

The Impact of Board Independence and CEO Education on Earning Manipulation Beneish M-Score Models

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Abstract: Management is accountable to shareholders, and within the business operations, there are many other shareholders with varied interests. Each shareholder wants management to take into consideration their interests, especially with regards to the company's earnings and sharing of such earnings. Earnings manipulation is the most important area where accountants through the will of the authorities could manipulate earnings. It is in the earnings manipulation that the aspect of corporate governments towards the management of earnings emerge. Board independence existence in the company is effective to ensure the financial reporting quality considering the transparency and accountability derive from it. The result of this research is the effect of good corporate governance and its impact on earnings manipulation, the two variables chosen are the independent board and CEO education. The results of this study found that independent boards had a negative and significant influence on earnings manipulation, while CEO education had a negative but not significant influence. The application of good corporate governance will have an impact on improving financial reporting and financial performance, reducing the practice of earnings manipulation because a high level of supervision will reduce these practices in financial accounting.

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I. Introduction

The development of corporate governance mechanism has transpired to be one of the most prominent business subjects in the twenty-first century; this can be observed through stringent regulations that commenced numerous organizations to administer it. The mechanism

above has resulted from numerous events of corporate failure that lead to global financial crisis which affected many corporations, including Indonesia (Djaja, 2009). Correspondingly, numerous countries enforce corporate governance mechanism to ascertain corporate performance, given that it comprises of rules, practices, and

process whereby organizations are controlled and directed (Rankin et al., 2012). This commandment was supported by prior research (e.g., Maher & Andersson, 2002) that signifies the existence of favorable corporate governance mechanism, within the economy or company, encourage a level of certainty that is vital for the market economy to function effectively. As a result, it will produce lower cost of capital and invigorate firms to utilize resources more efficiently.

Additionally, corporate governance discourses an indispensable role to ensure that company activities are aligned with the stakeholder or owner's aspiration; particularly, maximizing wealth while complying with local customs and regulations (Rankin et al., 2012). The necessity of such mechanism emerges from the nature of a company's structure; wherein stakeholder, do not directly engage in the operation. Meanwhile, they confide on an agent, also known as managers, to operate the business. As a result, managers and stakeholders' partition are inherent in corporations that emerge various issues related to corporate governance as managers might engage in self-interest behavior through organizational resources to benefit themselves personally (Bowen et al., 2008). As such, corporate governance mechanism is created to usher business practices, whereas inadequacy to implement it regarded as a step closer to corporate failure.

Furthermore, the term 'Corporate Failure' can be defined as a state of bankruptcy or insolvency in addition to instances where a company is unable to continue trading and goes out of business (Rankin et al., 2012). The cause of such misfortune may be attributable to several factors, which include sources from outside and inside an organization. While outside factors typically consist of recession, technological change, interest rate changes among others, inside factors, however, reflect the flaws beneath an organization including poor strategy and financial mismanagement (Agrawal & Chadha, 2005). On a more concerning note, management inadequacies

are often the biggest trigger of corporate failure, assuming that they could exploit accounting deficiencies by manipulating accounting rules

Manipulation in financial statements is a form of fraud which results in a decrease in the quality of financial statements. Rezaee (2005) states that there is an increased opportunity to engage in financial statement fraud because the company's control structure is weak, ineffective corporate governance, and the quality of audit functions is poor, thus allowing the company's financial flows to be misused by fraud perpetrators and impacting financial reporting irrelevant (Beneish, 1999). Suryanto (2016) concluded that the delay in the submission of financial statements related to the audit process in identifying, investigating, and resolving fraud problems and financial report manipulation that occurred in the company.

The different levels of education can lead to differences in decision making in financial performance. Setiawan (2015) according to him the educational background influences employee performance, the level of education of an employee will affect its performance because it requires workforce that has a level of education that is appropriate to the field of work. Education is an important thing in building a country; the poor education gives birth to poor generations. So the way a person speaks is that they behave according to the education they have.

