factors, Earnings Management, Good Corporate Governance

INTRODUCTION

Financial reports are a source of information for interested parties such as shareholders, investors, and the government in assessing

the performance of company management. In the financial statements there is profit information which is the main information in making investment decisions. Earnings information is often targeted through opportunistic actions of management in manipulating financial statements to attract potential investors. This action is carried out by choosing accounting actions, so that profits can be regulated, increased or decreased as desired (Jesi and Ikhsan, 2018).

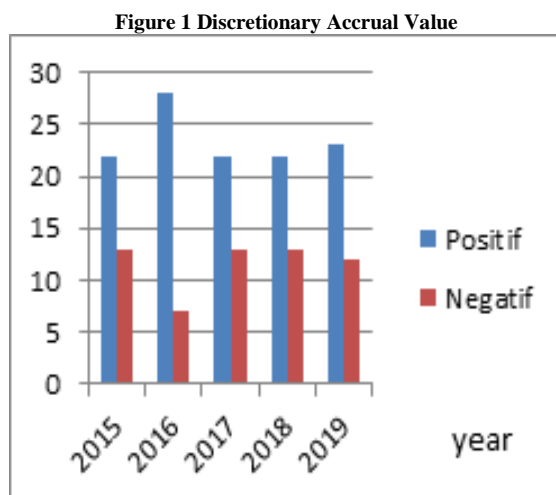
Sulistyanto (2008) says that earnings management is a process to take certain deliberate steps within the bounds of generally accepted accounting principles to produce the desired level of reported earnings.

Earnings management can be proven by accrual analysis because accruals exist in every component in the financial statements. (Sulistyanto, 2008). The amount of accruals is reflected in the calculation, namely the accrual part that does exist in the process of preparing financial statements called normal accruals or non-discretionary accruals (NDA) and the accrual part which is manipulation of accounting data called abnormal accruals or discretionary accruals (DA).

According to Sulistyanto (2008), the value of discretionary accruals can be zero, positive, or negative. A zero value indicates earnings management is carried out by means of income smoothing, a positive value indicates earnings management is carried out by an income increasing pattern, and a negative value indicates an earnings management pattern with a decreasing income pattern.

To find out the problems of earnings management in manufacturing companies are in the goods and consumption industrial sector, namely the sector that produces the daily needs of the general public. Such as food, beverages, tobacco, pharmaceuticals, cosmetics, household appliances and others. The case of earnings management caused distrust of investors with reports presented by manufacturing companies in the Consumer Goods and Industrial sector.

Based on manufacturing companies in the goods and consumption industrial sector in 2015-2019 that show positive or negative values, they are as follows:



Based on the graph above, it can be seen that the discretionary accrual value of manufacturing companies in the goods and consumption industrial sector in 2015-2019 tends to carry out earnings management with a pattern of increasing profits from 2015-2019 with a positive discretionary accrual value rather than a pattern of decreasing profits with a discretionary accrual value. negative.

MATERIALS AND METHODS

Research Method

This research is a type of causal associative research. Based on the type and technique of data collection, this research is categorized as quantitative research, namely research whose data is in the form of numbers. This study uses secondary data.

Population and Research Sample

The population in this study are manufacturing companies listed on the Indonesia Stock Exchange in the industrial goods and consumption sector in 2015-2019. The sampling technique in this study is purposive sampling where the method of collection is based on certain criteria (Sugiyono, 2017).

Data Analysis Techniques

Outer Model

- 1) *Convergent Validity*. The value of convergent validity is the value of the loading factor on the latent variable with its indicators. Expected value >0.7 .
- 2) *Discriminant Validity*. Cross loading value for each variable >0.70 .
- 3) *Composite Reliability*. Data that has composite reliability >0.8 has high reliability.
- 4) *Average Variance Extracted (EVA)*. Expected EVA value >0.5 .
- 5) *Cronbach Alpha*. The reliability test was strengthened by Cronbach Alpha. Expected value >0.6 for all constructs.

