

SCRIPT

THE RELATIONSHIP BETWEEN ASYMETRY INFORMATION AND EARNINGS MANAGEMENT AND GOOD CORPORATE GOVERNANCE MECHANISM AS A MODERATING VARIABLE

(Empirical study in Banking Company Listed in IDX 2008-2010)



**BY:
DYAH CITRA SEPTIANI
01081003031**

**Proposed as one of the requirements
to achieve an Bachelor's degree of Economic**

**KEMENTERIAN PENDIDIKAN DAN KEBUDAYAAN
UNIVERSITAS SRIWIJAYA
FAKULTAS EKONOMI**

**INDERALAYA
2012**

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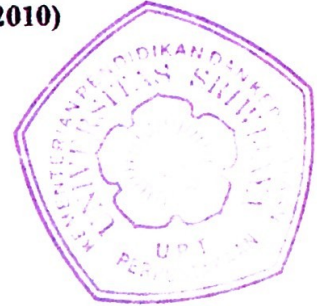
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SCRIPT APPROVAL LETTER

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TITLE : The Relationship between Asymmetry Information and
Earnings Management as a Moderating variable Good
Corporate Governance Mechanism (Empirical study in
Banking Company Listed in Indonesian Stock Exchange
(IDX) 2008-2010)".

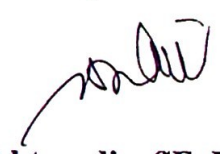
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Comprehensif exam committee
Inderalaya, May 2012

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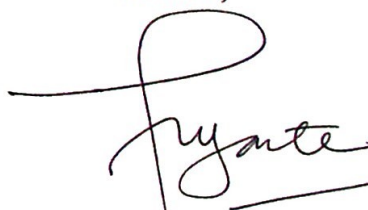
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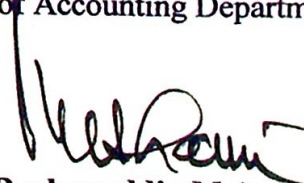
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MOTTO AND DEDICATION

“Have we not expanded thee thy breast? And removed from thee thy burden the which gall thy back? And raised high the esteem (in which) thou (art held) ? so, verily, with every difficulty there is relief. Therefore, when thou art free (from thine immediate task), still labour hard, and to thy lord turn (all) thy attention”

(Q.S. Alam Nasyrah:1-8)

We cannot solve our problems with the same thinking we used when we created them
-albert einstein-

Dedicate to :

- ↓ My Parents**
- ↓ My siblings**
- ↓ My Bestfriends**
- ↓ My Faculty**
- ↓ My Alma mater**

PREFACE

The very first gratefulness is delivered to The Almighty Allah SWT. The Greatest Creator and The Best Motivator to the everlasting and mercy keeping me tough during my writing. Without God, we will have no chance to read this complete thesis.

This Script writting takes the title of The Relationship Between Earnings Management and Information asymmetry as a Moderating Variable Good Corporate Governance Mechanism (Empirical studies in Banking Company Listed in Indonesian Stock Exchange (IDX) 2008-2010). This Script writting is divided into six chapters, consisting of Chapter I introduction, Chapter II Literature Review, Chapter III Research Metodology, Chapter IV Data Descriptive, Chapter V The Analysis Result, Chapter IV Conclusion.

Data used in this thesis is the secondary data obtained from the Pusat Referensi Pasar Modal (PRPM) IDX. The results showed that the variables of Good corporate governance mechanism that consists of Managerial ownership, Proportion of Independent Commissioner's Meeting and the frequency of Audit Committee Could moderate the Relationship Between Asymmetry Information with Earnings Management.

Today I finished my script and i will continue to challenge myself in the future with what I learned. This is not the end but only the start. The last writers hope that this Thesis can be beneficial and may used for all interested parties.

The Writter

Dyah Citra Septiani

ACKNOWLEDGEMENT

The very first gratefulness is delivered to The Almighty Allah SWT. The Greatest Creator and The Best Motivator to the everlasting and mercy keeping me tough during my writing. Entitled The Relationship between Asymmetry Information and Earnings Management and Good Corporate Governance Mechanism as a moderating variable. Therefore, this thesis is finally completed.

Thank's to our Rector Prof. Dr. Hj. Badia Perizade, M.BA. and also our Dean Prof. H. Syamsulrijal AK, Ph.D.

I am very thankful to my first supervisor, Mr. Mukhtaruddin, S.E, M.Si, Ak. and my second supervisor, Mr. Abukosim, S.E, M.M., Ak. It is a fortune and bliss for me having such a great lecturer like them. They have been very professional supervising me to accomplish my thesis writing. They are also very cooperative conveying their clear and sensible ideas for the sake and the goodness of my thesis. I can do nothing to repay all their kindness, but I hope that God will always bless them along their life.

