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Effect of Good Corporate Governance, Motivated Behavior and Implementation of Accounting Information Systems on Real Behavior of Earnings Management (Study at Go Public Manufacturing Companies in Indonesia Stock Exchange)

Gunarianto, Marjani Ahmad Tahir and Endah Puspitosarie

University of Widyagama, Faculty of Economics, Malang-Indonesia

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ABSTRACT

This study aims is to get empirical evidence, examine and explain the effect of good corporate governance, motivated behavior, and implementation of Accounting Information Systems on real behavior of earnings management of go public manufacturing companies in Indonesia Stock Exchange (IDX). This is a quantitative research with an explanatory design. Census samples are obtained based on design criteria. The primary data is collected by questionnaire. Secondary data as financial statements from IDX. Data is analyzed by multiple logistic regressions and multiple regression analysis with Successive Interval Method. The research shows two results. First, three independent variables of good corporate governance, motivated behavior, and implementation of Accounting Information Systems simultaneously have positive and significant effect on real behavior of earnings management at variance of 71.6%. The test results also show that variables of Good Corporate Governance, motivated behavior, and implementation of Accounting Information Systems partially have positive and significant effect on real behavior of earnings management. Second, good corporate governance has dominant effect on real behavior of earnings management. The implications of this research are go public manufacturing companies in Indonesia Stock Exchange, which has been applying the principles of good corporate governance in management of company indicates that well managed company and transparent are able to minimize the real behavior of earnings management of opportunistic manager. Control mechanisms of good corporate governance able to minimize the manager behavior that put his personal interests and ultimately can make high quality and reliable financial statements.

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INTRODUCTION

The Government claims that increasing subsidized fuel can save energy subsidy budget allocation and useful for other infrastructure. Although positive, slow expenditure absorption makes the effect of funds reallocation for such infrastructure is less optimal. Until the end of October 2013, budget realization only reached 67.6 percent, slightly higher than 66.1 percent in same period in 2012.

Corporation performance at early 2013 show that Indonesian stock market has a positive move and tends to push the market capitalization to a higher level. Solid economic fundamentals and condition of industry and companies with good performance become a pull factor of domestic and foreign investors to put their money in Indonesia financial markets. However, Indonesia's stock market was under pressure in June 2013 along with Bank Indonesia policy to raise BI rate and government's decision to raise the price of subsidized fuel. Expectations of higher inflation and higher costs can trigger the onset of negative sentiment that makes the market corrected sharply.

Stock market capitalization in June 2013 was eroded by 4.3 percent to become 4739.6 trillion. Market pressure continues in next month due to additional negative sentiment stemming from the current account deficit, weakening rupiah and issue of tapering off of Fed's monetary policy. The market capitalization in July 2013 reached 4582.3 trillion (down 3.3 percent from the previous month), then dropped to 4130.1 trillion in August (down 9.9 percent).

Stock movement gradually was recovered after the Fed decided to continue the policy of monetary stimulus. The inflation rate was more controllable

Corresponding Author: Gunarianto, University of Malang Widyagama, Jl. Borobudur No.35, Blimbing, Malang City, East Java, 65125, Indonesia
Tel: (0341) 492282; E-mail: gun_uwg@yahoo.co.id

and stable movement of rupiah contributed to improvement in market sentiment. The market capitalization rose again to 4251.4 trillion at end of September 2013, increase 5.5 percent from the same month in 2012. The weakening movement of stock market makes the market capitalization of large manufacturing firms in stock exchanger dropped significantly. Companies with largest capitalization on Indonesia Stock Exchange come from the sector of consumer products, automotive, infrastructure and cement. Asset value of some Indonesian companies can be equated with US companies in Fortune 500. Dell (ranked 51 US) has assets of about 47 billion dollars, Philip Morris (rank 99) has the asset 37,7 milliard dollars, and Texas Instrument (rank 218) has assets of 20.0 billion dollars. Until September 2013, large cap companies in Indonesia such as Astra International (assets of 18 billion dollars up to June 2011, down 2.6 per cent), Telkom (assets of about 10.5 billion dollars, down 4.4 percent). These Indonesian companies have a sizable asset to be synchronized with top 500 companies in United States.

Table 1: Value And Growth of Asset capitalization for Largest Manufacturing Companies.