In particular, the accounting education background of the Chief Executive Officer (CEO) plays an important role in determining the quality of financial reporting because the CEO is responsible for the functional finance of the company. The CFO also oversees the implementation of accounting principles and procedures and financial report preparation (Aier, Comprix, Gunlock, & Lee, 2005). According to Hennes, Leone, & Miller (2008), research, Chief executive officers (CEOs), and turnover CFOs often influence the high restatement of company financial statements.

According to Ponnu (2008), the company is led by professionals who have various fields of knowledge. With board members (CEOs) who have the expertise, it is hoped that companies can face various problems in their business. The background and experience by the needs of the company are important for the overall composition of the company. This is due to the company's need for educational background and certain experiences that change over time.

Agency theory is the relationship of responsibility between management (agent) and the owner (principal) in a company. This relationship causes two different interests between management and the owner. Management has more information than the owner, so managers have the opportunity to do earnings management.

Information asymmetry that occurs within the company causes agency conflicts so that effective supervision is needed by the parties relating to the management of the company. The supervision needed by the company is carried out through a mechanism of good corporate governance. The mechanism of good corporate governance can protect shareholders and creditors so that they believe they will get a return on their investment. Correspondingly, numerous organizations bolster their corporate governance mechanism by implementing independent board of directors. Research from Fernando (2009) supported aforesaid statement as company that has higher degree of board independence sustain fewer incidence of earnings manipulation and yield higher accountability level. Such mechanism also provides effective monitoring to scale down management self-intrinsic behavior (Xie et al., 2003). For that reason, board independence creates an assurance of the financial reporting quality provided by the company's management.

The Good Corporate Governance model consists of a system, process, structure, and a set of rules which include the values and principles underlying the company. This study focuses on the structure of Good Corporate Governance. The

application of the structure of Good Corporate Governance within the company can be seen through the existence of an independent board of commissioners.

II. Literature Review

CEO of Education

According to Moerdiyanto (2011) states that a leader who has education, knowledge, and experience is expected to be able to identify, analyze and take business policies correctly in optimizing all business opportunities for success (especially financial performance) in the future. The research conducted by Moerdiyanto (2011) results of the study stated that management education had a positive influence on the performance of the company's shares. High management education will react positively, and low manager education will be negatively reacted by seven markets. The research conducted by Kotur and S. Anbazhagan (2014), states that education and performance experience affect the performance of workers. Based on research conducted by Ying and Mei (2014) about Education and Firm Performance CEO: Evidence from Hong Kong states that there is a significant and inverse influence between CEO education level and company performance, meaning that the higher the CEO's education level will not help to improve company performance rather, it worsens the company's performance. According to him the main reason for the outcome of this paradox is believed to be related to bias overconfidence. The higher level of education of CEOs might lead to higher opportunities for them to become overconfident; this can worsen the performance of the company. Ying and Yung use ROA and ROE as well as earnings management as a proxy for calculating financial performance. Research conducted by Darmadi (2011) states that CEO education with a postgraduate degree and school in a prestigious university influences financial performance calculated by ROA, while

commissioner education does not affect the company's performance when calculated using Tobin's Q.

CEO quality as the diversity of the quality of education is one indicator of the occurrence of financial distress in the company. This considers the level of CEO education is very important. Educational background possessed by a person or individual will certainly affect the knowledge they have. Oktaviani (2017) argues that the board of directors who have an educational background in business and economics can manage the company and make business decisions better than members of the board of directors who do not know business and economics. Research conducted by Kristandi, Rahayu and Huda (2016) states that CEO quality has a significant negative influence on corporate financial distress. It is explained that if CEO quality increases, financial distress will decrease so that the higher the education the CEO has, the more it will affect the company's performance so that the company will be healthy and avoid bankruptcy. Based on research conducted by Ying and Mei (2014) stated that there is a significant positive influence between the level of education of the CEO and bankruptcy means that the higher the level of education of the CEO will not help to improve company performance so that it will worsen the performance of the company and cause corporate bankruptcy.

