

The Effect of The Implementation of Good Corporate Governance Mechanism on Earning Management Practices and Impact on Corporate Sustainability

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Abstract: This research begins with a phenomenon that occurs in Indonesia, one of which is the Toshiba Corp. where CEOs are pressured by business divisions to meet difficult targets, and they exaggerate profits and delay reporting losses. One of the most effective ways to reduce earnings management practices is to implement good governance mechanisms. So this study aims to examine the effect of implementing good corporate governance mechanisms, namely institutional ownership, managerial ownership, independent commissioners, audit committees, and auditor quality. on earnings management practices and their impact on corporate sustainability. The population in this study were property, real estate and building construction companies listed on the Indonesia Stock Exchange (BEI) during 2014-2018. The data used in this study is secondary data with the sampling technique using purposive sampling, obtained 19 samples with 44 observations that meet the sample criteria. The analysis in this study used a panel data regression model with the help of the EVIEWS 9 program. The results of this study indicate that the audit committee has a significant effect on earnings management practices. Institutional ownership, managerial ownership, independent commissioners, and auditor quality have no significant effect on earnings management. The results of this study also indicate that managerial ownership, independent commissioners, and audit committees have a significant effect on corporate sustainability. Institutional ownership, auditor quality, and earnings management practices do not have a significant effect on corporate sustainability and earnings management is proven to be unable to intervene between institutional ownership, managerial ownership, independent commissioners, audit committee, and auditor quality in corporate sustainability.

Keywords: Institutional Ownership, Managerial Ownership, Independent Commissioner, Audit Committee, Auditor Quality, Earning Management, and Corporate Sustainability.

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I. Introduction

The case that happened to Toshiba Corp. where CEOs Hisao Tanaka and Sasaki pressured the business division to meet difficult targets, and they overstated profits and delayed reporting losses. It can be seen that differences in interests that occur in companies are often targeted by management for earning management because in accrual accounting, generally accepted accounting principles provide flexibility by allowing managers to choose accounting policies. in earnings reporting. However, the flexibility of accounting principles creates opportunities for managers to carry out earnings management. Scott (2015:445) defines "Earning management is the choice by a manager of accounting policies or actions affecting earnings, to achieve some specific reported earnings objectives".

One of the most effective ways to reduce earnings management practices is to implement a good corporate governance system. This study prefers the application of the GCG mechanism compared to the principles of GCG because it is related to the practice of earnings management itself which is one of the five GCG mechanisms, namely the independent board of commissioners, has been proven to be able to thwart earnings management practices as happened. at PT Garuda Indonesia (Persero) Tbk. where Chairal Tanjung and Dony Oskaria as Commissioners did not want to sign the financial statements submitted at the GMS because they felt there were irregularities in the recording of revenue recognition. Corporate governance mechanisms are clear rules, procedures and relationships between those who make decisions and those who will control (supervise) these decisions which will guarantee and oversee the running of the governance system in an organization (Syakhroza, 2005 in Hamdani, 2016: 20). The corporate governance mechanism itself consists of institutional ownership, namely ownership by high institutional investors that can replace or strengthen the monitoring function of the board of commissioners by the company (T. Manik, 2017); managerial ownership, namely share ownership by managers can help unify interests between shareholders and managers (Lopez-

Iturriaga & Rodriguez, 2011); independent commissioners, namely members of commissioners who are not affiliated and free from business and other relationships that may affect their ability to act independently or act solely for the benefit of the company (KNKG, 2004 in Guna & Herawaty, 2010); audit committee, namely the audit committee that carries out independent supervision of financial reports, implementation of external audits, company management, and good implementation processes in influencing the quality of financial reporting (Herianto, 2013); quality of auditors, namely how well the audit is in accordance with auditing standards (Widiastuty and Febrianto, 2010). Meanwhile, sustainability according to Savit & Weber in Cambra-Fierro & Ruiz-Benitez, (2011) is "A sustainable corporation is one that creates profit for its stakeholders while protecting the environment and improving the lives of those with whom it interacts."

Researches on the mechanisms of good corporate governance on earnings management have been conducted both domestically and abroad. However, the mechanism of good corporate governance towards earnings management is still interesting to study given the inconsistencies in the results of these studies. Ambarita & Nuswantara, (2011) and Achmad Sutarmin (2017) found that the good corporate governance mechanism in their research did not affect earnings management practices. Irawati & Sudirman, (2017) and Setiawan (2009) found that the audit committee, managerial ownership, institutional ownership, and audit quality jointly affect earnings quality.

II. Literature Review

Agency Theory. Brigham & Houston, (2011) defines agency theory as a relationship in which managers are given power by shareholders. The theory of safety is based on three assumptions, namely: a) assumptions about human nature; b) assumptions about organization; c) assumptions about information.

Good Corporate Governance (GCG). IICG defines GCG as a process and structure that is implemented in running a company, with the main objective of increasing shareholder value in the long term while still paying attention to the interests of other bettors. (Khomsiyah, in Hamdani, 2016:20).

GCG Mechanism. It is a clear rule of the game, procedures and relationships between the parties who make decisions and those who will exercise control over these decisions that will guarantee and oversee the running of the governance system in an organization. (Syakhroza, 2005 in Hamdani, 2016:20).

Institutional Ownership. Ownership by high institutional investors can replace or strengthen the monitoring function of the board of commissioners by the company. This is because ownership by institutional investors is an alternative mechanism in corporate governance (Warhani, in T.Manik, 2017).