Inner Model

- 1) *R Square* on the endogenous construct. The value of R Square is the coefficient of determination on the endogenous construct. According to Chin (1998), the value of R square is 0.67 (strong), 0.33 (moderate) and 0.19 (weak).
- 2) *Estimate for Path Coefficients*, is the value of the path coefficient or the magnitude of the relationship/influence of the latent construct. Done with Bootstrapping procedure.
- 3) *Effect Size (f-squares)*. Done to find out the goodness of the model. According to

Chin (1998), f square values are 0.02 (strong), 0.15 (medium) and 0.35 (large).

- 4) *Prediction relevance* (Q square) otherwise known as Stone-Geisser's. This test was conducted to determine the predictive capability with the blindfolding procedure. If the value obtained is 0.02 (small), 0.15 (medium) and 0.35 (large). It can only be done for endogenous constructs with reflective indicators.

Variable Operations

Exogenous Variables

Financial factor indicators are as follows:

- 1) Profit Margin is the ratio that compares the company's profits to the total amount of money generated. With the following formula:

$$NPM = \frac{\text{Laba Bersih}}{\text{Pendapatan}} \times 100$$

- 2) Return On Assets is a type of profitability ratio that assesses the company's ability to earn a profit from the assets used. With the following formula:

$$ROA = \frac{\text{Laba Setelah Pajak}}{\text{Total Asset}}$$

- 3) Leverage is a level of the company's ability to use assets or funds that have a fixed burden (debt and special shares) in order to realize the company's goal of maximizing the wealth of the owner of the company. With the following formula:

$$\text{Debt Ratio} = \frac{\text{total Amount of debt}}{\text{Total Assets}}$$

- 4) Company size is a scale where the size of the company can be classified according to various ways, including: Total assets, log size, market value and others. With the following formula

$$UP = \text{Ln Total Aset}$$

Endogenous Variables

The measurement indicators are as follows:

- 1) Calculate the total accrual (TAC) which is net income in year t minus operating cash flow in year t with the following formula:

$$TAC = NI_{it} - CFO_{it}$$

- 2) Furthermore, the total accrual (TA) is estimated using the Ordinary Least Square as follows:

$$\frac{TA_{it}}{A_{it-1}} = \beta_1 \left(\frac{1}{A_{it-1}} \right) + \beta_2 \left(\frac{\Delta Rev_{it}}{A_{it-1}} \right) + \beta_3 \left(\frac{PPE_{it}}{A_{it-1}} \right) + \varepsilon$$

- 3) With the regression coefficient, non-discretionary accruals (NDA) are determined by the following formula:

$$NDA_{it} = \beta_1 \left(\frac{1}{A_{it-1}} \right) + \beta_2 \left(\frac{\Delta REC_{it}}{A_{it-1}} - \frac{\Delta REC_{it}}{A_{it-1}} \right) + \beta_3 \left(\frac{PPE_{it}}{A_{it-1}} \right)$$

- 4) Discretionary accruals (DA) as a measure of earnings management is determined as follows:

$$DA_{it} = \frac{TA_{it}}{A_{it-1}} - NDA_{it}$$

Moderating Variables

According to Andri and Hanung (2007) there are four Corporate Governance mechanisms used to resolve agency conflicts, namely:

a. Managerial ownership

Managerial ownership is the proportion of shareholders from the management who are actively involved in making company decisions. So the formula for measuring managerial ownership is as follows:

$$Km = \frac{\text{Managerial party's shares}}{\text{Number of shares outstanding}} \times 100$$

b. Institutional Ownership

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Institutional ownership is a condition where the institution owns shares in a company. These institutions such as government institutions, private institutions, domestic and foreign (Widarjo and Hartoko, 2010). So the formula for measuring institutional ownership is as follows:

$$KI = \frac{\text{Number of shares of Institutional parties}}{\text{Number of shares outstanding}} \times 100$$

c. Independent Commissioner

Independent Commissioner is a position that is part of the membership of the board of commissioners, but is independent and has no affiliation with other commissioners, shareholders, directors, or company management. So the formula used to measure Independent commissioners is as follows:

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

d. Audit Committee

According to article 1 number 1 of the Financial Services Authority Regulation Number 55/POJK.04/2015 of 2015 concerning the establishment and guidelines for the implementation of the work of the audit committee (OJK Regulation 55/2015), the Audit Committee is a committee formed by and responsible to the board of commissioners in assisting carry out the duties and functions of the board of commissioners. So the formula used to measure the audit committee is as follows:

$$\text{audit committee} = \frac{\text{Number of Audit Members}}{\text{Number of Board of Commissioners}} \times 100$$

5.5 Data Testing Techniques

Data processing in this study using Structural Equation Modeling (SEM) analysis using the alternative method Partial Least Square (PLS).

