Analysis The Influence of Corporate Governance on Financial Performance With Earnings Management As Moderating Variable

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Abstract. The primary objective of this study is to examine corporate governance and earnings management as a moderating variable effect on financial performance with the control variable size and growth. Institutional ownership, managerial ownership, and the proportion of independent boards of commissioners characterize corporate governance. Return on Assets is used to evaluate financial performance, whereas the Modified Jones Model is used to evaluate management. This study's population consists of manufacturing businesses listed on the Indonesia Stock Exchange, and information was obtained from 114 companies using 342 samples. The data reveal that institutional ownership has a large positive influence on financial performance, but management ownership has no impact and the percentage of independent board of commissioners has no impact on financial performance. Earnings management has not adequately addressed the influence of corporate governance on financial success.

Keywords: Corporate Governance, Earnings Management, Financial Performance, Size, Growth Opportunity.

1. Introduction

Financial performance is a measure of the success of the implementation of financial functions and this is very important, both for investors and for the company concerned. The importance of evaluating company performance by analyzing financial statements has triggered the thoughts of company leaders that managing a company in the modern era with rapid technological developments is a very complex thing. The more complex the activities of the company's management will increase the need for corporate governance practices *to* ensure that the company's management runs well [1]

Information derived improperly from financial statements is exploited to the damage of interested parties. A financial scandal involving the falsification of financial accounts by PT Lippo Tbk and PT Kimia Farma Tbk was reported in a publicly traded firm in 2001. This demonstrates that, despite having moved past the 1997–1998 financial crisis, corporations are still engaging in the practice of altering financial statements. Lack of corporate governance implementation is one of the factors contributing to the practice of falsifying financial statements. The occurrence of financial statement manipulation by corporate parties demonstrates Indonesia's weak corporate governance standards [2] The Enron, Xerox, Tyco, Global Crossing, and World.com instances, as well as others involving the CEO,

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commissioners, audit committees, internal auditors, and external auditors, provide examples of bad corporate governance standards outside of Indonesia [3].

The 1950s corporate scandals in British firms led to the development of the idea of corporate governance. The idea of corporate governance highlights the shortcomings of agency theory and develops it further. When Indonesia had a protracted crisis beginning in 1998, the subject of corporate governance in Indonesia started to get attention. As a result, the government and investors are increasingly paying close attention to how corporate governance is being implemented in Indonesian enterprises[4].

The relationship or agreement between the principal and the agent lies at the heart of the agency theory idea. The principle hires the agent to carry out responsibilities in the principal's best interests, including giving the agent the right to make decisions on the principal's behalf[5]. Shareholders and the CEO represent the principals and agents, respectively, of organizations whose capital consists of shares. CEO is employed by shareholders to represent the interests of the principle. Agency expenses may then result from this dispute[6]. Agency expenses may be divided into three categories: monitoring costs, bonding costs, and residual loss (residual loss). Signaling theory describes a strategy used by management to let investors know how they feel about the company's prospects [7]. Sign According to the signal theory, high-quality businesses would purposefully send signals to the market, enabling consumers to discern between high- and low-quality businesses for a signal to be effective, it must be recognized by the market, be seen favorably, and be difficult for low-quality businesses to copy [8]

Corporate governance, also known as a system that manages and regulates a corporation, is a collection of regulations that establishes the rights and duties of shareholders, the management of the firm, creditors, the government, workers, and other internal and external stakeholders[8]. A system of interactions between a company's management, boards, shareholders, and other parties having an interest in the business is known as corporate governance. Effective corporate governance also requires structures, tools for attaining goals, and performance monitoring [9]. Effective corporate governance should permit effective monitoring, which should encourage businesses to use resources more effectively. It may offer the board and management strong incentives to achieve goals that are in the interests of the firm and shareholders [10].

2. Research Methods

2.1. Research Design

This study employs a quantitative methodology, which stresses the statistical processing of numerical data (numbers).