Ayaba (2012) examined the impact of CEOs' educational background on firm performance by using listed firms in the Stockholm stock exchange as evidence, particularly in the manufacturing and IT sectors. The results of this study suggested that CEO educational background and educational level have a limited impact in accounting for differences in firm performance. Thus, there is no evidence showing that firms led by CEO with a higher level of education (postgraduate degree) had a substantially better firm performance over firms led by a CEO with an undergraduate degree.

Board Independence

The board of commissioners is the party that performs the monitoring function of management performance, while the board of directors is the party that carries out the company's operational functions. Based on (The National Committee on Corporate Governance, 2000) describes several matters relating to the board of commissioners, among others, is the function of the board of commissioners to oversee directors who are related to the policies and implementation of directors, the board of commissioners serves to provide advice to directors . To carry out this function, the board of commissioners is a person of good character and has relevant experience. The existence of independent commissioners is regulated in the BAPEPAM regulation No: KEP - 315 / BEJ / 06 - 2000 which was perfected by decree No: KEP - 339 / BEJ / 07 - 2001 which states that every public company must form an independent commissioner whose members are at least 30% of the total number of members of the board of commissioners. A board consisting of a large independent board of commissioners has strong control over managerial decisions.

Several researcher analyzed the influence of the proportion of independent commissioners on earnings management. Their study reported that the proportion of independent commissioners had a significant negative relationship with earnings management. This means that the proportion of independent commissioners can reduce earnings management that occurs in the company. Xie, Davidson, and Dadalt (2003) examined the role of the board of commissioners with a background in finance in preventing earnings management. From this research, it is known that the more often the board of commissioners meet, the less manageable accruals of the company.

Corporate Governance Quality and Earnings Manipulation

Earnings manipulation is the act of managerial activity that results in the manipulation of reported

earnings by altering accounting flexibility in the financial reporting process. According to Bajra &Cadez (2018), financial records are typically manipulated through the use of two alternative techniques. The most important one is manipulating numbers of actual financial constraints. The other important technique is income smoothing; this method is performed by shifting income from one period to another, thus mislead the financial information. However, this technique is important because they provide ways of ensuring that the company's earnings are well-managed.

Research shows that management influences the earnings as it has been assessed through discretionary accruals which eventually display the growth and length of operating financial in business cycle. The corporate earnings being a holistic organizational process is important in the reduction of the incidence of earnings manipulation. In the past twenty years, there are numerous debates encircling professional auditing and accounting that have resulted in the concerns over corporate governance of different companies (Bajra &Cadez, 2018). Accordingly, corporate governance is not just about the process for electing representatives but is also a process for ensuring that the elected representatives make decisions that eventually enhance positive financial postings. Many of the financial reporting issues have remained under discussions for quite a length of time with the corporate governance in mind. In the modern business world, people consider corporate governance as the most appropriate way of ensuring effective management of earnings and it is essential for the earnings management to adopt the principles of financial management to realize positive results.

Financial Reporting Issues and Corporate Governance

One of the most prominent functions of corporate governance is to assure financial reporting quality process. Therefore, corporate governance has

gained increasing emphasis on both the practice and also in academic research. The emphasis of the function of corporate governance in the management of earnings has been because there is a prevalence of highly publicized and egregious financial reporting frauds including those which were reported by the Enron, Adelphia, Parmalat and the other unprecedented claims of financial frauds (Cornett et al., 2009). More importantly, many types of research that have been carried out have revealed several weaknesses in corporate governance mechanism, and inadequate financial reporting that postulate an improves in corporate governance and the effectiveness of the audit committee.