Institutional ownership measurement: (Asward & Lina, 2015)

$$\text{Institutional Ownership} = \frac{\text{Number of shares owned by institutional parties}}{\text{Number of shares outstanding}} \times 100\%$$

Managerial Ownership. López-Iturriaga & Rodríguez-Sanz, (2011:176-177) explained that the small number of managerial holdings in the company may indicate there is a congruence of interest between management and shareholders. The increasing proportion of managerial share ownership, the better the company's performance and a large number of managerial holdings will also play a role in minimizing the practice of profit leveling carried out by the management.

Managerial ownership measurement: (Dimarcia & Krisnadewi, 2016)

$$\text{Managerial Ownership} = \frac{\text{Number of shares owned by management}}{\text{Number of shares outstanding}} \times 100\%$$

Independent Commissioner. An independent commissioner is a member of the commissioner who is not affiliated with management, other members of the board of commissioners and controlling shareholders, and is free from business relationships and other relationships that can affect his ability to act independently (KNKG 2004 in Guna & Herawaty, 2010). Independent commissioner measurement: (Pricilia & Susanto, 2017)

$$\text{Independent Commissioner} = \frac{\text{Number of members of the board of commissioners}}{\text{Number of independent commissioners}} \times 100\%$$

Audit Committee. An effective audit committee is required for achieving good corporate governance. There are several benefits of establishing an audit committee within the company. First, the audit committee supervises financial statements and conducts external audits. Second, the audit committee conducts independent oversight of the management of the company. Third, the audit committee carries out independent supervision of the good implementation process in influencing the quality of financial reporting that will ultimately affect earning management (Herianto, 2013). Measurement of the audit committee: (Gestari in Wardatul, B., 2016)

Audit Committee = Number of Frequency of audit committee meetings

Auditor Quality. Widiastuty, Erna & Febrianto, (2010) stated that in the practical literature, audit quality is how much the audit conforms to auditing standards. On the other hand, accounting researchers identify various

dimensions of audit quality. These different dimensions make the definition of audit quality different. The size of KAP in this study is the size of the KAP which is divided into two groups, namely KAP affiliated with Big 4 and KAP not affiliated with Big 4. KAP size variables use dummy variables. Number 1 is used for companies audited by KAP Big 4 and number 0 is used for companies audited by KAP non-Big 4 (Indriastuti, 2012).

Earning Management. Earning management arises as a result of the use of accounting as one of the communications between interested parties and the inherent weaknesses in accounting that led to the judgment (Setiawati, 2002; Guna and Herawaty, 2010; in Nugraheni et al., 2015).

Earning Management Measurement. The Jones model, (1991) was the earliest model in detecting earnings management. Then Dechow, et al., (1995) refined Jones' model by including changes in sales and receivable changes. This change is to reduce discretionary accrual miscalculation derived from sales/revenue (Ahmad, et al., 2016). Here are the calculation steps in the modified Jones model:

Calculating Total Accruals (TACC): $TACC_{it} = NI_{it} - CFO_{it}$

Where : $TACC_{it}$: Total accrual company i in t period

NI_{it} : Net Income of the company i in the period t

CFO_{it} : Company's cash flow from operating activities i in t period

Next calculates the total accrual (TACC) estimated by the OLS regression equation:

$$\frac{TACC_{it}}{TA_{i,t-1}} = a_1 \left(\frac{1}{TA_{i,t-1}} \right) + a_2 \left(\frac{\Delta REV_{it}}{TA_{i,t-1}} \right) + a_3 \left(\frac{PPE_{it}}{TA_{i,t-1}} \right)$$

Where : $TACC_{it}$: Total accrual company i in t period

$TA_{i,t-1}$: Total assets of the company i in the period t-1

ΔREV_{it} : Changes in company revenue i between t period and t-1 period

PPE_{it} : Value of fixed assets of the company i in the period t

In the above regression equation (a_1, a_2, a_3), NDACC can be calculated by re-entering the coefficients a.

$$NDACC_{it} = a_1 \left(\frac{1}{TA_{i,t-1}} \right) + a_2 \left(\frac{\Delta REV_{it} - \Delta REC_{it}}{TA_{i,t-1}} \right) + a_3 \left(\frac{PPE_{it}}{TA_{i,t-1}} \right)$$

Where: $NDACC_{it}$: Non-Discretionary Accruals company i in t period

$TA_{i,t-1}$: Total assets of the company i in the period t-1

ΔREV_{it} : Changes in company revenue i between t period and t-1 period

ΔREC_{it} : Changes in company receivables i between t period and t-1 period

PPE_{it} : Value of fixed assets of the company i in the period t

Further discretionary accruals (DACC) can be calculated as follows:

$$DACC_{it} = \left(\frac{TACC_{it}}{TA_{i,t-1}} \right) - NDACC_{it}$$

Where: $DACC_{it}$: Discretionary accruals company i in t period

$TACC_{it}$: Total accrual company i in t period

$TA_{i,t-1}$: Total assets of the company i in the period t-1

$NDACC_{it}$: Non-Discretionary Accruals company i in t period

Source: (Journal of Accounting Research Vol.29. No.2: 193-228).