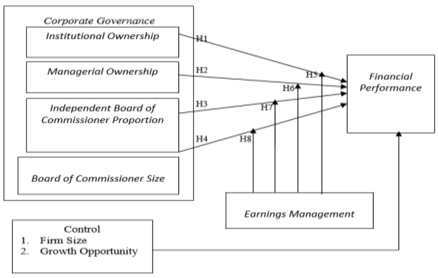

Fig. 1. Hypothesis Framework

2.2. Operational Definitions and Measurement Of Variables

In this study, three variables were used to analyze the data. These variables comprised of the independent and dependent variables, and the control variable. Corporate governance and earnings management, financial performance (the dependent variable), and firm size and expansion potential (the third variable) are all defined (control variable).

2.3 Variable Measurement

Independent Variables

A truly independent variable is one that is not influenced by any other factors. The independent variable is a factor that may be changed to alter the results. Earnings management and corporate governance serve as the independent variables in this analysis. For use in the role of an independent variable.

Corporate Governance

Corporate governance is a collection of guidelines that spell out the rights and obligations of shareholders, management, creditors, workers, and other internal and external stakeholders. Additionally, it is the system that directs and manages the company. Corporate governance includes a variety of factors, including institutional ownership, management ownership, the number of independent commissioners, and the size of the board of commissioners [11].

Institutional Ownership

Institutional ownership is the institution's share of the voting rights. In this study, it is measured by the percentage of all outstanding share capital that is equal to the number of shares owned by the institution [12].

Managerial ownership

When referring to a company's management, the term "managerial ownership" refers to the management's overall ownership of the company's total share capital. To determine the extent to which management has invested in the firm, we look at the ratio of management ownership to the total outstanding share capital [13].

The proportion independent board of commissioners

Members of the board of commissioners who are not connected to the company's management, other board members, or controlling shareholders, and who have no vested interests that could compromise their ability to make objective decisions in the best interests of the company are considered "independent"[14].

Board of commissioner

The size of a board of directors is determined by the number of individuals that sit on it. The board of commissioners has the power to keep an eye on how the executive branch is doing and to provide advice as necessary. The number of people who hold board positions within a company is a sign of the size of its board of commissioners [15].

2.4. Moderating Variables

Management Earnings

Earning Management is proxied by *Discretionary accruals* with using a modified Modified Jones Model.

2.5. Bound Variable *(Dependent Variable)*

He profitability ratio measures the company's profitability relative to its total assets.

2.6. Control Variables

Independent variables are those which are being studied, whereas control variables are those which may be manipulated to ensure that the effect of the independent variable on the dependent is not influenced by unmeasured or uncontrolled factors. For this kind of comparison study, researchers frequently employ the control variable. Factors in corporate governance structures and practices. Taking into account the endogeneity of corporate governance factors, we can only draw a limited conclusion about the link between the two. The following are a number of factors that, in theory, impact how thoroughly corporate governance is implemented.

Firm Size

Log (TA) will be utilized instead of TA because it is a more standard proxy in this investigation. Studies have consistently shown a favorable correlation between the two variables. The natural log of a company's total assets is used as a proxy for its size.

Growth Opportunity

Occasion for expansion (growth opportunity). Companies with promising development prospects often must raise cash from outside investors, which raises the cost of capital and so motivates businesses to strengthen their corporate governance practices. It is possible that the endogeneity of the corporate governance variable in the relationship between corporate governance and performance accounts for the fact that Tobin's Q is greater for businesses with greater growth prospects.

3. Method of Collecting Data

Data for this study came from preexisting sources (termed "secondary data") rather than being personally gathered by the researcher. This information was gathered from the annual reports of Indonesia Stock Exchange-listed manufacturing businesses for the three years . All of the information was gathered from the Indonesia Stock Exchange's website.