Additionally, with improved corporate governance, board of directors and management will be made accountable which will eventually ensure integrity in the financial reporting. Investment decisions are made based on the information reported, and the more reliable or, the quicker the information is, the easier it is for the company to make decisions (Cornett et al., 2009). Investors would like to see that the information made is accurate to become certain that the money they invest in the business will be secured and earn them as they anticipate. In the past, board of directors and audit committee has been the primary focus in numerous studies to make sure the integrity of the process of financial reporting has been accurately dealt with.

Public Oversight Board (PBO) defined corporate governance as the guardianship of company activities employed by the board of directors and audit committee to determine whether a company has strictly followed the integrity issues during the financial reporting process. Thus, corporate governance requires that more comprehensive structural indicators need to be put in place to ensure accurate and accountable financial reporting (Brigham & Ehrhardt, 2007). Some companies utilize the services of external auditors to determine the accuracy and integrity of financial reporting processes. That has

strengthened corporate governance since it has resulted in the effective management of earnings and shareholders satisfaction.

Earnings Manipulation Determinants

Various research has been conducted to analyze earnings manipulation determinants for public listed firms. Those determinants are evaluated considering their impact towards earnings manipulation, as firm will more likely to engage in earnings manipulation when driven by those factors. However, the determinants differ amongst company structure and industry-specific, hence the determinants may vary depending on the company structure and industry(intext). Another research from Overly positive return on assets compared to preceding years reports might indicate company attempt to manipulate their asset utilization on generating income.

Meanwhile, company's leverage level might play a vital role to detect the likelihood of earnings manipulation, considering the high degree of debt financing might indicate that company facing some difficulties, hence increase the likelihood of earnings manipulation. Therefore, this paper will converge on factors mentioned above as the determinants of earnings manipulation. The factors incorporated in this paper are leverage, return on assets (ROA), growth, and market capitalization.

Leverage

Leverage is a type of financing that relies on debt as a funding source to invigorates firm asset's base. This factor plays a significant role in corporate governance and earning management. Looking at it from the agency theory point of view, which assumes everybody is looking for their own best interest, debt can used as constraint mechanism board of directors put over the managers of the company. This works because agency theory suggests that low agency cost plays integral part in taking care of the stakeholders' interest, in the hope that the cost of debt financing

itself will still be less than the agency cost potentially incurred by rouge managerial behaviors. The existence of debts is expected to provide some caveat emptor for the managers in choose investments, so the company will be able to generate cash flow it needs to pay down the debt.

On the other end of the spectrum, leverage, or rather over-leverage, also may present managers very strong incentives to cook the book. A company in threat of defaulting on its debt is more likely to report overly positive earnings. Since the terms and conditions of the debt financing fundamentally reflects the financial credibility of the company itself (i.e. the better a company is doing financially, the more lenient the terms maybe), one may infer that a company that is facing difficulty is more likely to perform earnings manipulation (Oktovianty&Agustia, 2012).

Return on Assets

Return on assets tells the story of how well the firm is utilizing its assets on generating income. Since the manipulated earnings tend to be overly positive, one must be aware of a high ration of return on assets. The appearance of highly efficient use of assets may be one of the indicators that there is false reporting.

Previous research who found a negative influence on profitability on earnings management. Some of these studies still show contradictions regarding the effect of profitability on earnings management.

Growth

The growth of a company plays an important role in earnings report. When connected to the leverage ratio of a company, growth can be a potent indicator of the company trajectory for the near to intermediate future. Hence, growth is used as one of determinant of earning manipulation. Within a diversified firm which houses multi-faceted business in various industry, growth,

growth opportunities, and leverage level dictate the firm's strategy in pursuing the opportunities or even to not pursue it at all.

With that concept in mind, earnings manipulation may provide some much-needed wiggle room that can produce a substantial difference in future profitability of the firm. This behavior is even more accentuated in case there was a big event such as an IPO. Companies with high growth potential are found to be more likely to over-report earnings. By doing so, the price of the stock becomes more responsive towards the buying pressure and therefore accelerates the price increase even faster.