Companies	Market Capitalization (Million Rupiah) Per 31 Oct 2013	Total Asset (Million Dollar)						Total Asset Growth (%)				
		Dec-08	Dec-09	Dec-10	Dec-11	Dec-12	Sep-2013	Dec-09	Dec-10	Dec-11	Dec-12	Sept-13
1. HM Sampurna Tbk	293.222.688	1.424,6	1.868,8	2.285,9	2.119,3	2.724,2	2.354,2	31,2	22,3	(7,3)	28,5	(1,6)
2. Astra International Tbk	269.215.616	7.129,4	9.381,6	12.569	16.878,4	18.917,9	18.132,1	31,6	34,0	34,3	12,1	(2,6)
3. Unilever Indonesia Tbk	228.900.000	574,4	789,6	969,1	1.146,5	1.243,9	1.160,0	37,5	22,7	18,3	8,5	(10,4)
4. Perusahaan Gas Negara (Persero) Tbk	123.631.688	2.256,1	3.024,3	3.573,6	3.400,2	3.908,2	3.766,3	34,0	18,2	(4,9)	14,9	4,3
5. Sement Indonesia (Persero) Tbk	85.117.312	936,2	1.366,2	1.733,3	2.150,5	2.758,6	2.414,7	45,9	26,9	24,1	28,3	4,3

Source: BPS in KEN (2014)

Table 1 shows that manufacturing sector is still become the backbone of Indonesian economy. Therefore, government should endeavor again to raise the role of manufacturing sector because this sector provides significant employment in Indonesia economy. Therefore, control mechanisms of good governance in Indonesia manufacturing companies are very important and fundamental. Mechanisms control of good governance makes all the parties interested in company (stakeholders) can assess the condition and development as well as the company's success in managing their resources rightly.

II. Literature Review:

Corporate Governance concept has been emerged as an attempt to reduce or overcome the self interested behavior of management through a mechanism to allow the profits sharing and wealth creation that equal to stakeholders, and create efficiency for company. Several studies of Beasley (1996), Dechow *et al* (1996), McMullen (1996), Beasley *et al* (2000) Gideon (2005: 174) suggests that mechanism of corporate governance relate to the ability to produce a financial report with high information content. Ownership structure and characteristics of director's board are mechanism to align the shareholders interests and management interests.

Warfield (1995) and Yeo *et al* (2002) in Gideon (2005; 175) showed a positive relationship between managerial ownership and profit information content. The greater management share will improve the quality of earnings report. Mechanism of investor ownership has ability to reduce the managers urge that have opportunistic behavior by higher monitoring levels than individual investor.

Similar research of Watts and Zimmerman (1978; 114) and followed by Massod (2011; 484) reveal that good corporate governance in Malaysia reduce the agency conflict by aligning goals between management and investors to improve corporate performance.

The same condition was confirmed by Sanjai and Brian (2008; 257) which states that corporate governance principles have a significant effect on efforts to increase the company's performance and can reduce behavioral of earnings management. Furthermore, Sung (2001; 35) samples of 5,829 companies in Korea found that corporate governance is able to improve the profitability of company prior to economic crisis in Korea.

Healy (1985; 85) makes a study of 94 companies from the period 1964 to 1980. The factors that encourage management to conduct earnings management is to give bonus to company leadership (earnings-based bonus schemes). Jones (1991; 209) with 23 sample companies and data for period 1980 to 1985 shows that companies with debt ratio and funding difficulties will raise earnings report, otherwise companies without financial difficulties tend to flatten profit. Gaver *et al*. (1995; 23) use a sample of 82 companies o found that giving bonuses or compensation to managers encourage the managers to choose accounting methods to raise earnings report, expecting to earn the bonus.

Similar study was also conducted by Pourjalali (1992; 2) with samples of 204 companies between 1980 and 1988. He found that managers of large-scale enterprise have small differences to choose accounting methods. Holthausen *et al*. (1995; 65) examined the accounting earnings and top executive compensation, managers who work on a contract with profit-based bonus will use the accounting method to raise the profits. Skinner (1993; 409) and Shivdasani (1993; 168) said that factors affecting earnings management and selection of accounting methods is debt equity ratio, company's scale, financial leverage, bonus plans and composition of company's working capital.