Corporate Sustainability. According to Salimath & Jones, (2011): "There is no consensus on a unified definition of sustainability. Furthermore, the measurement and interpretation of this construct appear to be idiosyncratic to specific aims or research interest". According to Savit & Weber in Cambra-Fierro & Ruiz-Benitez, (2011), the definition of sustainability in a corporate context is: "A sustainable corporation is one that creates profit for its stakeholders while protecting the environment and improving the lives of those with whom it interacts." Based on this definition, it is implied that corporate sustainability relates to the company's ability to create profit, protect the environment and improve social life.

Corporate Sustainability Measurement. The measurement of sustainability in this study is measured with value because value reflects values that include economic dimensions, governance, social, ethical, and environmental dimensions. Besides, the measurement of sustainability using value according to Koller et al., (2010) is based on the consideration that value is formed from the value of the operation, value of debt and value of equity, meaning that all of these components in the financial statements can describe sustainability in the future. In this study, corporate sustainability was measured by the value that refers to Tobin's Q formula used by Gaio & Raposo, (2011), Ficici & Aybar, (2012), as well as (Tangke & Habbe, 2017). Tobin's Q formula is as follows:

$$Q_{i,t} = \frac{BVA_{i,t} + MVE_{i,t} - BVE_{i,t}}{BVA_{i,t}}$$

Where: $Q_{i,t}$ = Company Value

BVA = Book Value of Total Assets

BVE= Equity Book Value MVE = Closing Price of Common Stock x Number of shares outstanding

III. Material And Methods

The research used is causal research. The data in this study are secondary data, the technique used by researchers is to collect secondary data related to this study, data in the form of financial statements of property, real estate and building construction companies with the 2014-2018 research year. The data source comes from the Stock Exchange website. Indonesia (<http://www.idx.co.id>), <http://www.sahamok.com> and the company websites concerned. This study uses documentation techniques, namely by collecting data based on documents or others. The population in this study were property, real estate and building construction companies listed on the Indonesia Stock Exchange on the mainboard during 2014-2018, as many as 44 companies. In determining the type of sample to be used in this study is using purposive sampling technique, which is a technique in which the sample is limited to certain types of people who can provide the desired information, either because they are the only parties who have it, or they meet several criteria used by researchers (Sekaran & Bougie, 2017). Of the 44 companies that met the criteria only 19 companies with the number of years of research 5 years.

In performing hypothetical analysis and testing used computer program tools EViews 9. The analysis method in this study used panel data regression. Panel data regression model to test the Effect of Good Corporate Governance Mechanism Implementation on Earning Management Practices both partially and simultaneously as follows: $Y = \alpha + \beta_1 \cdot X_1 + \beta_2 \cdot X_2 + \beta_3 \cdot X_3 + \beta_4 \cdot X_4 + \beta_5 \cdot X_5 + \epsilon$

Data regression panel model to test the Effect of Good Corporate Governance Mechanism Implementation on Corporate Sustainability as follows: $Z = \alpha + \beta_1 \cdot X_1 + \beta_2 \cdot X_2 + \beta_3 \cdot X_3 + \beta_4 \cdot X_4 + \beta_5 \cdot X_5 + \beta_6 \cdot Y + \epsilon$

Description: Y = Earning Management

Z = Corporate Sustainable

α = Constant

$\beta_1 - \beta_6$

Commissioner

ϵ

X_1 = Institutional Ownership

X_2 = Managerial Ownership

= Regression Coefficient

= Error

X_4 = Audit Committee

X_5 = Auditor Quality

X_3 = Independent

IV. Result

Descriptive Statistics

Tabel 1. Descriptive Statistics of Model I

	IO	MO	IC	AC	AQ	DA
Mean	67.69642	3.586105	38.57221	7.926316	0.378947	0.029053
Maximum	99.47000	55.24000	75.00000	41.00000	1.000000	0.260000
Minimum	7.290000	0.000000	25.00000	2.000000	0.000000	-0.060000
Observations	95	95	95	95	95	95

Source: Processed Data EViews 9.0 (2020)

Based on the table above it can be seen that the amount of data used in the study is 95 and shows the descriptive statistics of each variable presented below:

Institutional Ownership has the largest mean value of 67.70% among other variables, with a minimum value of 7.29% in KIJA in 2017 and a maximum value of 99.47% in PWON in 2017.

Managerial Ownership has a mean value of 3.59% with a minimum value of 0.00% contained in ADHI in 2018 and a maximum value of 55.24% in RBMS in 2018.

Independent Commissioners have a mean value of 38.57% with a minimum value of 25% contained in ACST 2014-2015, KIJA 2014 and a maximum value of 75% in RBMS in 2018.

Audit Committee has a mean value of 7.93 meetings with a minimum value of 2 meetings in BAPA, PWON in 2014-2016, RDTX in 2014-2016, 2018 and a maximum value of 41 meetings in PTPP in 2015.

Auditor Quality has a mean value of 0.38 with a minimum value of 0.00 found in ADHI, BAPA, BEST, GPRA, GWSA, IDPR, JKON, KIJA, NRCA, RBMS, RDTX in 2016-2018, APLN in 2018, PTPP, WIKA, WSKT in 2016, 2018, which shows that as many as 63% are not qualified because their financial statements are not audited by Big Four KAP and a maximum value of 1.00 is found in ACST, CTRA, MTLA, PWON, SMRA in 2016-2018, APLN in 2016-2017, PTPP, WIKA, WSKT in 2016, 2018, which shows that as many as 37% are qualified because their financial statements are audited by Big Four KAP.

Earning Management has the lowest mean value of 0.03% among other variables, with a minimum value of -0.06% contained in the NRCA in 2016 and a maximum value of 0.26% in ADHI and WIKA in 2017.