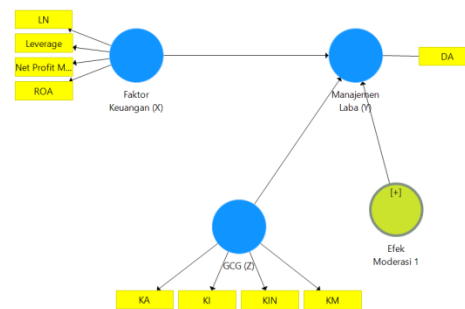
6. RESULTS AND DISCUSSION

The results obtained from this study are as follows:

6.1 Partial Least Square (PLS) Model

In this study, using a test using the Partial Least Square (PLS) analysis technique with the SmartPLS 3.0 program. The following is the schema of the research model as follows:

Figure 2 Research model schema



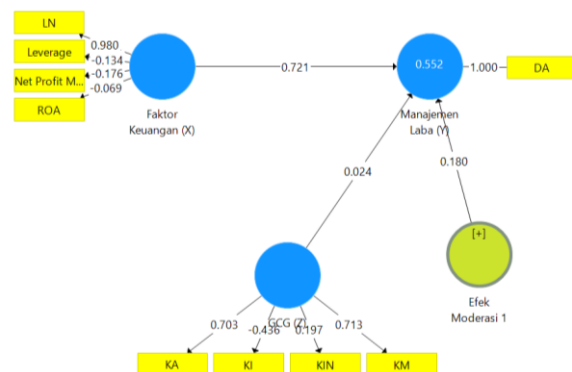
In this PLS technique there are 2 models used in the test, namely the outer model and the inner model. The criteria for this test are as follows:

Outer Model

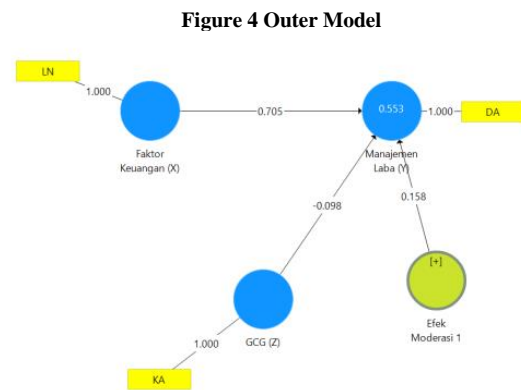
a) Convergent Validity

Convergent validity: From the measurement model with reflexive indicators, it can be seen from the correlation between item/indicator scores and construct scores. Individual indicators are considered reliable if they have a correlation value above 0.70. The following is a schematic of the Outer Model as follows:

Figure 3 Outer Model



Based on Figure 4, it can be seen that the results of the analysis output can be seen that the constructs that produce a loading factor value > 0.70 are financial factors with firm size indicators, earnings management with discretionary accrual indicators, and good corporate governance with audit committee indicators except for financial factors with leverage indicators, net profit margin, return on assets and good corporate governance with indicators of independent commissioners, institutional ownership, and managerial ownership whose loading factor value is < 0.70 which means it is invalid and must be removed from the model, so the indicator is not used because it is invalid. Then the model is updated again as shown below:



From Figure 5 after updating the loading value of all indicators above 0.70. So that all indicators are valid and none shows a loading value below 0.70. In this study used Loading Factor of 0.70.

Table 1 Outer Loading

	Moderation Effect	Financial Factor	Profit management	GCG
DA			1,000	
KA				1,000
LN		1,000		
Financial Factor*GCG	0.999			

Source: Results of data processing (2021)

Based on the data in table 1 shows that the research variable indicators that have outer loading > 0.70 , it can be said that all values already have good validity and reliability.

b) Composite Reliability

The Composite Reliability value generated by all constructs is very good, which is above > 0.80 . Then it can be seen that the composite reliability value of each variable can be seen in table 2 below.