Motivated behavior has been studied by Hellriegel *et al*. (1998); Robbin (2001); Kreitner and Kinichi (2001) and Thoha (2003) in Hasbudin (2004; 45). They found that motivated behavior would encourage more scalable and standardized of internal control efforts and will trigger a health and performance of company.

Romney and Steinbart (2003); Anthony and Govindarajan (2003); Bodnar and Hopwood (2001) in Hasbudin (2004: 45) found that implementation of Accounting Information Systems provide a major contribution in decision-making, including internal control to achieve the company's performance.

Many researchers recognize the difficulties to measure the information benefits from accounting information system on organizational performance (Mahmood and Mann 2000). There are various disagreements among researchers themselves about the relationship between performance and information benefits. One main reasons of disagreement is the correlation to reflect the relationship between performance and information does not show causality.

Although still there are pros and cons of the problem, but studies the relationship between managerial performance and information still continues to be done, including by Chia (1995), Gul and Chia (1994), Mia and Chenhall (1994), Choe (1996) and much more. Research of Nazaruddin (1998) also proves that information with characteristics of broad scope, timeliness, aggregation and integration affect on managerial performance. The manager has the flexibility to choose several alternatives to record transactions while selecting the options in accounting treatment. This flexibility is used by management to manage earnings (Scott, 2006).

The main objective of company is to maximize shareholder value. Therefore, it is important for companies to report positive earnings growth and positive earnings to meet analysts' forecasts in order to obtain capital (Degeorge *et al*. 1999). Since profit consists of cash flow from operations and accruals, company has two options to manage earnings. First, companies can manage earnings through deviations from normal business operations, so the cash flow from operations will be affected. Real Earning Management by Rowchowdhury (2006) is a deviation from normal business practice to manipulate earnings report. Second, company can change the accrual rate to obtain desired level of income. According to Healy and Wahlen (1998), managers use judgment in financial reporting that may be defined as an accrual-based earnings management or Accrual Earning Management (AEM).

The main problem in this study can be formulated as follows: (1) Are Good Corporate Governance, motivated behavior, and implementation of Accounting Information Systems either simultaneously or partially have positive and significant effect on real behavior of earnings management of go public manufacturing companies at Indonesian Stock Exchange?; and (2) Among the Good Corporate Governance, motivated behavior and implementation of Accounting Information Systems, which one has dominant effect on real behavior of earnings management of go public manufacturing companies at Indonesia Stock Exchange ?.

This study aim is to test empirical evidence and to find clarity phenomenon the effect of good corporate governance, motivated behavior and implementation of Accounting Information Systems on real behavior of earnings management of go public manufacturing companies at Indonesia Stock Exchange.

III. Research Methods:

This study aims is to get empirical evidence, examine and explain the effect of good corporate governance, motivated behavior and implementation of accounting information systems on real behavior of earnings management of go public manufacturing companies at Indonesia Stock Exchange. This study uses census techniques with predetermined criteria over the entire population of go public manufacturing companies at Indonesia Stock Exchange with amount of 173 companies and there are 34 companies that qualify as research samples.

Multiple logistic regression analysis were assisted by Method of Successive Interval is used to analyze data because there is variable with categorical response, more specifically is the dichotomy real earnings management.

RESULTS AND DISCUSSION

Study samples are 34 (thirty-four) manufacturing companies that meet the criteria. Goodness of fit model is done before testing the hypothesis. It is done by looking at Log Likelihood value-2 statistics on SPSS output binary logistic regression in Table 2 and 3 below:

In Beginning, Table 2 at value of -2 log likelihood only use constant (c) is 166.408, while after involving three independent variables, Table 3 show the value of -2 Log Likelihood is 121,990. It shows a decrease in value of -2 Log Likelihood which means fulfillment of goodness of fit. This is also corroborated by Table Beginning, resulting coefficient of -2 Log Likelihood at 0.426 alpha greater than 0.05. Therefore, this value indicates the model is fit. Furthermore, for block 1 the value of -2 Log Likelihood is 121.990, we compare this value with Chi Square (0.05, df = 124-3), the result of

121.990 is smaller than 124.30 (not significant), so the model is fit with data.