Market Capitalization

Market capitalization shows how valuable a company is. This also means the availability of capital. By studying it, one can see whether a company is properly valued. Intention to increase the market capitalization is regarded to be one of the most common motivations for earning manipulation practices.

Manipulation in financial statements is a form of fraud which results in a decrease in the quality of financial statements. Rezaee (2005) states that there is an increased opportunity to engage in financial statement fraud because the company's control structure is weak, ineffective corporate governance, and the quality of audit functions is poor, thus allowing the company's financial flows to be misused by fraud perpetrators and impacting financial reporting irrelevant (Beneish, 1999). Suryanto (2016) concluded that the delay in the submission of financial statements related to the audit process in identifying, investigating, and resolving fraud problems and financial report manipulation that occurred in the company.

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Xie, Davidson, and Dadalt (2003) examined the role of the board of commissioners with a

background in finance in preventing earnings management. From this research, it is known that the more often the board of commissioners meet, the less manageable accruals of the company. This is indicated by a significant negative coefficient. It is different from From the explanation above, the researcher can formulate the following hypothesis of this study as follows: H1: Independent commissioner and CEO education background have a significant effect on the likelihood of

earning manipulation in Indonesian public listed firms H2: Independent commissioner have a significant effect on the likelihood of earning manipulation in Indonesian public listed firms H3: CEO education background a have significant effect on the likelihood of earning manipulation in Indonesian public listed firms.

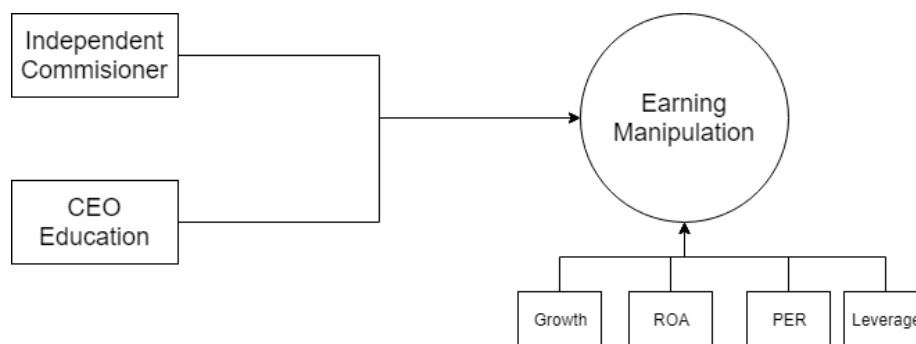


Fig 1: Research Framework

III. Method, Data, and Analysis

Time and Place of Research

The research takes place in Indonesia from January to July 2019. The data utilized in the study is from secondary and primary sources. The secondary data includes annual reports of companies, Business Journals, and stock market database. The primary sources include the data which was aimed at understanding the board independence and the CEO education background of various firms. The process used in the research is presented graphically in figure 1. It starts with problem identification and ends with conclusion. The research question is the effect of corporate governance characteristic and structure such as board independence and CEO education background on the likelihood of earnings manipulation in Indonesian firm. The goals of the study are to test the hypothesis with the research design and deduce if the hypothesis is rejected or accepted with regards to its answering of the research question.

Research Design

The research focuses on examining the relationship between the variables of interest. It is aimed at explaining the influences of boards independence and CEO education background, among other qualities of corporate governance in the Indonesian firms' have on the likelihood of earnings manipulation. The research is deductive as it uses empirical studies and existing theories to generate hypothesis. The adopted research relies on quantitative and primary data and their analyses. Given that the data was collected at one point in time, it is a cross-sectional study. This is the most appropriate time horizon since there is a need to explain a relationship between variables at a given time frame. The probability Beneish model was used to detect the likelihood of earnings manipulation. In the model, the variables are financial ratios and accruals.

