

GOOD CORPORATE GOVERNANCE, CONSERVATISM ACCOUNTING, REAL EARNINGS MANAGEMENT, AND INFORMATION ASYMMETRY ON SHARE RETURN

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Abstract

This study aims to analyze the influence of accounting conservatism, real earnings management, and information asymmetry on stock returns. This study uses the sample of all manufacturing companies listed on the Indonesia Stock Exchange during the period 2013 to 2015. The total number of companies used as sample research is 44 companies with observations for three years. Pursuant to purposive sampling method, total of research sample is 132 financial reports and annual reports. The results of this study indicate: (1) Good corporate governance has a significant negative effect on stock return with a significance value of $0.002 < 0.050$; (2) Conservatism with accrual-based conservatism proxy has a significant negative effect on stock return with a significance value of $0.032 < 0.050$; (3) Real earnings management with the proxy of discretionary cash flow has no effect on stock return with a significance value of 0.050 ; and (4) Information asymmetry with proxy of bid-ask spread has no effect on stock return with significance value of $0.453 > 0.05$.

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INTRODUCTION

Company performance is a picture of the results or achievements that are influenced by operational activities in an effort to utilize the resources owned company during a certain period of time. In this study, the company's performance measure used is stock returns. Basic consideration of the selection of stock return sizes that shareholders have the motivation to invest in the hope of obtaining a return in accordance with the embedded capital.

Often the occurrence of several cases of accounting scandals that occur in the country, caused by cases of violations by some accountants, and lack of understanding in the capital market. The phenomenon in this study is due to decreased public opinion, trust and

public assessment of the company's performance, especially companies that are in the capital market because of the lack of satisfaction of public opinion to investors, issuers, securities, and also analysts.

Information on company performance can be influenced by factors such as Kazemi's conservatism, Dechow, P.M, Skinner real earnings management (2000). This is because management can choose and change accounting policies, accounting estimates, and error corrections to improve the relevance and reliability of the entity's financial statements. They also can compare the financial statements over time, and compare the entity's financial statements with other companies.

Good corporate governance is a system of checks and balances, both internal and external that ensures the company performs accountability to all stakeholders, and is socially responsible in its business activities. Corporate governance, from a narrow point of view, is defined as the relationship between the company and its shareholders (Solomon, 2014).

Based on existing practices, often the user's attention to financial statements is only directed to earnings information, regardless of how and where the earnings are generated. Management as the manager of the company has the obligation to provide information about the condition of the company to shareholders, but in this case the information submitted sometimes is not in accordance with the actual company conditions.

LITERATURE REVIEW

Company Value Theory

Duran (1952) Cost of the Debt and Equity Funds for Business, the value of the Firm theory associated with the theory of financial structure. The company value theory views the firm as a set of contracts between many parties, where the company's financial structure has a considerable influence on firm value.

This study uses the theory of corporate value with the consideration that (1) conservatism is a prudent concept to keep the profit and assets not expressed too high and the stated burden and debt is not too low so that the financial statements presented have high quality financial information and will further affect company value, (2) real earnings management, and information asymmetry also affect company value.

Information Asymmetry Theory

Akerlof (1970) introduced the theory of information asymmetry through "The market for lemons". Akerlof connects quality and uncertainty and develops information

asymmetry ideas or ideas by providing examples of used car markets. The reason of this research is using information asymmetry theory because information asymmetry will affect (1) stock price that occurs in market influenced by information factor and (2) existence of government policy affecting business environment.

Signaling Theory

Ross (1977) associates the theory of signal with the problem of asymmetry information between management and investors, regarding the structure of the firm's capital are determined by the incentive signal of the firm's management. Management with information advantage has an incentive to signal personal information through its debt-rate options.

The reason this research uses signal theory is that every corporate action made by the company gives meaning to outsiders. The meaning given by the information is known as a signal, this can be a positive signal or a negative signal, followed by a market reaction. If the signal is positive, the market reacts so as to increase the stock price which further affects the company's performance. Furthermore, the increase in stock value reflects the improvement of company performance, in this case stock returns, return on equity, and earnings per share will increase. Variables that affect the signal are the quality of information provided by the company (Manurung, 2012).

Agency Theory

The agency theory was introduced by Jansen, M.C and Meckling W.H (1976). The idea of this theory is the separation of ownership and control of the firm. The agency theory states that there is an agency relationship as a contract between management as an agent with the owner as the company principal. The working

relationship between the parties giving the authority (principal) that is the shareholder with the party who receives the authority (agent) that is management, in the form of a cooperation contract called "Nexus of Contract".

