THE EFFECT OF GOOD CORPORATE GOVERNANCE IMPLEMENTATION OF FIRM VALUE WITH PROFIT MANAGEMENT AS MODERATING VARIABLES IN PROPERTY & REAL ESTATE COMPANIES IN INDONESIA STOCK EXCHANGE

Yustia Ulfa¹, Rina Bukit², Azizul Kholis³
¹,²,³Universitas Sumatera Utara

Abstract: This study aims to determine the effect of good corporate governance (institutional ownership, managerial ownership, independent board of commissioners and audit committees) on firm value in property & real estate sector companies on the Indonesia Stock Exchange. In addition, this study also aims to determine whether earnings management can be used as a moderating variable in the model. The research design carried out is a causal relationship research with a quantitative approach. The sample in this study were 26 property & real estate companies listed on the Indonesia Stock Exchange in 2012 to 2018. The type of data used in this study is secondary data. The technique of determining the sample using purposive sampling. And data analysis techniques using multiple linear regression analysis and interaction testing (moderating) conducted with the help of Eviews 9 software. The results in this study indicate that partially institutional ownership, independent boards of commissioners and audit committees have a positive and significant effect on firm value. As well as other results that show that earnings management is not a moderating variable in the effect of institutional ownership, managerial ownership, independent commissioners and audit committees on firm value in property & real estate sector companies listed on the Indonesia Stock Exchange

Keywords: Good Corporate Governance, Institutional Ownership, Managerial Ownership, Independent Board of Commissioners, Audit Committee, Firm Value, and Earning Management.

1. INTRODUCTION

Firm value is reflected in the company’s stock price, the higher the stock price signals the increase in firm value. The higher firm value will attract the attention of investors to invest their shares in the company. The concept of GCG also concerns the company’s structure, which consists of the elements of the GMS, directors and commissioners. It is expected that with good corporate governance there will be good governance between work mechanisms, division of tasks, authority, and harmonious responsibilities, both internally and externally with the aim of increasing the value of the company in the interests of shareholders and stakeholders. Some mechanisms of good corporate governance include manifesting managerial ownership, institutional ownership, the number of independent commissioners and independent audit committees. The relationship of GCG with firm value proves that corporate governance has an effect on firm value,
but not all components of corporate governance have significant and positive effect on firm value.

Earnings management is a common phenomenon that occurs in companies. Practices undertaken to influence this rate of profit can occur legally or illegally. This legal practice in earnings management means that efforts to influence earnings figures do not conflict with the rules for preparing financial statements, namely by taking advantage of opportunities to make accounting estimates, making changes to accounting methods, and shifting periods of income or expenses. Whereas illegal earnings management practices are carried out in ways that are contrary to the rules of preparing financial statements, namely by reporting fictitious income or expense transactions by adding (marking up) and reducing (marking down) the value of the transaction, or possible by not reporting a number of transactions, so that it will generate profits at a certain value / level.

As we can see from the graphic above an increase and decrease in the value of property and real estate companies in 2012-2018. Property and real estate business is a business that is known to have the characteristics of rapidly changing (volatile) competition that is persistent and complex. Firm value is reflected in the market value (stock price) and the book value of the company. The value of wealth can be seen through the development of the company’s stock price (common stock) in the market. In this case, the value of shares can reflect a company’s financial investment and dividend policy. Firm value can be affected by managerial ownership, institutional ownership, dividend policy, leverage, firm size and also affected by financial performance, good corporate governance.

In developed and developing countries, the development and property and real estate businesses are experiencing rapid growth, this has also happened in Indonesia. Property and real estate companies’ shares in Indonesia began to be in demand when in 2000, it also led to many companies listing on the Indonesia Stock Exchange so that company shares could be bought by investors. The property development that has increased considerably indicates that there has been a significant economic improvement towards a better future. Economic growth in Indonesia, which grew steadily until 2016 but declined in 2017. This is also what makes researchers interested in making property and real estate companies as objects to be studied. So that researchers intend to conduct research under the title “The Effect of Good Corporate Governance Implementation on Firm Value with Earnings Management as a Moderating Variable in Property & Real Estate Companies on the Indonesia Stock Exchange.”
2. LITERATURE REVIEW

2.1. Agency Theory
In agency theory, it is stated that there are two interrelated individuals, namely agents and principals. This theory describes the relationship between shareholders as shareholders and management as agents. social and economic fields.

2.2. Signaling Theory
Signal theory is based on the assumption that the information received by each party is not the same. In other words, signal theory is related to information asymmetry. Signal theory shows the information asymmetry between company management and parties with an interest in information.