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My endless love is dedicated to my beloved family. A lot of thanks must be delivered to my beloved father, H. Amir Syarifuddin and my mother, Hj. Rosmala Dewi. Thank you very much to demand me finishing my thesis. I also would like to thank my siblings : Dewi Silvia, Ahmad Azhari, Deni Murdany, Beny Kurniawan, Siska Lusiana and also my nephew boys : Rayyan, Dzaki, Basel and Devlin.

I also would like to thank all Accounting students, especially the 2008 fellows: Rahayu Lestari, Meutia Sefrilia, Daniel Manurung, Widya Gustifaurina, rosananda Oktala, Agil Novriansa, Jossarios, Asep Saputra and my IC class friends (venty,sonia,yuliani, ditha, nur fitria, annisa, stefani, yuliana, oktaviani and all of unmentioned names. Thanks for the togetherness and the favors along our way in campus, especially in the great event. Thanks for everything.

At the last writter hope this script will be usefull for others.

Writter's

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ABSTRACT

This research aims to examine the influence of asymmetry information with earnings management and good corporate governance mechanism as a moderating variables. This research is designed as a empirical study. The population of this research are public Indonesian banking firms in 2008 until 2010. Which are used 54 samples with purposive sampling method. The test use Assumption classic test, normality test with Kolmogorov-Smirnov Test, heteroskedasticity test with scatterplots, multicollinearity test with VIF test and Pearson correlation test, autocorrelation test with Durbin-Watson test.

The hypothesis result using regression test between earnings management and asymmetry information show that there is no significant effect. Furthermore, the second hypothesis which is the R square test show that corporate governance mechanism as a moderating variable which are managerial ownership, proportion of independent commissioner, meetings frequency of audit committee could be moderate the relationship between asymmetry information and earnings management.

Keywords : *asymmetry information, earnings management, good corporate governance mechanism*



STATEMENT OF SRICPT ORIGINALITY / NO PLAGIARISM

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THE RELATIONSHIP BETWEEN ASYMETRY INFORMATION AND EARNINGS
MANAGEMENT AND GOOD CORPORATE GOVERNANCE MECHANISM AS A
MODERATING VARIABLE

(Empirical study in Banking Company Listed in IDX 2008-2010)

Advisor :

Head : Mukhtaruddin, S.E., M.Si., Ak.

Member : Abukosim, S.E., M.M.

Exam's date : May 2nd 2012

Is that really my under the guidance of advisor team.

The content of this script, there is no other people's work that i copy the whole or part without mentioning the original sources.

So, I've created this statement to the true faith and if it turns out later in my statement is not true, then I am willing to accept regulatory sanctions, including the cancellation of my degree.

Inderalaya, May 3rd 2012

Statement maker



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CHAPTER I

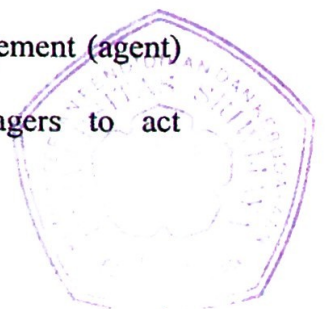
INTRODUCTION

I.1 RESEARCH BACKGROUND

Development of contemporary accounting is one of them to justify the use of Agency Theory in positive accounting. Agency Theory is usually viewed as a conflict of interest in accounting and corporate. A theory explaining the relationship between principals and agents, example company's executives. In this relationship the principal delegates or hires an agent to perform work. The theory attempts to dealwith two specific problems first, that the goals of the principal and agent are not in conflict (agency problem), and second, that the principal and agent reconcile different tolerances for risk.

Manager of the company knowing better of internal information and prospects of companies in the future than the owners. Therefore, as the manager, the manager is obliged to provide signals about the condition of the company to the owner. Signals given can be done through the disclosure of accounting information such as financial statements. However, sometimes the information submitted is not acceptable according to the company's actual condition.

This condition is known as the information that is asymmetric information. Asymmetry information occurs because the manager is superior in the control of information than other parties (owners). Asymmetry between management (agent) with the owner (principal) provide an opportunity for managers to act



opportunistically, for example personal gain. In terms of financial reporting, managers can perform earnings management to mislead the owners on the economic performance of companies.

Earnings management actions have been raised in a few cases reporting accounting scandal that is widely known, such as Enron, Merck, WorldCom and the majority of other companies in the United States (Cornett et al, 2006). In the case of Enron, for example, one impact is very clear that the harm done to investors from the collapse of a very dramatic value of the shares of the price per share of U.S. \$ 30 to only U.S. \$ 10 in two weeks. The question that then arises is why a world-class companies can suffer a very tragic thing to declare bankruptcy even after the results of financial audit of the company declared "unconditional reasonable" (Alijoyo, 2003). Some cases that occurred in Indonesia, such as PT. Lippo Tbk and PT. Kimia Farma Tbk also involves financial reporting which originated from the detected manipulation (Gideon, 2005).