Sampling Design

The sampling method is non-probabilistic, judgment sampling. The samples are taken from a publicly listed firm in Kompas 100. The shares included in Kompas100 are estimated to represent around 70-80% of the total IDR 1,582 trillion market capitalization value of all shares listed on the IDX. The firms were chosen as a result of my interest in understanding their boards' characteristics and their earnings management. The selected firms are the ones listed in the stock market during the minimum observation periods. The research thus includes the firms that are excluded from the index in periods of updates. The new firms included in the next subsequent periods are excluded in the samples. Inclusion Criteria: Public listed firms in Indonesia from the year 2015 to 2017. Exclusion Criteria: All finance and bank institutional companies since they are difference and have unique characteristics and regulatory environment. Moreover, companies which had incomplete data retrieved from data stream within the period of observation are also excluded as well as company that presented the financial report using foreign currency.

Data Collection

The data in the research is mainly secondary data, in which collected from the qualified public listed firms, as mentioned in the sampling design. The data about the firms' financial information and overall performance are part of the secondary data. Additionally, this research will collect the data from annual reports from 2015 through 2017, with some annual report from 2014 as part of the ratio calculation. The information sought from publicly available data stored on the website. The data collected will be utilized to provide insights into the company's financial information and corporate governance variables for this topic.

Earnings manipulation measure

Measure of manipulation index using BeneishMscore model

$$\text{Earnings Manipulation} = \beta_0 + \beta_1\text{IB} + \beta_2\text{BCEO} + \beta_3\text{LEV} + \beta_4\text{GROW} + \beta_5\text{ROA} + \beta_6\text{MCAP} + \varepsilon$$

Where: DRSI is days' sales in receivable index, GMI is gross margin index, AQI I Asset quality index, SGI is sales growth index, DEPI is depreciation index, and SGAI is sales and general and administrative expenses index, TATA is total accruals to total assets, and LVGI is leverage index. Growth, leverage, and profitably and sample company size are controlled in the final research model. Beneish M-score model has been widely used by scholars and industry practitioners alike. Its accuracy in finding fraudulent companies exceed 72%, which can be said to be its main selling point. There are several high-profile fraud cases which were first detected using this model, the most prominent being the Enron case (MacCarthy, 2017). Apart from Enron, the model has also been used in fraudulent Malaysian companies. The model managed to catch 14 out of 17 Malaysian companies indicted for false financial reports. In each case, all fraud companies are found to show M-Score greater than -2.22. Apart from its accuracy, the Beneish model can also help in estimating the seriousness of the extent of the false reports.

IV. Results

Descriptive Statistic

At this stage, the researcher presents 168 data from companies that are included in Kompas 100; the data is taken from 56 companies with a period between 2015 until 2017. We can see the results of this data in the following table:

Table 1. Descriptive Statistics

Variable	Mean	Std. Deviation	N
EM	1,9614	47,83396	168
GROW	13,4514	19,89936	168
ROA	7,7044	9,11332	168
PER	23,7314	110,56195	168
LEV	1,3525	1,61106	168
IB	2,99	1,027	168
CEO	2,05	,776	168

In table 1 above, we can see that the EM variable has the mean value is 1,96 and the standard deviation is 47,83 the growth variable has the mean value is 13,45, and the standard deviation is 19,89, the ROA variable has the mean value is 7,7, and the standard deviation is 9,11, the PER variable has the mean value is 23,73 and the standard deviation is 110,56, the leverage variable has the mean value is 1,35 and the standard deviation is 1,61, the Independent Board variable has the mean value is 2,99 and the standard deviation is 1,02 and the CEO education variable has the mean value is 2,05 and the standard deviation is 0,77.