2.3. Good Corporate Governance
The principle of corporate governance that is applied in Indonesia is Good Corporate Governance. The Forum for Corporate Governance in Indonesia (FCGI) defines good corporate governance as a system that directs and controls a company. GCG is a set of regulations that establish relationships between shareholders, management, creditors, government, employees and other internal and external stakeholders with respect to their rights and obligations, or in other words systems that direct and control the company ((FCGI, 2000).

Corporate governance arises because there is a separation between ownership and corporate control, or often known as agency problems. The agency problem in the relationship between capital owners and managers is how difficult it is for owners to ensure that the funds invested are not taken over or invested in profitable projects so that they do not bring returns. Therefore, corporate governance is needed to reduce agency problems between owners and managers. And the purpose of Corporate Governance is to increase value for the shareholders.

2.4. Institutional Ownership
In conjunction with the monitor function, institutional investors are believed to have the ability to monitor management actions better than individual investors. Institutional ownership represents a source of power that can be used to support or vice versa on the existence of management.

2.5. Managerial Ownership
In accounting theory, earnings management is largely determined by the motivation of company managers. Different motivations will result in different amounts of earnings management, such as managers who are both shareholders and managers who are not shareholders. These two things will affect earnings management, because the ownership of a manager will participate in determining policies and decision making on the accounting methods applied to the company being managed.
2.6. **Number of Board of Commissioners**

In addition to managerial ownership, the role of the board of commissioners is also expected to improve earnings quality by limiting the level of earnings management through the monitoring function of financial reporting. The effect of the number of board of commissioners on company performance has gotten mixed results.

2.7. **Audit committee**

In accordance with Kep.29 / PM / 2004, the audit committee is a committee formed by the board of commissioners to carry out the oversight of the management of the company. The existence of an audit committee is very important for the management of the company. The audit committee is a new component in the company’s control system. In addition, the audit committee is considered as a liaison between shareholders and the board of commissioners with management in handling control issues. Based on the JSX Circular, SE-008 / BEJ / 12-2001, the membership of the audit committee consists of at least three people including the chair of the audit committee. There are only one member of this committee from the commissioner, the committee member who is from the commissioner is an independent company listed commissioner and is also the chairman of the audit committee. Other members who are not independent commissioners must come from independent external parties.

2.8. **Firm Value**

A company is said to have good value if the company’s performance is also good. The value of a company can be reflected in the price of its shares. If the value of the shares is high, it can be said that the value of the company is also good. Because the company's main goal is to increase the firm value through increasing the prosperity of the owners or shareholders.

2.9. **Earning Management**

Earnings management is the selection of accounting policies by management from existing accounting standards and can naturally maximize their utility and or market value of the company. Understanding of earnings management can be divided into two perspectives. First, earnings management is seen as the opportunistic behavior of managers to maximize their utility in dealing with compensation contracts, debt contracts, and political costs. Second, earnings management is seen from the perspective of efficient contracting, where earnings management gives managers a flexibility to protect themselves and the company in anticipating unexpected events for the benefit of the parties involved in the contract.
2.10. Conceptual Framework

The conceptual framework in this study is as follows:

![Conceptual Framework Diagram]

2.11. Hypothesis

The greater the institutional ownership, the more efficient the use of company assets and is also expected to act as a deterrent to waste and manipulation of earnings carried out by management so that it can increase the value of the company. Institutional ownership has a positive effect on firm value. With institutional ownership, the supervision function will run effectively and make management more careful in obtaining and managing loans (debts), which can result in a decrease in firm value.

Hypothesis 1: Institutional ownership has a positive effect on firm value in property & real estate companies on the Indonesia Stock Exchange.

Mechanisms to overcome agency conflicts within a company include increasing insider ownership. The increasing stock owned by managers through managerial ownership will motivate management performance because they feel they have a stake in the good company in making decisions and are responsible for decisions taken because they participate as shareholders of the company so that management performance is getting better and affecting the increase in firm value.

Hypothesis 2: Managerial ownership has a positive effect on firm value in the property & real estate sector companies on the Indonesia Stock Exchange.

The increasing number of independent directors indicates that there will be an improved oversight and coordination function. The more members of the independent commissioner, the higher the level of integrity of the supervision of the board of directors produced, so that decisions to be taken by the board of directors are more representative of the interests of other stakeholders than the interests of the majority shareholders and the impact will be better on the firm value.
Hypothesis 3: The number of independent commissioners has a positive effect on firm value in the property & real estate sector companies on the Indonesia Stock Exchange.