Simultaneous effect of good corporate governance, motivated behavior, and implementation of Accounting Information Systems on real behavior of earnings management are tested by logistic regression model using analysis of binary logistic regression due to variable real behavior of earnings management as the dependent variable consists of two categories: real behavioral of earnings management by increasing profits and lowering profits. SPSS output results for simultaneously hypothesis test can be seen in Table 4 and 5 below.

Table 2: Iteration History[a,b,c].

Iteration		-2 Log likelihood	Coefficients
			Constant
Step 0	1	166.409	.419
	2	166.408	.426
	3	166.408	.426
a. Constant is included in the model.			
b. Initial -2 Log Likelihood: 166.408			
c. Estimation terminated at iteration number 3 because parameter estimates changed by less than .001.			

Table 3: Iteration History[a, b, c, d.]

Iteration		-2 Log likelihood	Coefficients			
			Constant	X1	X2	X3
Step 1	1	121.680	-2.960	8.693	-.039	2.105
	2	121.993	-3.456	9.942	.018	2.666
	3	121.990	-3.491	10.024	.024	2.713
	4	121.990	-3.491	10.024	.024	2.713
a. Method: Enter						
b. Constant is included in the model.						
c. Initial -2 Log Likelihood: 166.408						
d. Estimation terminated at iteration number 4 because parameter estimates changed by less than .001.						

Tabel 4: Omnibus Tests of Model Coefficients.

		Chi-square	df	Sig.
Step 1	Step	29.418	3	.000
	Block	29.418	3	.000
	Model	29.418	3	.000

Table 5: Model Summary.

Step	-2 Log likelihood	Cox & Snell R Square	Nagelkerke R Square
1	121.990[a]	.528	.716
a. Estimation terminated at iteration number 4 because parameter estimates changed by less than .001.			

SPSS output results in Table 4 of “Omnibus Tests of Model Coefficients” are used to test simultaneously the effect of independent variables on dependent variable. Table 4 shows that significance value is 0.000. This value is smaller than 0.05, it can be concluded that independent variables were simultaneously have significant effect on real behavior of earnings management.

SPSS calculation in Table 5 of "Model Summary" show the simultaneous effect of good corporate governance, motivated behavior, and implementation of Accounting Information Systems on real behavior of earnings management as determined by value Nagelkerke R Square that has analogies equal to value of R-square on Multiple Regression. Calculations results in model Nagelkerke R Square is equal to 0.716, it means that three independent variables of Good Corporate Governance, motivated behavior, and implementation of Accounting Information Systems simultaneously have positive and significant effect on real behavior of earnings management, and able to explain variance the earnings management with amounted to 71.6%, while the remaining 28.4% is explained by other factors beyond the study.

Table 6 shows hypothesis test the partial effect of good corporate governance, motivated behavior, and implementation of Accounting Information Systems on real behavior of earnings management.

Table 6: Variables in the Equation.

		B	S.E.	Wald	df	Sig.	Exp(B)
Step 1[a]	GCG	-10.024	2.217	20.439	1	.000	11.780
	PMOTIV	1.022	.358	8.149	1	.004	2.780
	SIA	.535	.154	12.152	1	.002	1.708
	Constant	3.491	.923	14.292	1	.000	.030
a. Variable(s) entered on step 1: GCG,PMOTIV,SIA.							

Test results at Table 6 of "Variables in Equation" shows that all independent variables of good corporate governance, motivated behavior, and implementation of Accounting Information Systems partially has positive and significant effect on real behavior of earnings management, because each independent variable is has a significance value less than 5%. From Variables in equation above, model is formed is as follows:

Ln P/1-P = 3,491-10,024GCG+1,022PMOTIV+0,535SIA

The dominant effect among the variables of good corporate governance, motivated behavior and implementation of accounting information systems on real behavior of earnings management can be known from Table 6. "Variables in Equation" shows good corporate governance has dominant effect on real behavior of earnings management. It can be seen from its value Odds ratio (Exp (B)) variable Good Corporate Governance at 11.780 is larger than the other variables.

Test results the simultaneous effect of good corporate governance, motivated behavior and implementation of Accounting Information Systems on real behavior of earnings management show significance value of 0.000 less than α of 5%,. It means Good Corporate Governance, motivated behavior, and implementations of Accounting Information Systems simultaneously have significant and positive effect on real behavior of earnings management. Therefore, hypothesis 1 is accepted.