Table 2 Composite Reliability

Variable	Composite Reliability
GCG	1,000
Moderation Effect	1,000
Financial Factor	1,000
Profit management	1,000

Source: Data Processing Results (2021)

Based on table 2 shows that all variables with Composite Reliability values have a value > 0.8 . This shows that each variable has met Composite Reliability, meaning that it has high reliability.

c) Cronbach Alpha

The reliability test with Cronbach Alpha will be strengthened if the value is > 0.6 for all constructs, it will prove that the measurements in this study are reliable. The Cronbach Alpha value can be seen in table 3 below.

Table 3 Cronbach Alpha. values

Variable	Cronbach Alpha
Moderation Effect	1,000
Financial Factor	1,000
Profit management	1,000
GCG	1,000

Source: Data Processing Results (2021)

Based on Figure 3, it shows that the Cronbach Alpha value is strong because the value is > 0.6 for all constructs, and this proves that this study is reliable.

d) Average Variance Extracted (AVE)

The variables in this study already have an AVE value > 0.5 . The AVE value can be seen in table 4 below

Table 4 AVE. Value

Variable	AVE
Moderation Effect	1,000
Financial Factor	1,000
Profit management	1,000
GCG	1,000

Source: Data Processing Results (2021)

Based on table 4, it shows that the AVE value of the Moderating Effect, Financial Factors, Earnings Management, GCG

variable has an AVE value of > 0.5 , meaning that the variable is valid.

e) Discriminant Validity

Discriminant validity using the cross loading value, if the discriminant is adequate by comparing the cross loading value on the indicator on the target variable is greater than the other variables. The value of cross loading in table 5 below:

Table 5 Cross Loading

Indicator	Moderation Effect	Financial Factor	Profit management	GCG
DA	0.235	0.716	1,000	-0.104
KA	-0.157	0.026	-0.104	1,000
LN	0.087	1,000	0.716	0.026
Financial factors*GCG	1,000	0.087	0.235	-0.157

Source: Data Processing Results (2021)

Based on table 5, it can be seen that the indicators used in this study have good discriminant validity in compiling their respective variables.

According to Chin (1998), the value of R square is 0.67 (strong), 0.33 (moderate) and 0.19 (weak). The following table 6 R Square is as follows:

6.1.2 Inner Model

After testing with the outer model has met the requirements, then the next step is to use the inner model or structural model. The results of the structural model are as follows:

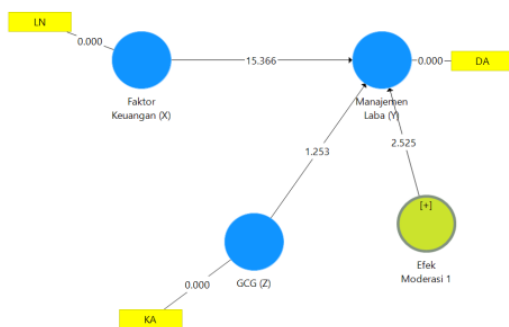
Table 6 R Square

Items	R Square	R Square Adjusted
Profit management	0.553	0.545

Source: Data Processing Results (2021)

Based on table 6, we can see that the R square value for Earnings Management is 0.553 which means that the variability of the earnings management construct which can be explained by the financial factor construct and GCG with its interaction of 55% for endogenous variables in this inner model explains that the R square value includes in the moderate category. As for 45% explained by other variables not found in this study.

Figure 5 Inner Model



Tests on this structural model are as follows:

a) R Square

The value of R Square is used as a measure of strength to predict from the structural model. R square is the coefficient of determination on the endogenous construct.

b) Estimate for Path Coefficient

Estimate for Path Coefficient is the value of the path coefficient or the magnitude of the relationship/influence of the latent construct. The measurement of the path coefficient value is carried out using the Bootstrapping procedure, the significant value used is the t-value is 1.96. Table 7 shows the results of the t-statistical test to test the significance of indicators between latent variables.