The audit committee has a role in evaluating internal processes and controls in the company so as to produce quality reporting. This shows that the existence of the audit committee in the company contributes to the results of the quality of financial statements. The audit and evaluation function by the audit committee will reduce the level of management fraud and increase investor confidence in the company so that it will ultimately increase firm value.

Hypothesis 4: The audit committee has a positive effect on firm value in the property & real estate sector companies on the Indonesia Stock Exchange.

Institutional ownership has the ability to control management through an effective monitoring process so as to reduce earnings management. Institutional ownership has the ability to reduce the incentives of selfish managers through an intense level of supervision. Institutional ownership has a significant influence on earnings management practices, the smaller the percentage of institutional ownership, the greater the manager's tendency to take certain accounting policies to manipulate earnings reporting. Midiastuty and Machfoedz’s (2003) research results show that institutional ownership negatively affects earnings management so that institutional ownership becomes an effective mechanism in overseeing manager performance.

Hypothesis 5: Earnings management moderates the effect of institutional ownership on firm value in property & real estate companies on the Indonesia Stock Exchange.

Managerial ownership has succeeded in becoming a mechanism to reduce the agency problems of managers by aligning the interests of managers with shareholders. The interests of managers and external shareholders can be combined if the share ownership by the manager is enlarged so that the manager will not manipulate earnings for his benefit. In other words, a certain percentage of share ownership by management tends to influence earnings management actions. Cornet (2006) found a significant negative relationship between managerial ownership and discretionary accruals as a measure of earnings management.

Hypothesis 6: Earnings management moderates the effect of managerial ownership on firm value in property & real estate companies on the Indonesia Stock Exchange.

The board of commissioners is assigned and given responsibility for overseeing the quality of information contained in the financial statements. Considering the importance of management to conduct earnings management that affects investor confidence, the role of the board of commissioners as supervisors is allowed to have access to company information. The board of commissioners has
no authority in the company, so the board of directors is responsible for delivering information related to the company to the board of commissioners

*Hypothesis 7: Earnings management moderates the effect of the number of independent commissioners on firm value in the property & real estate sector companies on the Indonesia Stock Exchange.*

An audit committee is a committee formed by the board of commissioners to carry out supervisory duties for company management with earnings management as moderation. The audit committee has the primary responsibility to assist the board of commissioners in carrying out their responsibilities, especially with matters relating to company accounting policies, internal controls, and financial reporting systems.

*Hypothesis 8: Earnings management moderates the effect of the audit committee on firm value in the property & real estate sector companies on the Indonesia Stock Exchange.*

3. METHODS

This type of research is included in the causal associative research. According to Erlina (2011), causal research is research that identifies causal relationships between various variables. The population in this study is the property & real estate company on the Indonesia Stock Exchange from 2012 to 2018. For sampling that is representative of the population under study, a purposive sampling technique was used. In this study the sample was determined as many as 26 companies multiplied by 7 years so that the number of samples amounted to 182.

To test the data used data analysis methods namely; descriptive statistical analysis, selection of estimation models (chow test, Hausman test, and Lagrange Multiplier test), and research hypothesis testing (regression analysis with panel data, simultaneous statistical tests (F), partial statistical tests (t), coefficient of determination tests (R²), and moderating test).

4. RESULTS AND DISCUSSION

4.1. RESULTS

1. The results of this F test indicate that the independent variables jointly (simultaneously) have a significant effect on the dependent variable that is firm value with a significant value of 0.000 <0.05.

<table>
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<th>Variabel</th>
<th>Coefficient</th>
<th>Std. Error</th>
<th>t-Statistic</th>
<th>Prob.</th>
</tr>
</thead>
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</table>
2. The results of this t-test states that institutional ownership, the number of independent boards of commissioners and audit committees partially (individually) have a significant effect on firm value because the value of sig <0.05, while managerial ownership partially does not significantly affect firm value.

3. The value of R Square (R2) is 0.212 which means 0.212 or (21.2%) independent variables, namely institutional ownership, managerial ownership, the number of independent commissioners and audit committees are able to explain firm value. While the remaining 78.8% is described or explained by other variables not included in this research model.

<table>
<thead>
<tr>
<th>Variable</th>
<th>Coefficient</th>
<th>Std. Error</th>
<th>t-Statistic</th>
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<td>0.3787</td>
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</tbody>
</table>

4. From the results above, it can be concluded that the moderating variable that is earnings management cannot moderate between the variables x namely (institutional ownership, managerial ownership, independent board of commissioners, and audit committee) to the variable Y (firm value).