A company control mechanism is a good tool for discipline managers to act for investors benefit. The control mechanisms include internal mechanisms, such as managerial incentive plan and director monitoring and external mechanism such as an external shareholder or creditor and market monitoring to control of company securities and laws impact to protect foreign investors against the takeover by insiders. The company role in terms of financial accounting information as the use of financial accounting data for external parties must be reported to control mechanisms and good governance and should contain openness principle.

In classic corporate perspective the separation of company's managers from outside investors will cause a lot of conflict. This control mechanisms emphasize on discretion and decisions of management as the company manager, namely the company supervision with accounting information systems through the financial reporting to monitor the manager behavior in order any action taken by manager it is beneficial to company or the owner or manager himself. Supervision is more directed towards the management transparence (open), accountable, and there is a clear monitoring process within framework of protecting the company owners, especially external investors. The separation between owners and company management at go public companies often creates a problem. When ownership is widely distributed to public through the capital market, it causes more and more company owners that cannot able to exercise effective control to managers who manage the company. Management mechanism can include structures and management systems, infrastructure management, and external pressure. The aim is to encourage the management of a company to prioritize the openness principle (transparency) and accountable so that shareholders have the opportunity to examine various decisions and the basis for decision making to assess the effectiveness of company management decision. Corporate governance can be seen from the main dimensions, namely transparency and accountability.

Accounting Information Systems produce financial accounting information as the product of company's accounting and reporting systems for external parties to measure management performance and should disclose publicly through audits of quantitative data regarding the financial position and performance of public company's management. Financial accounting systems provide direct input to control mechanisms (governance) of company, as well as contributing input directly to information in share price. The study provides information that information provided by accounting system of financial accounting by discipline managerial behavior that motivated and good corporate governance can reduce the agency problem, because there is separation between company managers and external investors.

Corporate governance actually relates to issue of who should control the company, and why it is happened. From the standpoint of legal perspective, owner is the party with control over the company operation, but the fact often shows that company manager has full control to company operation, while the owner cannot affect the company operation. This fact became a problem because in many cases the company manager less contribute to company growth. Discretion to use company resources have been provided by owner to company’s manager is not fully utilized for owner benefit. Some examples of discretion abuse are creative accounting, business failures, limited roles of auditors, there is no clear relationship between the compensation system and performance, emphasis on short-term performance at expense of long-term economic benefits and so forth. Manager motivation managers to increase company profits by any means will cause a lot of conflict. The role of financial reporting and information transparency in corporate governance, will be able to reduce the agency conflicts between managers, directors and shareholders, as well as reducing the agency conflict between shareholders and outside contractors, such as creditors. Corporate governance consists of a mechanism to ensure shareholders to buy and sell stocks.

The test results of this study also "accept" the first hypothesis which states that good corporate governance, motivated behavior, and implementation of Accounting Information Systems partially have positive and significant effect on real behavior of earnings management.

Application of good corporate governance principles is directed to make companies organs operate based on high moral values and adherence to regulations that are expected to improve the performance and companies contribution and ultimately can improve stakeholder's value.

These results provide meaning that good corporate governance that consists of managerial ownership, institutional ownership and composition of commissioner's board has the ability to generate financial report that contains information about high profits. Good Corporate Governance has the ability to reduce the manager's incentives who have opportunistic behavior with a higher level of financial monitoring in company report. Various thoughts on corporate governance are developed by relying on agency theory in which the management must be conducted with full adherence to various rules and regulations. Implementation of good corporate governance principles within scope of capital market in Indonesia can be described through the Bapepam efforts to encourage public companies to consider and implement the following principles: Transparency, fairness, responsibility, and accountability. There are two things are emphasized in this concept. First is importance of shareholders right to get information correctly and on time. Second is company's obligation to make disclosure that accurate, timely, transparent about all information of corporate performance, ownership and stakeholders. Both of these concepts will be able to reduce the managers to perform earnings management behavior.

