The Effect of Asymmetry Information and Corporate Governance Mechanism on Earning Management in Companies Listed in the Islamic Index Period of Jakarta 2015-2018

Nursanita Nasution*, Diana Hapsari Putri  
Department of Accounting  
Sekolah Tinggi Ilmu Ekonomi Indonesia  
Jakarta, Indonesia  
*nursanita@stei.ac.id

Faris Faruqi  
Department of Management  
Sekolah Tinggi Ilmu Ekonomi Indonesia  
Jakarta, Indonesia  
faris.faruqi@gmail.com

Abstract—The aims of this research to determine the effect of information asymmetry and corporate governance mechanisms that proxied by institutional ownership, managerial ownership, and audit committee on the earnings management occurred in companies listed in Jakarta Islamic Index over the period 2015-2018. This study used purposive sampling method. These samples contained in JII are 14 companies. The data is secondary data from financial statement, annual reports, and stock historical price that are accessed through the official website of IDX: http://www.idx.co.id. Data analysed by using multiple linear regression that processed using software Eviews version 10. The result of this research concluded that (1) Information asymmetry has no effect on earnings management that information asymmetry is not a factor that encourages management to take opportunistic actions (2) Institutional ownership has negative effect on earnings management which indicates that greater ownership of shares owned by institutional parties does lead to greater oversight efforts to prevent earnings management (3) Managerial ownership has negative effect on earnings management which indicates that the greater shareholding owned by management does reduce management’s own actions in carrying out earnings management; (4) Audit committee has a positive effect on earnings management that the presence of the audit committee effectively prevents the improvement of earnings management in the company.

Keywords: earnings management, asymmetry information, corporate governance mechanisms

I. INTRODUCTION

Research on earnings management has begun since the introduction of the concept of separation between principals and agents [1]. This theory is in line with agency theory (agency theory) which can lead to earnings management [2]. Agency theory explains the contract or the relationship between the agent (management) and the principal (owner), with the contract the principal needs help from the agent to run his business because the principal cannot run his own business [3]. Earnings management (earnings management) is a phenomenon that is difficult to avoid because this phenomenon is the impact of the use of accrual basis in the preparation of financial statements. On an accrual basis, revenues and costs are recognized based on their rights and obligations not on cash receipts or disbursements [4]. Revenues and expenses are recognized now even though new cash transactions occur in the next period.

The existence of information asymmetry is considered to be the cause of earnings management [3]. Information asymmetry arises when managers know more about the company’s internal information in the future than the owner and other stakeholders. The existence of information asymmetry will encourage managers to present information that is not true, especially if the information is related to manager performance measurements because earnings management is closely related to the level of earnings or achievement of a company so it is not surprising that managers often try to highlight their achievements through the level of profit or profit achieved. The greater the information asymmetry that occurs, the higher the possibility of earnings management. Seeing the many gaps that can be exploited by managers in managing earnings, we need a control mechanism that can align the differences in interests between the two parties, namely managers and shareholders. One mechanism that can be used to overcome these problems is by implementing a corporate governance mechanism [5].

The mechanism of corporate governance has the ability to produce a higher quality financial report including earnings quality [2]. The corporate governance mechanism will reduce earnings management activities carried out by management [6,7]. This study is to determine earnings management in companies listed on the Jakarta Islamic Index (JII) in 2015-2018.

II. THEORETICAL FRAMEWORK

Earnings management can be defined as an intervention with specific goals by management in the process of determining earnings, usually to fulfil its own goals [6]. Earnings management is a preparation of financial statements deliberately carried out by management which is shown to
external parties by raising and lowering profits with the aim of making a better impression and to obtain some personal benefits.

Information asymmetry is a condition of management as a party that has more control over information compared to investors or creditors [8]. According to information asymmetry is a situation where management as an agent has more access to information about the company and the prospects of the company in the future compared to the principal or parties outside [5]. Jensen and Meckling add that if the two groups, namely agents and principals are people who are trying to maximize their utility, then there is good reason to believe that agents will not always act the best for principal activities [1]. Principals can limit this by setting the right incentives for agents and monitoring to limit the activities of agents who deviate. Differences in preferences regarding compensation and benefits also arise when the principal does not monitor agent actions. Asymmetry of information, raises a conflict between the principal and agent to try to take advantage of each other for their own interests.