To view descriptive statistics of Institutional Ownership, Managerial Ownership, Independent Commissioners, Audit Committees, Auditor Quality, and Earning Management to Corporate Sustainability variables in Model II will be presented in table 2 below:

Tabel 2. Descriptive statistics Model II

	IO	MO	IC	AC	AQ	DA	Q
Mean	67.69642	3.586105	38.57221	7.926316	0.378947	0.029053	1.182947
Maximum	99.47000	55.24000	75.00000	41.00000	1.000000	0.260000	4.150000
Minimum	7.290000	0.000000	25.00000	2.000000	0.000000	-0.060000	0.190000
Observations	95	95	95	95	95	95	95

Source: Processed Data EViews 9.0 (2020)

Based on the table above, it can be seen that *Corporate Sustainability* has a mean value of 1.18% with a minimum value of 0.19% contained in RBMS in 2015 and a maximum value of 4.15% contained in JKON in 2014.

Estimation of Empirical Research Regression Model I

The equation of the panel data regression model to test the effect of the implementation of Good Corporate Governance Mechanism on Earning Management Practices is as follows:

$$Y = \alpha + \beta_1.X_1 + \beta_2.X_2 + \beta_3.X_3 + \beta_4.X_4 + \beta_5.X_5 + \varepsilon$$

To find out the regression analysis of model I above is used EViews 9.0 data processing program by estimating the regression of *common effect*, *fixed effect* and *random effect* on institutional ownership variables, managerial ownership, independent commissioners, audit committee, auditor quality, against dependent variables namely earning management. After that to determine which model is used conducted Chow Test and Hausman Test to find out which model is best from the output produced.

From the two model selection tests both the Chow Test and Hausman Test can be concluded that for fixed effect panel model data is better than the common effect model or random effect model. Therefore, it is necessary to do fixed effect model regression analysis using weighting Generalized Least Square (GLS), as in the table below:

Tabel 3. Regression with Fixed Effect Model I

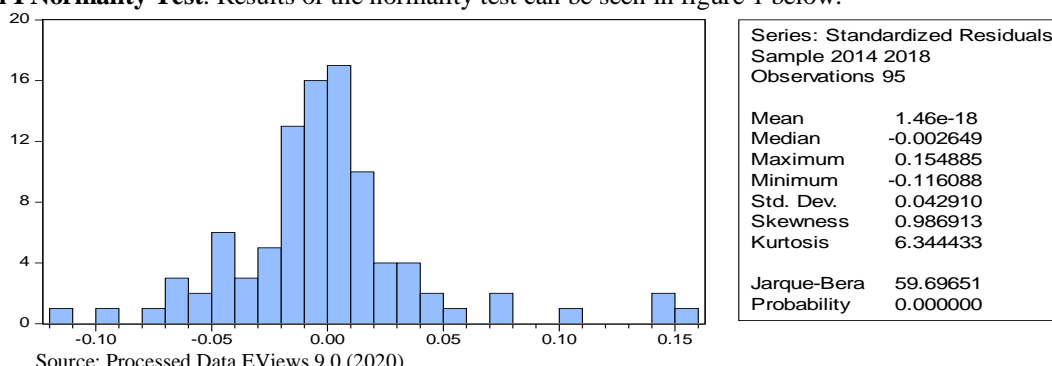
Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	-0.011704	0.067493	-0.173415	0.8628
IO	0.000382	0.000696	0.548348	0.5852
MO	-0.001323	0.008303	-0.159359	0.8738
IC	0.000701	0.000863	0.812362	0.4193
AC	-0.002922	0.001319	-2.215780	0.0299
AQ	0.041604	0.025233	1.648840	0.1036
Adjusted R-squared	0.393492			

Source: Processed Data EViews 9.0 (2020)

Based on the table above, it can be seen that the statistical values of probability of Institutional Ownership (0.5852), Managerial Ownership (0.8783), Independent Commissioner (0.4193), Audit Committee (0.0299), and Auditor Quality (0.1036) with an *adjusted r-squared value* of 0.393492 with a total observation of 95.

Model I Classic Assumption Test

Model I Normality Test. Results of the normality test can be seen in figure 1 below:



Source: Processed Data EViews 9.0 (2020)

Figure 1: Model I Normality Test

The probability value of *Jarque-Bera* is 59.69651 > 0.05 so that the regression model meets the assumption of normality.

Model I Multicolliniarity Test. Multicolliniarity Test results can be seen in the table below:

Tabel 4. Model I Multicolliniarity Test (Correlation Test):

	IO	MO	IC	AC	AQ
IO	1.000000	-0.498226	-0.323934	0.371327	0.033451
MO	-0.498226	1.000000	0.318259	-0.148032	-0.219191
IC	-0.323934	0.318259	1.000000	-0.122223	0.033851

AC	0.371327	-0.148032	-0.122223	1.000000	-0.161660
AQ	0.033451	-0.219191	0.033851	-0.161660	1.000000

Source: Processed Data EViews 9.0 (2020)

The correlation test value of model I regression results showed that each matrix had no results exceeding 0.8 thus the model I formed was free from multicollinearity violations.