This research uses agency theory with the consideration that (1) seen from funding source, external funding of company comes from debt and stock, and (2) seen from organizational theory there are three strongly related parties in company, that is agent as manager, investor as the lender and the owner as a capital or fund-raiser to the company. The issue that arises in relation to the agent is the problem between the agent and the investor and the agent with the owner. In this case the management who manage the company as an agent plays a role in determining the company's performance.

Good Corporate Governance

Good corporate governance is the pillars of corporate governance with the environment of stakeholders' capital and human capital. Corporate governance is considered as one of the foundations of corporate governance to its ability to prepare companies with proper guidance, self-regulation, and open access to investment capital through its activities. The Forum Corporate Governance in Indonesia (FCGI) defines corporate governance as a set of rules that establishes relationships between shareholders, managers, creditor, government, employees, and other internal and external interest holders in relation to their rights and obligations, or in words another system that directs and controls the company.

Conservatism

Traditionally, accounting conservatism is defined as "anticipate no profit, but anticipate

all losses" Bliss (1924) in Watt (2003). Anticipating no profit means not recognizing profits before there is valid verification of claims to revenue generating profits. This means conservatism is in the extreme form of not recognizing profits, but acknowledging any losses even though they have not been realized. So profits will only be recognized upon realization until there is a legitimate claim to such profits.

Real Earnings Management

Cohen, D.A and Zarowin P. (2010) define real earnings management as a change of time or the structure of a real business transaction to change profits, where real transaction changes deviate from optimal activity plans and impose real costs for the firm.

According to Roychowdhury (2006) earnings management through real activity is a deviation from the normal operating activities of a company that is motivated by management's desire to provide a false understanding to stakeholders that certain financial reporting objectives have been achieved through the company's normal operating activity. According to Gunny (2010) real earnings management is an action performed by management to change the time or structure of transactions of operations, investments and / or financing in an attempt to influence the output of the accounting system.

Based on the above definitions, it can be concluded that real earnings management is a deliberate management action by changing the time or structuring transactions operations, investments, or financing with the aim to declare profit is not real.

Information Asymmetry

Information asymmetry is a condition where one party has better information than

the other. In a corporate context, managers have better information about the company's condition than investors who are not involved in management. Information asymmetry will raise an adverse selection problem because investors do not know for sure which companies are good and which are bad.

Stock returns

Company performance is a whole and comprehensive picture of the results or achievements that are influenced by the operational activities in exploiting resources owned by the company during a certain period of time. In other words, the company's performance is the level of achievement of results in order to realize the company's goals. Measuring company performance is important in the relationship between the company and its stakeholders.

Return of shares is a return from shares and the results of the broker or company to investors who have invested in the company. In the world of the stock market, an investor who invests by buying a stock must be confident with all the risks and uncertainties that will be obtained in the future. Because, the game of stock market is a bit much to rely on luck, although there are ways that

technical techniques can be used by investors to get the best results.

DATA AND RESEARCH TECHNIQUE ANALYSIS

Population and Sample Research

The population in the study is 182 manufacturing companies. This study uses the sample of all manufacturing companies listed on the Indonesia Stock Exchange during the period 2013 to 2015. The total number of companies used as sample research is 44 companies with the period of observations about three years.

In this research the technique is using analysis model of Dechow and Skinner (2000) for the accrual and profit management model. The population used in this study is a listed manufacturing sector company which published its annual report on Indonesia Stock Exchange (IDX) from the period 2013 to 2015. Meanwhile, sampling in this research used non probability sampling method with purposive sampling technique.

Data obtained from www.idx.co.id in the form of annual reports and corporate financial statements. Stock return data, and bid-ask spreads for Indonesia are obtained from finance.yahoo.com. The composite share price index data for Indonesia is obtained from website www.idx.go.id.