3.1. Population and Sample

Companies listed on the Indonesia Stock Exchange that engage in manufacturing constitute the sample for this analysis (IDX). Over the course of three years, we collected 342 data points from 114 different businesses. Certain criteria were used to identify the sample firms for this study (purposive sampling).

3.2. Data Analysis Method

Each hypothesis is tested using linear regression, the data analysis approach employed in this investigation. The traditional assumption test is performed in this linear regression analysis.

4. Result

4.1. Hypothesis Testing Results

The results of the tests conducted to determine whether or not the null hypothesis is true are the Correlation Coefficient Test (R Test) results, the Adjusted R Squared Test (Square Root of the R Test) results, the results of testing each independent variable on the dependent variable simultaneously (F Test) results, and the results of partial testing between each independent variable and the dependent variable. This section presents the findings from the testing of hypotheses:

Table 1. Hypothesis Testing Results

Variable	Coefficients (B)	T	Sig. (2-tailed)	Sig. (1-tailed)	Results
(Constant)	-0,052	-0,951	0,342	0,17	-
IO	0,000	2,029	0,043	0,02	H_1 Accepted
MO	0,001	1,102	0,271	0,14	H_2 Rejected
IDC	0.021	2,650	0,008	0,00	H_3 Accepted
BC	-0,077	-0,175	0,861	0,43	H4 Rejected
Mlab (DA)	0,077	1,844	0,066	0,03	-
SIZE	-0,000	-0,025	0,980	0,49	-
GROWTH	0.161	6,229	0,000	0,00	-
IO*EM	0.008	1,355	0,176	0,09	H_5 Rejected
MO*EM	-0,004	-0,562	0,575	0,29	H_6 Rejected
IDC*EM	0,018	2,430	0,016	0,01	H_7 Rejected
BC*EM	-0,001	-0,166	0,868	0,43	H_8 Rejected
F Test Result					
F Result		7.621			
Sig.				0,000[a]	
Correlation Coefficient Test Result (R Test)		0,450[a]			
Adjusted R Square Test Results		0,176			

a. Dependent Variable: ROA

4.2.Discussion

H1. Analysis of the effect of institutional ownership on performance finance.

With a t-count value of 2.029 (higher than t table 1.65; 2.029 > 1.65) for the institutional ownership variable, it is possible to draw the conclusion that institutional ownership has a significant positive effect on performance (at a significance threshold of 0.02; less than 0.05). Reducing shareholder-manager conflicts of interest is a key function of institutional ownership. It is widely held that the existence of institutional investors can improve monitoring of management performance by subjecting all managerial decisions to rigorous analysis. When it comes to controlling agency expenses, institutional ownership is superior to managerial ownership. Having a larger financial institution as an owner increases the financial institution's voting power, the financial institution's incentive to supervise management, and the pressure to maximize the firm's value, all of which boost performance.

H2. Analysis of the influence of managerial ownership on performance finance.

Management ownership was found to have no effect on financial performance because the t value, 1.102, was less than or equal to 1.65 and the significance criterion for the management ownership variable was 0.14. The theory is that when management has some skin in the game, the company's interests will more closely mirror those of the shareholders. Having management who also owns stock in the company can ease tensions between the interests of the company's leadership and those of the public.

H3. Analysis of the influence of the proportion of independent commissioners on financial performance

The results provided here suggest that a higher proportion of independent commissioners is associated with better financial outcomes (p0.05, t count = 2.650, t table = 1.65, thus 2+650=2.65). It is the role of independent commissioners on the board of commissioners to exercise greater control and oversight on management's opportunistic operations. One other opinion is that the independent board of commissioners will be able to dedicate more time to monitoring the corporation now that it is less reliant on them.

H4. Analysis of the effect of the size of the board of commissioners on performance finance.

Results from this study suggest that the size of the board of commissioners does not affect financial performance (p = 0.43), as the t-count value of -0.175 is less than the t table value of -1.65 (-0.175 -1.65).