Estimation of Empirical Research Regression Model II

The Model II equation form is formulated as follows:

$$Z = \alpha + \beta_1.X_1 + \beta_2.X_2 + \beta_3.X_3 + \beta_4.X_4 + \beta_5.X_5 + \beta_6.Y + \epsilon$$

To find out the regression analysis of model II above, using the data processing program EViews 9.0 by doing estimated regression *common effect*, *fixed effect* and *random effect*. After that to determine which model is used conducted Chow Test and Hausman Test to find out which model is best from the output produced. From the two model selection tests both the Chow Test and Hausman Test can be concluded that the model *random effect* panel data is better than the *common effect* model and *fixed effect* model. The right model used to estimate the *random effect* model is Generalized Least Square (GLS) as an estimator because it can increase the efficiency of least square. (Wati, Lela Nurlaela 2018:302). The following results using generalized least square weighting (GLS), as shown in the table below:

Tabel 5. Generalized Least Square (GLS) Model II Results

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	0.824295	0.180821	4.558612	0.0000
IO	-0.002357	0.001598	-1.475117	0.1437
MO	-0.017485	0.002434	-7.183872	0.0000
IC	0.008966	0.003442	2.605070	0.0108
AC	0.012695	0.005273	2.407429	0.0182
AQ	0.085780	0.070491	1.216886	0.2269
DA	0.461484	0.469685	0.982539	0.3285
Adjusted R-squared	0.565636			

Source: Processed Data EViews 9.0 (2020)

Model II Classic Assumption Test

Model II Normality Test. Results of the normality test can be seen in figure 2 below:

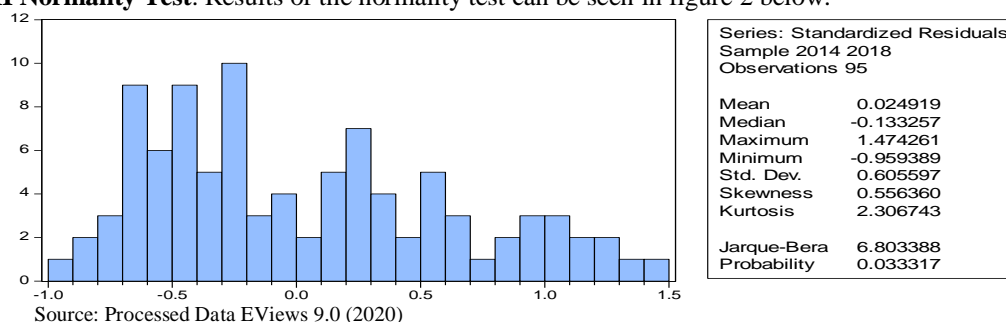


Figure 2: Model II Normality Test

The probability value of *Jarque-Bera* is 6.803388 > 0.05 so that the regression model meets the assumption of normality.

Model II Multicollinearity Test. Multicollinearity test results can be seen in the table below:

Tabel 6. Model II Multicollinearity Test (Correlation Test):

	IO	MO	IC	AC	AQ	DA
IO	1.000000	-0.498226	-0.323934	0.371327	0.033451	0.235543
MO	-0.498226	1.000000	0.318259	-0.148032	-0.219191	0.007447
IC	-0.323934	0.318259	1.000000	-0.122223	0.033851	-0.065350
AC	0.371327	-0.148032	-0.122223	1.000000	-0.161660	0.416213
AQ	0.033451	-0.219191	0.033851	-0.161660	1.000000	-0.108689
DA	0.235543	0.007447	-0.065350	0.416213	-0.108689	1.000000

Source: Processed Data EViews 9.0 (2020)

The correlation test value of model II regression results showed that each matrix had no results exceeding 0.8 thus the model II formed was free from multicollinearity violations.

Path Analysis

Path Analysis is by comparing the amount of influence directly and indirectly by looking at the size of the coefficient. The coefficients of Table 3 and Table 5 can be visualized as follows:

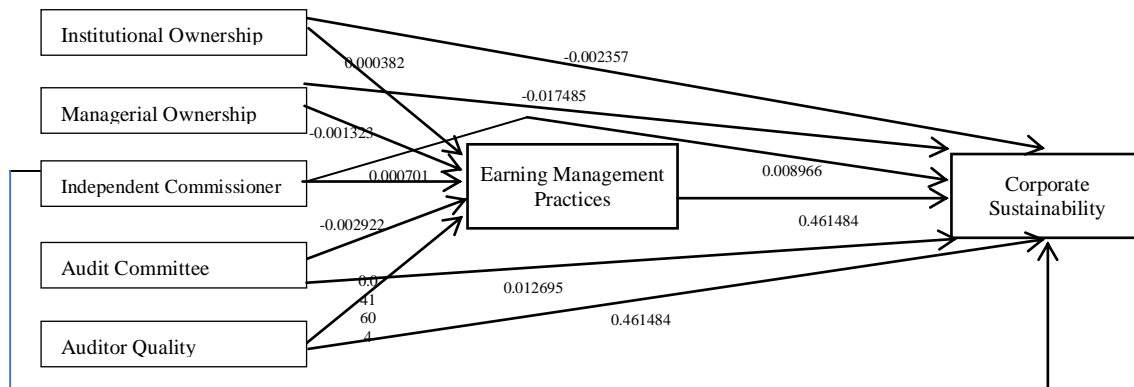


Figure 3: Direct & Indirect Influence of Independent Variables on Corporate Sustainability

All direct coefficients from Institutional Ownership to Corporate Sustainability, Managerial Ownership to Corporate Sustainability, Independent Commissioner to Corporate Sustainability, Audit Committee to Corporate Sustainability, and Auditor Quality to Corporate Sustainability are greater than their indirect coefficients, so it can be concluded that Earning Management is proven not to be an intervening variable.