Table 1. Operational Variables of Measurement

Variable	Measurement	Scale	Referents
Good Corporate Governance (X1)	Good corporate governance is measured using disclosure method or content analysis based on five principles and concept (concept) using dichotomy that is score 1 (one) if yes do, and score 0 (zero) if not do with total maximum percentage of weight of score is 100%. The number of weighting scores is calculated by the formula: value 1: express disclosure value 0: states not disclose ASEAN capital market forum (ACMF), ASEAN corporate governance scorecard $n \times 100\%$. K Where: GCG: ASEAN corporate governance scorecard indeks.	Ratio	Ross A and Crossn. K (2012) ASEAN capital market forum (ACMF.2014)

Variable	Measurement	Scale	Referents
Conservatism (X2)	$\text{Accrual} = \frac{NIBE_{it} + DEPR_{it} - AKO_{it}}{TA_{it}}$ $\text{CONACC}_{it} = \frac{\text{Akruar}_{it}}{3 \text{ tahun}} \times (-1)$	Ratio	Lee and T.J Wong (2010)
Real Earnings Management (X3)	$\text{Cash flow discretionary} = \frac{CFO_{it}}{TA_{it-1}}$	Ratio	Roychowdhury (2006)
Information Asymmetry (X4)	$\text{Spread} = \frac{ask_{it} - bid_{it}}{(ask_{it} + bid_{it}) / 2}$	Ratio	Callahan et al (1997)
Stock Return (Y)	$\text{Stock return} = \frac{P_{it} - P_{t-1}}{P_{t-1}}$	Ratio	Hartono (2013)

$$\text{STOCK RETURN} = \alpha_0 + \beta_1 \text{GCG} + \beta_2 \text{CONSERVATISM} + \beta_3 \text{REAL EARNING MANAGEMENT} + \beta_4 \text{INFORMATION ASYMMETRY} + \text{et.....(1)}$$

In this research the data is collected by means of documentary collection, i.e. the use of data derived from existing documents. This is done by tracking and recording the necessary information on secondary data in the form of financial statements and annual reports of sample companies. Other supporting data were obtained by using literature study from scientific journals and literature containing the discussion related to this research. Data obtained from www.idx.co.id in the form of annual reports

(annual report), and corporate financial statements Stock return.

RESULT AND DISCUSSION

Descriptive Statistic

Descriptive analysis is a method in which all data related to the study are collected and grouped for analysis and interpretation objectively by comparing the minimum, maximum and average values of the sample.

Table 2. Descriptive Statistics

	N	Minimum	Maximum	Mean	Std. Deviation
GCG	1 32	-,88300	,74530	-,0478826	,34736481
KON	1 32	-,98300	,64530	-,1478826	,24736481
REM	1 32	-,37930	,63820	,0800780	,12693781
IA	1 32	-,52630	2,00000	,0820258	,31287747
RETURN	1 32	-,00890	,00750	-,0007402	,00252378
Valid N (listwise)	1 32				

Source : Self Proceed

Normality test

Normality test is performed to determine whether the data is normally distributed or not. Because a good regression model has normal data distribution. There are 2 ways to detect the normality of data that is by graph

analysis and statistical test. To test the normality of data in this study using histogram graph analysis and normal plot graph and using statistical test by using Kolmogorov-Smirnov (K-S) test.

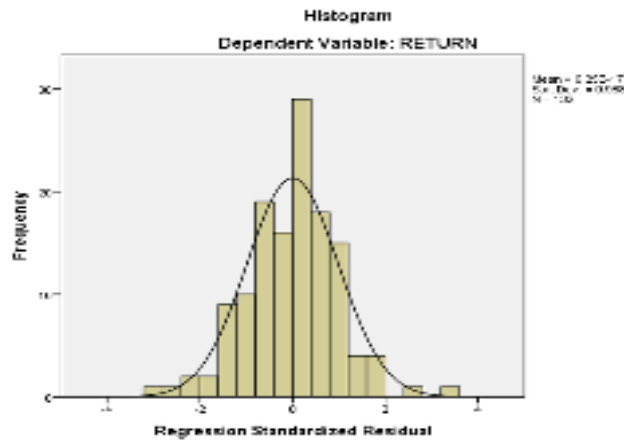


Figure 1. Test Normalitas Histogram Normal

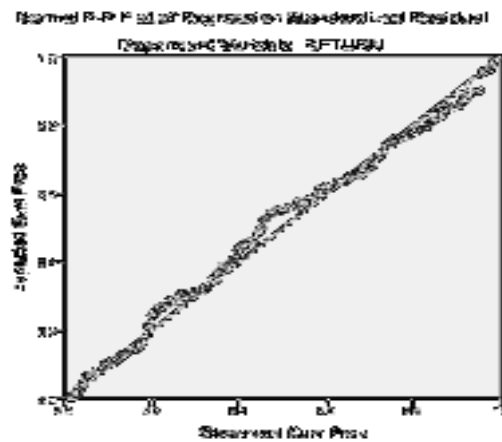


Figure 2. Test Normalitas Grafik Normal Plot

Multicollinearity Test

Multicollinearity test is performed to see if there is correlation between independent variables or each other. If the

tolerance value > 0.1 and VIF < 10, then it can be said there is no multicollinearity between independent variables.