4.2. DISCUSSION

1. Effect of Institutional Ownership on Firm Value

   Institutional ownership has an important meaning in monitoring management because having institutional ownership will encourage increased oversight. Supervision carried out by institutional investors will guarantee the prosperity of shareholders. The effect of institutional ownership as a supervisory agent is suppressed through their sizable investment in the capital market. A high level of institutional ownership will lead to greater oversight efforts by institutional investors so that it can hinder the manager’s opportunistic behavior. Overall there are various parties involved in the implementation of good corporate governance consisting of shareholders, investors, employees, managers, suppliers and business partners, local communities, governments, business institutions, the media, and competitors. In this case the company must be able to accommodate the interests of these stakeholders. The greater the institutional ownership, the more efficient the use of company assets and is also expected to act as a deterrent to waste and manipulation of earnings carried out by management so that it can increase the value of the company. The results of this study the effect of institutional ownership on firm value proves that institutional ownership has a positive effect on firm value. With institutional ownership, the supervision function will run effectively and make management more careful in obtaining and managing loans (debts), which can result in a decrease in the value of the company.
2. Effect of Managerial Ownership on Firm Value
Managerial ownership is a situation where the manager owns the company’s shares or in other words the manager is also a shareholder in the company. In the financial statements, this situation is shown by the large percentage of company share ownership by managers. Managerial ownership will affect management performance in optimizing the company. This will have a positive effect on the survival of the company. Mechanisms to overcome agency conflicts within a company include increasing insider ownership. The increasing number of shares owned by managers through managerial ownership will motivate management's performance because they feel they have a stake in the company both in making decisions and are responsible for decisions taken because they participate as shareholders of the company so that management performance is getting better and affecting the increase in firm value. The results of this study state that managerial ownership does not have a positive and significant effect on firm value.

3. Effect of Independent Board of Commissioners on Firm Value
The increasing number of independent directors indicates that there will be an improved oversight and coordination function. The more members of the independent commissioner, the higher the level of integrity of the supervision of the board of directors produced, so that decisions to be taken by the board of directors are more representative of the interests of other stakeholders than the interests of the majority shareholders and the impact will be better on the value of the company. One strategy that companies can implement in implementing a good corporate governance system is to optimize the performance of the board of commissioners. Independent commissioners can increase the effectiveness of decision making, the time spent in decision making can be more efficient and the decisions taken have better quality so that it can attract investors and cause increased firm value. The results of this study stated that the number of independent commissioners has a positive effect on firm value.

4. Effect of the Audit Committee on Firm Value
The audit committee has a role in evaluating internal processes and controls in the company so as to produce quality reporting. This shows that the existence of the audit committee in the company contributes to the results of the quality of financial statements. The audit and evaluation function by the audit committee will reduce the level of management fraud and increase investor confidence in the company so that it will ultimately increase firm value. An audit committee was formed to assist the Board of Commissioners in carrying out supervisory activities. The audit committee is expected to reduce agency conflicts so that reports submitted to interested parties can be trusted so that they can help increase the value of the company in the eyes of investors because of increased investor confidence. The results of this study prove that the audit committee has a positive and significant effect on firm.
5. Earning Management moderates the effect of Institutional Ownership on Firm Value

Earnings management is interference in the process of preparing external financial reporting, with the aim of obtaining personal profit. Earnings management can reduce the credibility of financial statements if used for decision making, because earnings management is a form of manipulation of financial statements that are the target of communication between managers and external parties of the company. Earnings management is affected by conflicts of interest between the principal (shareholders) and the agents as managers (company management) that arise because each party tries to achieve or consider the level of prosperity that it wants. With the effect of institutional ownership in a company on firm value, then with earnings management will earnings management be able to weaken the effect of institutional ownership on firm value. Of course, with the existence of high earnings management practices, firm value will decrease, so that the effect of institutional ownership will also be increasingly weakened by the existence of earnings management as a moderating variable. However, in this study, this theory cannot be proven in property & real estate sector companies listed on the Indonesia Stock Exchange. In this research, partially earnings management is not able to significantly affect firm value. So that the ability of earnings management to weaken or strengthen the effect of institutional ownership is also very little so it is not significant.