Corporate governance revolves around the board of directors, whose key roles are to enforce accountability, oversee management, and implement the company's strategic strategy. A larger number of commissioners is required to oversee management activities in large enterprises, in accordance with agency theory.

H5. Analysis of the effect of institutional ownership on financial performance is moderated by earnings management.

It may be argued that earnings management does not mitigate the effect of institutional ownership on financial performance, as the t value of 1.355 is larger than the t table value of 1.65 (1,355 > 1.65), and the significance level of 0.09 is larger than 0.05 (0.09 > 0.05). There may be a correlation between the institution's share ownership percentage and the process of creating financial statements that do not exclude the possibility of accrual by the interests of the management. Managers are unable to manipulate profits due to the high amount of institutional ownership.

H6. Analysis of the influence of managerial ownership on financial performance moderated by earnings management.

In this study, the researchers found that managerial ownership tempered the effect of earnings management, with a significance level of 0.29 (p 0.05) and a t-count value of -0.562 (p 1.65), respectively. According to agency theory, managers may engage in profits management methods that benefit themselves because of the lack of transparency between them and the shareholders. Managerial ownership an efficient form of oversight for preventing managers' manipulation of profits.

H7. The analysis of the effect of the proportion of independent commissioners on financial performance is moderated by earnings management.

The results of H7 are declared positive, and it can be concluded that earnings management does not moderate the proportion of independent commissioners because the significance level of 0.01 is less than 0.05 and the t-count value of 2,430 is greater than the t table value of 1.65 due to the positive coefficient value of 0.018 and the negative direction prediction (-).

H8. The analysis of the effect of the size of the board of commissioners on financial performance is moderated by earnings management.

This research demonstrated that the impact of board size on financial performance was not mitigated by earnings management. This result was statistically significant at the 0.43 level, which is more than the 0.05 threshold, while the t-count value of -0.166 was below the t table 1.65 (-0.166 1.65). The opinion that the board of commissioners is an important governance mechanism is supported by the fact that they were the first to make the connection between board size and corporate governance. They also infer that a commission with many members is less effective than one with fewer.

5. Conclusions

The purpose of this study is to analyze the impact of corporate governance and earnings management on the performance of financial statements. This study analyzed 114 manufacturing enterprises over the course of three years.

(1) Institutional ownership has a significant positive influence on financial performance. The study findings show that institutional ownership has not been useful for controlling management and improving performance, which is consistent with the notion that institutional ownership positively influences financial performance [16].

(2) The relationship between management ownership and financial performance is negligible. Results This study contradicts the results, which showed that management ownership had a favorable effect on a company's financial success[17].

(3) The percentage of independent commissioners improves financial performance substantially. The conclusions of this research are consistent with others who determined that an independent board of directors is positively related to a company's financial performance. With an independent board of commissioners, the interests of both majority and minority shareholders are safeguarded, since independent commissioners are less influenced by management's decisions [18].

(4) The number of board members has no bearing on the financial performance of the organization. Results Research reveals that the bigger the number of board of commissioners members, the stronger the board of directors' supervision, since the board will have more input and options. The findings of the research do not suggest that the size of the board of directors has a positive effect on a company's financial performance [19].

(5) Earnings management does not reduce the influence of institutional ownership on financial performance. In their separate research, they were unable to find evidence of a correlation between earnings management and institutional ownership [20].

(6) Earnings management does not mitigate the impact of managerial ownership on financial performance. As a measure of earnings management, a negative association between managerial ownership and discretionary accruals and a positive correlation between managerial ownership and the information content of profits were observed [21].

(7) The effect of the percentage of independent commissioners on financial performance is unaffected by their conclusion that the composition of the independent board of commissioners has a significant negative effect on earnings management.

(8) Earnings management does not offset the effect of the size of the board of commissioners on the organization's financial performance. The research indicates that a small board of commissioners will be more effective at performing supervisory duties than a large board of commissioners [23] .

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