Table 3. Multicollinearity Test Coefficients^a

Model		Collinearity Statistics	
		Tolerance	VIF
1	(Constant)		
	GCG	,999	1,001
	KON	,999	1,001
	REM	,999	1,001
	IA	,999	1,001

a. Dependent Variable: RETURN

Source : Self Proceed

Autocorrelation Test

Ghozali (2013), the autocorrelation test aims to test whether in a linear regression model there is a correlation between the confounding errors in period t with the error of intruder in period t with error period t-1

(previous). One measure in determining whether or not there is autocorrelation is to use the Durbin-Watson (DW) test. The Durbin Watson value between du and $4-du$ shows the model not affected by the autocorrelation problem.

Table 4. Auto correlation Test

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Durbin-Watson
1	,256 _a	,065	,043	,00246828	1,839

a. Predictors: (Constant), IA, REM, KON, GCG

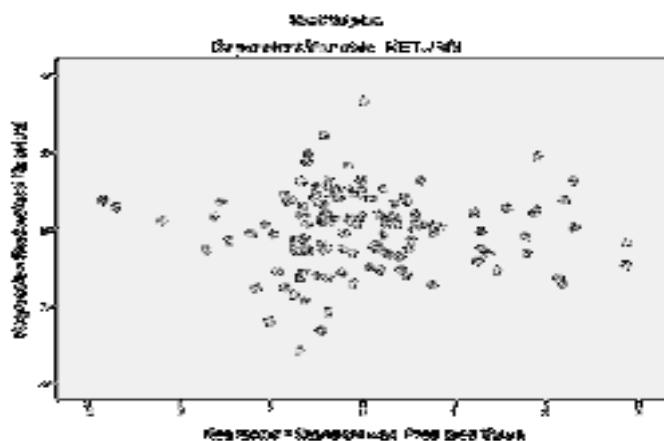
b. Dependent Variable: RETURN

Source : Self Proceed

Heteroscedasticity Test

The heteroscedasticity test was performed to test whether in the regression model there was a variance inequality of the residual one observation to the other. One

way to detect whether or not heteroscedasticity is to see the scatterplot graph between the predicted value of the dependent variable is ZPRED with residual SRESID



Source : Self Proceed
 Figure 3. Heteroscedasticity Test Scatterplot Grafik

Hypothesis Test Results

Hypothesis testing in this study was conducted by using multiple regression analysis models. According to Ghazali (2015) multiple regressions is used to strengthen more than one independent variable to one variable. In this research, the experiment is done by testing the significance of individual parameters (t test statistic).

Individual Parameter Significance Test (Test Statistic t)

Partial test or t test is used to show how far the influence of one independent variable individually in explaining the variation of the dependent variable tested at the 0.05 significance level. The t test results are shown in Table 4.

Table 5. Statistical Test Results t Coefficients^a

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	-.001	.000	.000	-4,554	.000
	GCG	-.002	.001	-.285	-3,167	.002
	KON	-.002	.001	-.185	-2,167	.032
	REM	.003	.002	.169	1,977	.050
	IA	.001	.001	.064	.753	.453

a. Dependent Variable: RETURN

Source : Self Proceed

CONCLUSION

Based on the results of testing the discussion as has been presented in the

previous section, it can be deduced with based on the test results with SPSS 24 that good corporate governance variable (X1) has a

negative effect on stock return H1. Accounting conservatism variable (X2) has a negative effect on stock return so H2 accepted. Variable real earnings management (X3) does not affect the stock return so that H3 is rejected. Variable information asymmetry (X4) has no effect on stock return so H4 is rejected.

Limitations

The research has some limitations:

1. This research has limited resources and research information, in addition to the amount of data collected is not maximal due to limited use only financial statements of manufacturing companies that are listed on the Indonesia Stock Exchange. So the results of limited research generalization. The suggestion for further research is to expand the sample of companies by industry.
2. This study uses only manufacturing companies only. Subsequent research can use company samples for all industries, except for the financial industry because it has different characteristics.
3. This study calculates stock return without considering risk. Therefore it is necessary to calculate the stock return by using the risk adjusted return measure, so the estimation result is expected to be more precise.

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