Accounting information plays an important role in corporate governance to prevent the managers performs earnings management behavior. A key issue in corporate governance is to establish mechanisms to align the interests of executives and external shareholders. If the profits are not qualified due to manager motivation for its own account to establish the market value of company, profits of these companies are not able to explain company's actual market value. Informed investors will see that corporate profits cannot be used to predict stock prices. But if the investor does not have information about the company's performance, investors will respond to such profits. The existence of institutional investors is considered as one informed investors. Institutional investors will not just credulous by action of opportunistic motivations of managers to its own interests through real behavior of earnings management. In addition, institutional investors have a monitoring role and function better when compared to other investors. The existence of institutional investors is expected to become a mechanism to reduce real behavior of earnings management, so the external parties interests can be protected.

This study result "reject" a second hypothesis that motivated behavior has dominant effect on real behavior of earnings management. Hypothesis testing results show that good corporate governance variable has dominant effect on real behavior of earnings management, which consists of composition of directors board, managerial ownership and institutional ownership.

This hypothesis test results means that in conjunction with monitoring function, certain ownership structure and board structure has the ability to affect managerial behavior in resource management company in order to achieve the objectives interest of principal. The results are consistent with Warfield *et al*. (1995) which states relevance and reliability of profit as a positive function of managerial ownership.

The results also explain that managerial ownership has a significant effect on mechanisms to reduce agency problems and moral hazard of managers by aligning the managers interests and shareholders' interests based on condition of company's ownership structure. This finding is consistent with Dhaliwal *et al*. (1982), Jensen and Meckling (1976) and Morck *et al*. (1988) in Gideon (2005; 174) that managers and external shareholders (investors) interests can be incorporated if the ownership of shares by managers are enlarged, so that behavior of managers no longer need to manipulate Meckling through earnings management for its own sake.

The results also justify that institutional ownership has a significant effect on real behavior of earnings management. Institutional investors are owners with focus on current year profit, and usually have a stake in large quantities, so that management was forced to take action that can improve the short-term profit. Institutional ownership has a better ability to control the behavior of managers related to the supervision. Institutional ownership has a role to supervise the company to weaken the management's desire to perform earnings management.

Institutional investors can conduct effective oversight and oversee the managers actions such as earnings management behavior. This is consistent with Rajgofal *et al*. (1999) which concluded that manager admitted that institutional investors have more information related to company's performance compared to individual investor. Rajgofal *et al*. (1999) also found that the higher institutional ownership can increases stock prices to reflect the proportion of future earnings information relatively greater to current earning.

The results also reinforce research of Bushee (1998), Gideon (2005; 176) that greater percentage of institutional investors ownership makes managers reduce the incentive to undertake earnings management proxied by spending research and development costs. Institutional investors are sophisticated investors who can perform a monitoring role to reduce opportunistic earnings management behavior by issuing long-term investment through research and development (R & D).

This study also found that composition of directors board has a significant effect on real behavior of earnings management. It shows relationship between the supervisory role of directors board and quality of financial reporting. The structure of corporate governance plays an important role to limit real behavioral of earnings management. This study corroborates research of Dechow *et al*. (1995) who found that companies are allegedly violates earnings management has a directors board are dominated by insider. In addition, composition and amount of directors board affect on monitoring process of financial report. These results support Chtourou *et al* (2001) that directors board in size large is able to perform effective oversight of company's financial reporting process. Large directors board can monitor the company's financial reporting process effectively than small directors board. Many studies have found that application of corporate governance can increase the company's value.

V. Conclusion:

Based on results of hypothesis testing and discussion, the conclusions can be stated below.

1. Variables of Good Corporate Governance, motivated behavior, and implementation of Accounting Information Systems either partially or simultaneously have positive and significant effect on real behavior of earnings management of go public manufacturing companies at Indonesia Stock Exchange.
2. Variable of Good Corporate Governance with indicators of commissioners composition, managerial ownership and institutional ownership has dominant effect on real behavior of earnings management of go public manufacturing companies at Indonesia Stock Exchange.

VI. Research Implications:

The research implication is go public manufacturing companies in Indonesia Stock Exchange has been applying the principles of good corporate governance in company management. It indicates that company is well managed and transparent, able to minimize the real behavior of earnings management of opportunistic manager. The control mechanisms of good corporate governance can minimize the behavior of manager who promote his personal interests and ultimately can create financial statements with high quality and reliable.

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