Hypothesis Testing

Model I Determination Coefficient Test

Tabel 7. Model I Determination Coefficient

Cross-section fixed (dummy variables)			
R-squared	0.541893	Mean dependent var	0.029053
Adjusted R-squared	0.393492	S.D. dependent var	0.063398
S.E. of regression	0.049373	Akaike info criterion	-2.964741
Sum squared resid	0.173079	Schwarz criterion	-2.319551
Log likelihood	164.8252	Hannan-Quinn criter.	-2.704036
F-statistic	3.651552	Durbin-Watson stat	2.703315
Prob(F-statistic)	0.000014		

Source: Processed Data EViews 9.0 (2020)

Based on the table above for model I, obtained R-squared value 0.541893 and Adjusted R-squared 0.393492 which means variable bound profit management can be explained by the five free variables namely institutional ownership, managerial ownership, independent commissioner, audit committee, and auditor quality of 39.35%, while the remaining 60.65% is explained by other free variables outside the model used in this study.

Model I F Test

Tabel 8. Model I F Test Results

Cross-section fixed (dummy variables)			
R-squared	0.541893	Mean dependent var	0.029053
Adjusted R-squared	0.393492	S.D. dependent var	0.063398
S.E. of regression	0.049373	Akaike info criterion	-2.964741
Sum squared resid	0.173079	Schwarz criterion	-2.319551
Log likelihood	164.8252	Hannan-Quinn criter.	-2.704036
F-statistic	3.651552	Durbin-Watson stat	2.703315
Prob(F-statistic)	0.000014		

Source: Processed Data EViews 9.0 (2020)

Based on the table above, the value of F_{hitung} is 3.651552 while F_{tabel} with a level of $\alpha = 5\%$ is 0.049373. Thus $F_{hitung} > F_{tabel}$ ($3.651552 > 0.049373$), while seen from the probability value of 0.000014 is less than $\alpha = 0.05$ until H_0 is rejected and accepts an alternative hypothesis that is at least one free variable (institutional ownership, managerial ownership, independent commissioners, audit committees, and auditor quality) that are a statistically significant impact on Earning Management (DA), therefore the regression model can be used to predict dependent variables.

Model I t Test

Tabel 9. Model I t Test Results

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	-0.011704	0.067493	-0.173415	0.8628
IO	0.000382	0.000696	0.548348	0.5852
MO	-0.001323	0.008303	-0.159359	0.8738
IC	0.000701	0.000863	0.812362	0.4193
AC	-0.002922	0.001319	-2.215780	0.0299
AQ	0.041604	0.025233	1.648840	0.1036

Source: Processed Data EViews 9.0 (2020)

Based on the table above, the statistical test results show that there is 1 (one) independent variable whose probability value is $t < 0.05$ which statistically means that it significantly affects the earning management variables namely audit committee variables, while institutional ownership variables, managerial ownership, independent commissioners, audit committees, and auditor quality have no significant effect on earning management.

Model II Determination Coefficient Test

Tabel 10. Model II Determination Coefficient

	Weighted Statistics		
R-squared	0.593362	Mean dependent var	2.128163
Adjusted R-squared	0.565636	S.D. dependent var	1.442201
S.E. of regression	0.626437	Sum squared resid	34.53327
F-statistic	21.40143	Durbin-Watson stat	0.831220
Prob(F-statistic)	0.000000		

Source: Processed Data EViews 9.0 (2020)

Based on the table above, for model II, obtained R-squared value 0.593362 and Adjusted R-squared 0.565636 which means variable bound corporate sustainability can be explained by the six free variables namely institutional ownership, managerial ownership, independent commissioner, audit committee, auditor quality and earning management of 56.56%, while the remaining 43.44% is explained by other free variables outside the model used in this study.

Model II F Test

Tabel 11. Model II F Test Results

	Weighted Statistics		
R-squared	0.593362	Mean dependent var	2.128163
Adjusted R-squared	0.565636	S.D. dependent var	1.442201
S.E. of regression	0.626437	Sum squared resid	34.53327
F-statistic	21.40143	Durbin-Watson stat	0.831220
Prob(F-statistic)	0.000000		

Source: Processed Data EViews 9.0 (2020)

Based on the table above, the value of F_{hitung} is 21.40143 while F_{tabel} with a level of $\alpha = 5\%$ is 0.626437. Thus $F_{hitung} > F_{tabel}$ ($21.40143 > 0.626437$), while seen from the probability value of 0.000000 less than $\alpha = 0.05$ until H_0 is rejected and accepts an alternative hypothesis that is at least one free variable (institutional ownership, managerial ownership, independent commissioners, audit committees, auditor quality, and earning management) that are statistically significant impact on Corporate Sustainability, therefore the regression model can be used to predict the dependent variable

Model II t Test

Tabel 12. Model II t Test Results

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	0.824295	0.180821	4.558612	0.0000
IO	-0.002357	0.001598	-1.475117	0.1437
MO	-0.017485	0.002434	-7.183872	0.0000
IC	0.008966	0.003442	2.605070	0.0108
AC	0.012695	0.005273	2.407429	0.0182
AQ	0.085780	0.070491	1.216886	0.2269
DA	0.461484	0.469685	0.982539	0.3285

Source: Processed Data EViews 9.0 (2020)

Based on the table above, the results of the statistical t Test show that there are 3 (three) variables whose probability value is $t < 0.05$ which statistically means significantly affecting corporate sustainability variables

namely managerial ownership variables, independent commissioners, and audit committees, while institutional ownership variables, auditor quality, and profit management have no significant effect on corporate sustainability.