Table 7 Path Coefficient. Table

	Original Sample (O)	Sample Mean (M)	Standard Deviation (STDEV)	T Statistics (O/STDEV)	P Values
Financial Factors Earnings Management ->	0.705	0.700	0.048	14,630	0.000
Moderating Effect Earnings Management ->	0.158	0.162	0.060	2,636	0.009

Source: Data Processing Results (2021)

In SmartPLS statistical testing of each relationship is hypothesized, with the bootstrap method on the sample. The test results with bootstrapping are as follows:

a) Financial Factors have a positive effect on Earnings Management

The test results show a coefficient value of 0.705, which means that there is a positive and significant influence on financial factors with company size indicators on earnings management as indicated by the tstatistic > ttable with a significant value ($\alpha_{00} > 0.05$) Ha is accepted and Ho is rejected.

b) Moderation effect has a positive effect on earnings management

The test results show that the variable Good corporate governance with audit committee indicators is able to moderate the positive and significant influence of financial factors on earnings management as indicated by the coefficient value of 0.158 from the value of tstatistic > ttable with a significant value ($\alpha_{00} > 0.05$) Ha is accepted and Ho is rejected.

RESULTS AND DISCUSSION

1) Financial factors affect earnings management

Based on the results of calculations using SmartPLS, it can be seen that the financial factor construct with company size indicators has a positive and significant effect on earnings management. This can be seen from the large t-statistic value of 1.965, which is 14.630. The hypothesis in this study is accepted. These results are in accordance with the research of Imas and Dewi (2014) that financial factors, namely company size, have a positive effect on earnings management and also research by Sheli (2020) that company size also has a positive effect on earnings management. This is because manufacturing companies in

the goods and consumption industrial sector in 2015 to 2019 have a greater incentive to manage earnings than small companies, because they have greater political costs.

2) The Effect of Financial Factors on Earnings Management is moderated by Good Corporate Governance

Based on the results of statistical calculations, it can be seen that financial factors moderated by good corporate governance with audit committee indicators have a positive effect on earnings management moderated by good corporate governance. This can be seen from the large t-statistic value of 1.965, which is 2.636. These results are in accordance with Muid's (2017) research that good corporate governance with audit committee indicators has a positive effect on earnings management and Kurrotun (2020) audit committee has a positive effect on earnings management. The average result of the number of audit committees is 3 people in a manufacturing company. The average result is in accordance with the decision of the chairman of the capital market and financial institution supervisory agency (BAPEPAM-LK) No:Kep-643/BL/2012 an audit committee formed by and responsible to the board of commissioners. The audit committee consists of at least 3 people from independent commissioners and parties from outside the issuer or public company and is known by the independent commissioner. These results support previous research, namely Sari (2013); Sudjatna and Muid (2015); Kusumawati et al., (2015); Thuneibat et al., (2014); Jaya et al., (2017) which states that the Audit Committee has a positive effect on earnings management.

RESULT

- a) Financial factors with company size indicators have a positive and significant effect on Earnings Management in manufacturing companies in the goods and consumption industrial sector listed on the IDX in 2015-2019 with a coefficient value of 0.705 and a tstatistic value $> t_{table}$ with a significant value ($\alpha_{00} > 0.05$) H_a is accepted and H_o is rejected.
- b) The Good Corporate Governance variable with the audit committee indicator is able to moderate the positive and significant influence of financial factors on Earnings Management in manufacturing companies in the goods and consumption industry sector listed on the IDX in 2015-2019 as shown by the coefficient value of 0.158 from the value of tstatistic $> t_{table}$ with a value of 0.158. significant ($\alpha_{00} > 0.05$) H_a is accepted and H_o is rejected.

Acknowledgement: None

Conflict of Interest: None

Source of Funding: None

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How to cite this article: Ilham Multama, Risa Wahyuni EDT, Winona Kumara Dewi. The influence of financial factors on profit management with good corporate governance as a moderating variable (empirical study on manufacturing companies in the goods and consumption industry sector listed on the Indonesia stock exchange 2015-2019). *Galore International Journal of Applied Sciences & Humanities*. 2022; 6(3): 77-86. DOI: <https://doi.org/10.52403/gijash.20220711>