6. Earning Management moderates the effect of Managerial Ownership on Firm Value.

Managerial ownership is ownership of shares by the company management. Managerial share ownership can align between the interests of shareholders and managers, because managers share directly the benefits of decisions taken and managers who bear the risk if there are losses that arise as a consequence of wrong decision making. It states that the greater the proportion of management ownership in companies 16 will be able to unite the interests of managers and shareholders, so that the company's performance is getting better. With the effect of managerial ownership on firm value, as well as elements of earnings management in the company, firm value will certainly be affected by it. However, in this study, this effect cannot be proven empirically because the research results show the opposite. Where earnings management cannot be used as a moderating variable in the effect of managerial ownership on firm value. So that the ability of earnings management to weaken or strengthen the effect of managerial ownership is also very little so it is not significant.

7. Earning Management moderates the effect of the Number of Board of Commissioners on Firm Value

The board of commissioners as the top of the company’s internal management system has a very important role in the company, especially in the implementation of good corporate governance. The board of commissioners is the core of corporate governance assigned to ensure the implementation of the company’s strategy, oversee management in managing the company, and requires accountability. In
addition to having a role as management supervisor, the independent board of commissioners also has the role of providing advice to directors effectively and by ensuring that the company appoints executives and professional managers and also ensures that the principles and practices of good corporate governance are adhered to and implemented properly, so that later the company can increase firm value. So that the ability of earnings management to weaken or strengthen the effect of the independent board of commissioners is also very little so it is not significant.

8. Earning Management moderates the effect of the Audit Committee on Firm Value

Companies that have audit committee members will make the supervision of internal auditors in the company more stringent so as to prevent bad behavior from internal auditors. As an independent party, the audit committee is expected to play its role in overseeing the running of the company which is a form of good corporate governance to reduce agency problems. With the reduction in agency problems, this can later increase firm value. In addition, earnings management is an ability to manipulate the choices available and make the right choices to achieve the desired profit level. The existence of earnings management will certainly affect the quality of financial statements submitted by the company so that it will have an impact on the level of investor confidence and ultimately will reduce firm value. But the results in this study have not been able to prove this because in this study it was found that earnings management is not a moderating variable between the influence of the audit committee on the firm value. Then the ability of earnings management to weaken or strengthen the effect of the audit committee is also very little so it is not significant.

5. CONCLUSIONS AND SUGGESTIONS

5.1. Conclusions

The conclusions of this study include:

1. Institutional ownership has a positive and significant effect on firm value in property & real estate companies listed on the Indonesia Stock Exchange. Thus Hypothesis 1 is accepted.
2. Managerial ownership does not have a significant effect on firm value in property & real estate sector companies listed on the Indonesia Stock Exchange. Thus Hypothesis 2 is rejected.
3. The number of independent commissioners has a positive and significant effect on firm value in property & real estate companies listed on the Indonesia Stock Exchange. Thus Hypothesis 3 is accepted.
4. The audit committee has a positive and significant effect on firm value in property & real estate sector companies listed on the Indonesia Stock Exchange. Thus Hypothesis 4 is accepted.
5. Earnings management cannot moderate the effect of institutional ownership on firm value in property & real estate sector companies listed on the Indonesia Stock Exchange. Thus Hypothesis 5 is rejected.
6. Earnings management cannot moderate the effect of managerial ownership on firm value in property & real estate companies listed on the Indonesia Stock Exchange. Thus Hypothesis 6 is rejected.

7. Earnings management cannot moderate the effect of the number of independent commissioners on firm value in property & real estate sector companies listed on the Indonesia Stock Exchange. Thus Hypothesis 7 was rejected.

8. Earnings management cannot moderate the effect of the audit committee firm value on property & real estate companies listed on the Indonesia Stock Exchange. Thus Hypothesis 8 is rejected.

5.2. Suggestions
Based on the conclusions in this research, several suggestions can be made, which are as follows:

1. In the research results it can be seen that institutional ownership, the number of independent commissioners and audit committees are able to have a significant effect on firm value in the property & real estate sector companies, moreover it can be seen that partially institutional ownership, the number of independent commissioners and audit committees has a positive effect on firm value so it is expected that companies in the property & real estate sector will continue to pay attention to the level of institutional ownership, the number of independent commissioners and audit committees held annually. Because with the increasing level of institutional ownership, the number of independent commissioners and audit committees will be able to increase firm value.

2. Future studies are expected to re-examine the effect of other variables that can affect firm value in property & real estate companies listed on the IDX. Some variables that can be examined include leverage, liquidity, operating cash flow and so on.

3. In the results of this study it can be seen that earnings management cannot be used as a moderating variable in the effect of institutional ownership, managerial ownership, the number of independent commissioners and audit committees on firm value in property & real estate companies listed on the IDX. So that in subsequent studies are expected to re-test earnings management in the research model whether as an independent variable or as an intervening variable.

References
Field.
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