Regression Results

This section will discuss the regression analysis of this research. The researcher has formulated the regression equation, as follows,

$$EM_{i,t} = b_0 + b_1 IB_{i,t} + b_2 CEO_{i,t} + b_3 GROW_{i,t} + b_4 ROA_{i,t} + b_5 PER_{i,t} + b_6 LEV_{i,t} + \epsilon$$

Where Earning Manipulation will be measured using the EM (Beneish M-Score) in the company, the independent board variables will be measured by the amount of independent commissioner, the variable of CEO education will be measured by dummy variable of 0-3, meaning that the non education will be given value of 0, bachelor given value of 1, master given value pf 2 and PhD given value of 3, and lastly the control variable which is Growth will be measured by Growth of balance sheet in percentage, ROA in percentage, PER, and Leverage will be measured by DER ratio.

Table 2. Model Summary

R	R Square	Adjusted R Square	Std. Error of the Estimate
,650 ^a	,382	,352	48,35786
,312 ^b	,219	,201	47,76277

Model Summary, here, we can obtain information about the magnitude of the influence of all independent variables on the dependent variable. The influence is symbolized by R (correlation). As seen in the summary value model table in column R is 0.353, it means that the influence of the independent board and CEO education variables on earnings manipulation are 31.2% (0.312 x 100%), but the value can be combined with the influence of other variables outside the research variable with various disturbing values that might cause measurement errors, for that SPSS 25 provides an alternative value for R Square as a comparison of the accuracy of its effect. It can be seen that the value of R Square is 0.219 which means 21.9%. This value is smaller than the R-value due to an adjustment, but as a note, the value is not necessarily smaller than R but also sometimes greater. For more accurate predictions of our influence, it can also be based on the value of Adjusted R Square, which is the value of R Square, which has been more adjusted and is usually the most accurate. It can be seen that the Adjusted R Square value is 0.201 or 20.1% the influence of the independent variable on the dependent variable. The next column in the Model Summary table shows the accuracy of the regression model can be seen in the Standard Error of The Estimate column; there are numbers 47,762. This value is getting closer to the number 0 (zero) the more accurate, with such a number it can be said that the formed model is accurate.

Table 3. Anova

Model	F	Sig.
1 Regression	,100	,001

a. Dependent Variable: EM

Based on the results of the analysis above, it is known that the significance value is 0.001 or less than 0.05, according to the basis of decision making in the F test or simultaneous test or commonly referred to as the feasibility test, a hypothesis is accepted, namely Independent board and CEO

education simultaneously affect the earnings manipulation variable.

Table 4. Coefficients

Model	Coefficient	
	B	Sig.
1	(Constant)	39,717 ,015
	GROW	-,131 ,484
	ROA	-,091 ,825
	PER	-,001 ,985
	LEV	,444 ,850
	IB	-7,380 ,045
	CEO	-6,731 ,163

a. Dependent Variable: EM

In the coefficient table, there is some information that we can obtain; the important information consists of the names of variables, constant values, t values, and significance values. As the researcher mentioned before, this table can be used to see the effect per variable. The researcher measures it by looking at the sig value. On each variable, if the value of Sig. is lower than 0.05, then all the independent variables affect the dependent variable and vice versa. It can be seen in the Coefficients model column that IB has a Sig. Value of 0.045. The Sig. value is lower than the probability value of 0.05, or $0.045 < 0.05$, then H1 is accepted and H0 is rejected, it shows that IB has a significant influence on EM and it can be concluded that the variable of IB contributes to EM. The negative t value indicates that the IB variable has a negative relationship with EM. It can be seen in the Coefficients model column that CEO education has a Sig. Value of 0.163. The Sig. value is greater to the probability value of 0.05, or $0.50 > 0.05$, which means H1 is rejected, and Ho is accepted. Thus, it can be concluded that the variable of CEO education does not have to EM; The negative t value indicates that the variable of CEO education has a negative relationship with EM. It can be seen in the Coefficients model column that Control Variable Growth has a Sig. Value of 0.484. The Sig. value is greater to the probability value of 0.05, or $0.50 > 0.05$, which means Thus, it can be concluded that the variable of Growth does not have contributes to EM, the negative t value indicates that the variable of Growth has a negative