V. Discussion

The Audit Committee has a significant impact on earning management practices. This means that the existence of the audit committee can reduce the earning management practices that occur in the company. This is because the appointment of an audit committee by the company is not only for the fulfillment of regulations, but is intended to truly uphold good corporate governance and the fulfillment of competence and independence of the audit committee. The results of this research are in line with Setiawan, (2009) research which found that the Audit Committee has a significant influence on earning management practices and the existence of audit committees within the company can reduce earning management practices. Meanwhile, Nugraheni *et al.*, (2015) and Achmad Sutarmin (2017) found the opposite, stating that the audit committee had no significant effect on earning management.

Institutional ownership does not affect earning management practices. This proves that institutional ownership with a fairly high average value, which should be stronger institutional control over the company in the hope of reducing earning management practices but proving to not affect, shows that institutional ownership that is the majority owner tends to side with management and leads to personal interests, where institutional investors are temporary owners focused on profit now, so if the profit is now deemed not to benefit then the institution will withdraw its shares so that the high average value of institutional ownership does not guarantee to reduce earning management practices. This is in line with the view or concept that institutional ownership is the owner that focuses more on current earnings (Porter, 1992 in Midiastuty & Machfoedz, 2003). As a result, managers are forced to take actions that can increase short-term profits, for example by manipulating profits. The same view was also expressed by Cornett (2006) in Ujijantho & Pramuka, (2007) which stated that institutional ownership would make managers feel bound to meet the profit targets of investors so that they would still be inclined to engage in acts of profit manipulation. The results of this research are in line with Nugraheni *et al.*, (2015) which states that the more shares of the company that is on the institutional side, the earning management carried out by the company tends to be high. While the results of Indriastuti, (2012) research obtained the results that institutional ownership has a significant negative effect on earning management where share ownership by institutional parties will hinder the practice of earning management that occurs in the company.

Managerial ownership does not affect earning management practices. This corresponds to managerial ownership in the overall research sample which is very low meaning that when share ownership by management is low then there is a tendency to opportunistic managers. The results of this study are in line with the research of Erfrida & Dian (2010), Ujijantho & Pramuka, (2007), and Nugraheni *et al.*, (2015) which stated that managerial ownership does not affect earning management practices. Meanwhile, the results of the research of Wulanda & Aziza, (2019) and Achmad Sutarmin (2017) found the opposite, stating that managerial ownership proved to affect earning management.

The Independent commissioner does not affect earning management practices. This indicates that while independent commissioners have a high average value, they are not able to reduce the earning management practices carried out by management. This condition can be caused by difficult coordination between members of the board of commissioners who become obstacles in the monitoring process which is the responsibility of independent commissioners. Besides, the lack of independent commissioners is not the main determinant in the effectiveness of monitoring the company's management. However, based on the values, norms, the trust received in an organization, as well as the participation of independent commissioners themselves in monitoring activities against management. The results of this study are in line with the research of Ambarita & Nuswantara, (2011) and Achmad Sutarmin (2017), which stated that independent commissioners do not influence earning management practices. Meanwhile, the results of Nugraheni *et al.*, (2015) found the opposite, stating that independent commissioners proved influential on earning management.

Auditor quality does not affect earning management practices. This is following the data of low auditor quality research samples that are only a few audited by PAF Big 4 the rest are not audited by PAF Big 4. Because the quality of auditors in this study is measured by the size of PAF and auditors who work in KAP Big Four is considered more qualified because the auditor has been equipped with a variety of training, experience, and audit procedures when compared to non-Big Four PAF. Companies audited by PAF Big Four will conduct earning management at a low level because PAF Big Four can carry out its task which is to increase the credibility of the company's financial statements so that earning management in the company will be reduced. The results of this study are in line with Nugraheni *et al.*, (2015) which stated that the quality of auditors does not affect earning management practices. In contrast to the results of Irawati & Sudirman, (2017) research found the opposite, stating that the quality of audits proved to affect earning management.

Managerial ownership has a significant effect in a negative direction towards corporate sustainability. This indicates that the higher the ownership by the management, the lower the value of the company. This can happen because the manager tries to transfer the company's wealth to himself by taking a policy that exaggerates assets and profits, to make his performance look improved or to earn bonuses. This will have an impact on the decrease in market performance which will ultimately have an impact on corporate sustainability. The results of this research are supported by research Djameluddin et al., (2018) and Ficici & Aybar (2012) which states that corporate governance in this case managerial ownership affects corporate sustainability. In contrast to the results of research Babalola & Adedipe (2014) stated that there is no influence between corporate governance in this case managerial ownership and corporate sustainability.

Independent commissioners have a significant impact in a positive direction towards corporate sustainability. This proves that the company's independent commissioners have no business ties or family relationships with shareholders or directors to align the interests of managers and shareholders, as they represent a key internal mechanism to oversee exploiting short-term opportunities or profits and ignore management's long-term profits so that the company's sustainability can be maintained properly. The results of this research were supported by research Djameluddin et al., (2018) and Ficici & Aybar (2012) which stated that corporate governance in this case independent commissioners influences corporate sustainability. In contrast to the results of Kamaliah & Taufik, (2017) research which stated that there is no significant influence between independent commissioners and corporate sustainability.