The existence of information asymmetry is considered to be the cause of earnings management. Information asymmetry has a positive influence on earnings management [9-13]. This opinion is supported by the research of Utari and Sari which states that there is a systematic relationship between information asymmetry and earnings management level [14]. In contrast to Barus and Setiawati which states that information asymmetry has no effect on earnings management [5].

H1 = Information asymmetry in JII affects earnings management

Agency theory provides the view that earnings management problems can be minimized by monitoring through corporate governance mechanisms. Earnings management practices by management can be minimized through institutional ownership because they are considered as sophisticated investors with a significant amount of ownership that can control management which impacts on reducing the motivation of managers to conduct earnings management. Institutional ownership has a positive effect on earnings management [7,11]. This opinion is supported by research. Which concludes that the company’s supervisory actions by institutional investors encourage managers to focus more attention on company performance thereby reducing opportunistic behaviour. In contrast to the results of research Haryati and Cahyati which stated that institutional ownership negatively affected earnings management [3].

H2 = Institutional ownership in JII affects earnings management

Earnings management practices can be minimized by increasing company stock ownership [1]. The structure of share ownership shows how the distribution of power and influence of shareholders on the company’s operational activities. Managerial ownership concentration can be used to increase monitoring effectiveness [10]. Large share ownership makes shareholders have significant information access to balance the information that management has. The results of research conducted by Febyani and Devie [10], show that managerial ownership has a positive effect on earnings management. This research states that high managerial ownership can reduce earnings management activities. Meanwhile, the results of research conducted by Hidayat it shows that managerial ownership negatively influences management earnings [11].

H3 = Managerial Ownership in JII affects earnings management.

Earnings management can be minimized by the existence of an audit committee that can reduce earnings management activities which will further affect the quality of earnings reporting [9]. More and more audit committees who understand financial and accounting standards will actually limit management in finding loopholes for managing earnings [3]. This indicates that the existence of the audit committee is to carry out the oversight function. The audit committee had a positive effect on earnings management [11]. The presence of the audit committee effectively prevented the improvement of earnings management in the company. Meanwhile, Nariaistiti and Ratnadi show that the audit committee has a negative effect on earnings management [9].

H4 = Audit Committee in JII affects earnings management.

III. METHOD

This research is an associative quantitative study that examines the relationship between two or more variables. The population of this study is companies listed in the Jakarta Islamic Index (JII) in the period 2015 – 2018. The total population in the JII index is 44 companies. The sample in this study were 14 companies.

This study uses statistical analysis, namely multiple linear regression analysis panel data. Before conducting a regression test, first a descriptive test and a classic assumption test are performed to determine whether the data used has met the conditions in the regression model. The classic assumption test includes the normality test, the multicollinearity test, the heteroskedacity test, and the autocorrelation test. After conducting a descriptive test and a classic assumption test, the model selection test is then performed and then a multiple linear regression analysis and finally a hypothesis test is performed which aims to find out about the strength of the independent variable on the dependent variable. Hypothesis testing includes simultaneous test (F test), partial test (t test), and coefficient of determination (Adjusted R2).

IV. RESULTS AND DISCUSSION

Hypothesis Testing is done through Simultaneous Test F to determine the magnitude of the influence of information asymmetry and corporate governance mechanisms which are proxy using institutional ownership, managerial ownership and audit committee simultaneously on earnings management. The F Test results can be seen in table 1 as follows:
Based on the above table, it is known that the F-count 23.30714 with a probability of 0.000000 and the F-table value of 2.553 with a significant level of 0.05. The results of the calculations show that the F-count> F-table is 23.30714> 2.626 and the significance level <0.05 is 0.000000 <0.05 means that H1 is rejected. This shows that the information asymmetry and corporate governance mechanism which is proxied by institutional ownership, managerial ownership and audit committee simultaneously influence earnings management.

T test aims to determine the effect of information asymmetry (ADJSPREAD), institutional ownership (IC), managerial ownership (KM) and audit committee (KA) partially on earnings management (DACC). Testing of the regression results was carried out using a t test at a 95% confidence level or α = 5%.

The testing criteria are as follows:

- If the significant level is > 5%, it can be concluded that Ho is accepted, and vice versa Ha is rejected.
- If the significant level is <5%, it can be concluded that H1 is rejected.