relationship with EM. It can be seen in the Coefficients model column that Control Variable ROA has a Sig. value of 0.825. The Sig. value is greater to the probability value of 0.05, or $0.50 > 0.05$, which means Thus, it can be concluded that the variable of ROA does not have contributes to EM, The negative t value indicates that the variable of ROA has a negative relationship with EM. It can be seen in the Coefficients model column that Control Variable PER has a Sig. value of 0.985. The Sig. value is greater to the probability value of 0.05, or $0.50 > 0.05$, which means Thus, it can be concluded that the variable of PER does not have contributes to EM, The negative t value indicates that the variable of PER has a negative relationship with EM. It can be seen in the Coefficients model column that Control Variable Leverage has a Sig. value of 0.850. The Sig. value is greater to the probability value of 0.05, or $0.50 > 0.05$, which means Thus, it can be concluded that the variable of leverage does not have contributes to EM, The positive t value indicates that the variable of leverage has a positive relationship with EM.

From the data in the table above, we can make the regression formula equation as follows:

$$EM_{i,t} = 39,717 - 7,380 IB_{i,t}$$

The conclusion of the regression results, Constant, a positive constant value indicates the positive effect of an independent variable, if the independent variable rises or influences in one unit, then the variable of EM will increase or be fulfilled. Independent Board (-7,380) is a regression value of the independent board variable on the EM variable, meaning if the total of independent commissioners an increase, then EM will decrease by 7,380. The coefficient is negative, it means that the total of independent commissioners and Earning manipulation have a negative relationship.

Discussion

The result of this study shows that Independent Board has a negative effect on Earning Manipulation, this is consistent with previous research conducted Chtourou's research (2001), Wedari (2004) and Nasution and Setiawan (2007)

analyzed the influence of the proportion of independent commissioners on earnings management. Their study reported that the proportion of independent commissioners had a significant negative relationship with earnings management. This means that the proportion of independent commissioners can reduce earnings management that occurs in the company.

Moreover, the result of this study state that CEO education negative effect but no significant to EM. This is consistent with previous researches conducted by Ayaba (2012). examined the impact of CEOs' educational background on Earning manipulation. has a negative but not significant effect, the results of the study differ from previous studies which obtained significant results, this is very likely to occur because of different countries and times of different research objects so that they get different results. Lastly, the result of this study state that good corporate governance will reduce the practice of earnings manipulation both independent commissioners and CEO education, both of which have a negative influence on earnings manipulation, although the results of this study find that significant influence is only on the independent board variable.

V. Conclusion

The conclusion of the research is the effect of good corporate governance and its impact on earnings manipulation, the two variables chosen are the independent board and CEO education. The results of this study found that independent boards had a negative and significant influence on earnings manipulation, while CEO education had a negative but not significant influence. The application of good corporate governance will have an impact on improving financial reporting and financial performance, reducing the practice of earnings manipulation because a high level of supervision will reduce these practices in financial accounting. This study is following many previous studies that examined the same thing, but there are certain differences due to the context of the country and the company selected as the sample.

This research is very limited because it only conducts research on 56 companies and only within three years. The calculation model related to earnings manipulation is only one, so all of this makes this research limited because more extensive research is needed with a longer period. This research has delivered some implications which believed to be in favor of future research for beneficial parties. The beneficial parties that can benefit from this research are publicly listed firms, investors, academician, bankers and students, opportunists, and other researches. This researcher would help the publicly listed firms in order to give them a point of view on how corporate governance affects earning manipulation in company. Future studies can conduct research with several earnings manipulation calculation models and with more samples and longer periods of time to obtain more accurate results may also add qualitative methods in addition to input from research to obtain accurate results from this study

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