The Audit Committee has a significant impact on corporate sustainability. This means that the more the number of audit committees in the company, the more it will improve the sustainability of the company or the more often the audit committee conducts meetings in the company so that the audit committee will often discuss the problems that exist in the company so that it leads to the sustainability of the company that continues to improve. This is evident in sample companies that have an average number of meetings in one year is 7.93 times. The results of this study indicate that the audit committee is effective in supervising the company to improve corporate sustainability. The results of this study are in line with the research of Lasmanah & Yuniar, (2017), Kamaliah & Taufik, (2017), and Rahmawati & Hermanto, (2017), which stated that the audit committee has a positive influence on corporate sustainability. Meanwhile, the results of Dahlia, (2018) research and Perdana & Rahardja, (2014) stated that there is no significant influence between independent commissioners and corporate sustainability.

Institutional ownership does not affect corporate sustainability. This is because the characteristics of most companies in Indonesia have a pattern of ownership structure that is more concentrated (closely held) so that the company's founder can occupy a position on the board of directors or commissioners, therefore many companies in Indonesia have a close relationship between the owner and the board of directors or the board of commissioners. The results of this study are in line with the research of Kamaliah & Taufik, (2017) and Dahlia, (2018), which proves that the amount of institutional ownership does not affect corporate sustainability. In contrast to the research results of Rahmawati & Hermanto, (2017), Wulanda & Aziza, (2019), and Lasmanah & Yuniar, (2017), proves that share ownership by institutional parties can improve corporate sustainability through supervision conducted by institutional investors.

Auditor quality does not affect corporate sustainability. This is alleged because despite not using PAF BIG 4 (PWC, Deloitte, Ernst & Young, KPMG) almost all samples use external auditors who have high audit quality, so the market is not affected by the use of PAF BIG 4 as an external auditor or not. The results of this study are in line with the research of Perdana & Rahardja, (2014) and Setiyawati, H. (2018) which proves that external auditors do not affect corporate sustainability. In contrast to the results of Lasmanah & Yuniar, (2017) research proves that GCG mechanisms in this case the quality of auditors can improve corporate sustainability.

Earning management practices do not affect corporate sustainability. This indicates the possibility that while earning management can be detected by the market, investors ignore the existence of earning management. The profit generated by the company is not the main consideration for investors in buying shares of the company so that companies that practice profit management with a strategy of raising or lowering profits will not have an impact on corporate sustainability. This research also contradicts the theory of signals where managers are required to give signals about the actual condition of the company to users of financial statements. The signal is a reflection of the company's value through the disclosure of accounting information such as financial statements, but users of financial statements assume the profit reported in the financial statements does not show the overall performance of management, so investors are not focused on the size or small profit generated by the company. Other factors may be considered by investors in assessing companies such as companies that have reliable or skilled human resources and sophisticated technology owned by the company. The results of this study are in line with Wulanda & Aziza, (2019) research which states that earning management practices have no effect on corporate sustainability. In contrast to the results of Kamaliah & Taufik, (2017) research proves that earning management practices affect corporate sustainability.

The results of the path analysis are by comparing the amount of influence directly and indirectly from institutional ownership to corporate sustainability, managerial ownership to corporate sustainability, independent commissioner to corporate sustainability, audit committee to corporate sustainability, and quality auditors to corporate sustainability, it can be concluded that earning management practices proved unable to intervene between institutional ownership to corporate sustainability, managerial ownership to corporate sustainability, independent commissioner to corporate sustainability, audit committee to corporate sustainability, and quality auditor to corporate sustainability.

VI. Conclusion

The results of the study found that: 1) the Audit Committee has a significant negative effect on earnings management practices; 2) Institutional Ownership has no significant effect in a positive direction on earnings management practices; 3) Managerial Ownership has no significant effect in a negative direction on earnings management practices; 4) Independent Commissioners have no significant effect in a positive direction on earnings management practices; 5) Auditor Quality has no significant effect in a positive direction on earnings management practices; 6) Managerial ownership has a significant negative effect on corporate sustainability; 7) Independent Commissioner has a significant effect in a positive direction on corporate sustainability; 8) The Audit Committee has a significant effect in a positive direction on corporate sustainability; 9) Institutional ownership has no significant effect in a negative direction on corporate sustainability; 10) Auditor quality has no significant effect in a positive direction on corporate sustainability; 11) Earnings management does not have a significant positive effect on corporate sustainability; 12) Earnings management is proven unable to intervening between institutional ownership, managerial ownership, independent commissioners, audit committee, and quality of auditors to corporate sustainability.

Based on the results of discussions and conclusions, the researchers suggested: 1) The importance of being initiated on the arrangement of the appointment of audit committees by companies, namely members of the audit committee must be experts in the field of accounting or finance in order to fulfill competence and independence so as to improve the effective supervisory function; 2) The importance of reporting standards by authorized parties such as IAI that provide restrictions on the use of more effective accounting methods and principles so as not to be misused by management to manipulate financial information; 3) Property, real estate and building construction companies listed on the Indonesia Stock Exchange (IDX) should improve understanding of the implementation of good corporate governance mechanisms; 4) The management of property, real estate and building construction companies listed on the Indonesia Stock Exchange (IDX) is able to implement and carry out good corporate governance in a better and consistent manner, in accordance with applicable regulations.

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