Based on the test results in the table above, it can be explained follows:

**A. Asymmetry of Information which is Proxied by ADJSPREAD**

Based on table 2, information asymmetry is obtained with a t-count value smaller than the t-table value of -0.018686 <1.67528 with a significance of 0.9852. The significant level is greater than the expected significant level that is 0.0003 <0.05. This shows that information asymmetry does not affect earnings management.

**B. Institutional Ownership (IC)**

Based on the table, the result of KI is obtained with a t-value smaller than the t-table value of -3.842206 <1.67528 with a significant level of 0.0003. The significant level is greater than the expected significant level (0.0003 <0.05). This shows that institutional ownership negatively affects earnings management.

**C. Managerial Ownership (KM)**

Based on the table obtained the results of KM with t-value greater than t-table value of -3.233173> 1.67528 with a significance of 0.0021. The significant level is less than the expected significant level (0.0021 <0.05). This shows that managerial ownership has a negative effect on earnings management.

**D. Audit Committee (KA)**

Based on the table obtained the results of the KA with the t-value greater than t-table that is 2.818777> 1.67528 with a significance of 0.0074. The significant level is less than the expected significant level (0.0074 <0.05). This shows that the audit committee has a positive effect on earnings management.

**E. Coefficient of Determination (Adjusted R2).**

The coefficient of determination is used to measure the percentage of the effect of the independent variable on the dependent variable. The magnitude of the coefficient of determination ranges from zero to one. The smaller Adjusted R2 means the ability of the independent variable in explaining the dependent variable is very limited and vice versa. The closer to zero the magnitude of the coefficient of determination or regression equation, the smaller the effect of all independent variables on the dependent variable. Conversely, the greater the coefficient of determination approaches one, the greater the effect of all independent variables on the dependent variable.

**F. Effect of Institutional Ownership on Earnings Management**

Based on the table note that Hypothesis 2 in this study was accepted. This shows that institutional ownership has a significant effect on earnings management, the regression coefficient on the variable institutional ownership is negative, this indicates that the higher institutional ownership, earnings management actions can be minimized through share ownership owned by institutional parties because they are considered as sophisticated investor to monitor management. This indicates that the greater the ownership of shares owned by institutional parties, the greater the supervision conducted to prevent earnings management. This research is in line with research conducted by Barus and Setiawati [5], Haryati and Cahyati [3], and Nariastiti and Ratnadi [9] which states that institutional ownership has a significant negative effect on earnings management.

**G. Effect of Managerial Ownership on Earnings Management**

Based on the table note that Hypothesis 3 in this study was accepted. This shows that managerial ownership has a significant effect on earnings management. The regression coefficient on managerial ownership is negative, this indicates that high managerial ownership, the earnings management activities undertaken by management will be increasingly
reduced. This research is in line with research conducted by Nariastiti and Ratnadi [9] and Hidayat [11], which shows that managerial ownership has a negative effect on earnings management.

H. The Influence of the Audit Committee on Earnings Management.

Based on the table note that Hypothesis 4 in this study was accepted. This shows that the audit committee has a positive and significant effect on earnings management, so it can be interpreted that the presence of the audit committee effectively impeded the improvement of earnings management in the company the audit committee has a positive effect on earnings management [12-14].

V. CONCLUSION

Based on the results of data processing and analysis that has been carried out on the information asymmetry and corporate governance mechanisms for earnings management in companies listed on the 2015-2018 Jakarta Islamic Index (JII) as follows:

- Information asymmetry has no effect on earnings management. This shows that information asymmetry is not a factor that drives earnings management. Management who knows a lot of company information in the future compared to stakeholders, does not trigger management to take opportunistic actions to gain personal profit.

- Institutional ownership has a negative effect on earnings management. This indicates that the greater the ownership of shares owned by institutions, decreases earnings management actions because of greater oversight to prevent earnings management.

- Managerial ownership has a negative effect on earnings management. This indicates that the greater the ownership of shares owned by management, reducing the management’s own actions in carrying out earnings management.

- The audit committee has a positive effect on earnings management. This indicates that the presence of the audit committee effectively prevents the improvement of earnings management in the company which will ultimately affect the quality of financial reporting.

REFERENCES