Indonesia's banking crisis that began in late 1997 not merely caused by the economic crisis, but also not caused by the implementation of good corporate governance and ethics underlying. Therefore, efforts to restore confidence in the banking sector through restructuring and recapitalization of Indonesia can only have long-term and fundamental impact if accompanied by three other important measures are: (i) Adherence to the precautionary principle, (ii) Implementation of good corporate governance, and (iii) the effective supervision of the Authority Bank supervisors.

Good corporate governance system is a good of linkages among stakeholders that the company used to establish and oversee the strategic direction and business performance of an organization. In practice the GCG is a written reference (guidelines) on the agreement among the stakeholders in identifying and formulating decisions in an effective and coordinated strategic (Hitt et.al, 2000). With the provision of these guidelines can then be built mutual trust between company owners and corporate leaders (Board of Directors and top level managers). In order to monitoring the performance of the company and safeguard the interests of the owners of capital in a professional manner, then the owner of the company, appoints the commissioner to seated on the Board of Commissioners.

In terms defined by the Office of State Enterprises Minister, corporate governance is seen as an effective decision-making process derived from the firms culture, ethics, values, systems, business processes, policies and organizational structure, all of which aim to encourage and support enterprise development, natural resource management and risk more efficiently and effectively with corporate accountability to shareholders and relevant stakeholders. Become increasingly clear from this description of the concept of good corporate governance will bring benefits to the creation of value for holders of various parties (stakeholders), including shareholders, trustees, creditors, governments and employees.

Banks due to the different characteristics with other industries. The banking industry has tighter regulation compared with other industries. Bank Indonesia uses the financial statements as the basis in determining the status of a bank (if bank is a

bank that is healthy or not). Therefore, managers have an incentive to make profit management company so, they can meet the criteria required by the BI. Earnings management of the bank in Indonesia have to fulfil the criteria of the BI. Setiawati and Na'im (2001) argued that the financial statements have been prepared by the management can lead to distortions in the allocation of funds. In addition, the banking industry is a "trust" industry. If investor confidence is reduced due to the financial statements are usual because the act of earnings management, then they will withdraw the funds together which can result in rush. Therefore, need a mechanism to minimize earnings management conducted by the banking company. One mechanism that can be used is the practice of corporate governance. Therefore, this study examined the effect of corporate governance mechanisms on earnings management in Indonesia. This study examined the mechanism of corporate governance: Managerial Ownership, the proportion of the independent commissioners, and the meetings frequency's of audit committees on earnings management practices conducted by the banking company in Indonesia.

The research was conducted on the basis of previous research conducted by Adhika Wisnumurti (2010) who conducted research on Corporate Governance Influence on the relationship between Asimetry Information with Practice Earnings Management on banking companies on the Stock Exchange. and the results of these studies indicate that the size of the audit committee able to moderate the relationship between information asymmetry and earnings management, but the board composition and size of the board of commissioners are not able to moderate the relationship between information asymmetry and earnings management. From

research conducted by Adhika (2010) researchers want to change the Corporate Governance Mechanisme to determine whether Managerial Ownership, the proportion of Independent Commissioner's and the frequency of the Audit Committee could be able to moderate the relationship between information asymmetry and Earnings Management.

According to the explanations above the writters interested to do the research with tittle "The Relationship between Asymmetry Information and Earnings Management as a Moderating variable Good Corporate Governance Mechanism (Empirical study in Banking Company Listed in Indonesian Stock Exchange (IDX) 2008-2010)".

I.2 Problem Statement

1. Are the Asymetry Information has signifikan influence to the Earnings Management?
2. Are Managerial Ownership, The Proportion of Independent Commissioners and Meeting's frequency of Audit Committee have an influence on relationship between the asymmetry of information with the occurrence of earnings management practices?

I.3 Reserach Objective

The purpose of this study are to obtain the evidence Empirical against:

1. Testing the influence of Asymetry Information to the Earnings Management
2. Testing the influence of Managerial Ownership, Proportion of Independent Commissioner, and Meeting's frequency of Audit committee on the relationship between Asymetry Information with the occurance of Earnings Management practices.

I.4 Research Benefit

This research can give the benefits for :

1. Investor

Can give the information about company's condition especially about Earnings Management, Asymetry Information, and the Good Corporate Mechanism to be useful to facilitate investment decision making

2. Company

Can provide information of the extent to which influence the effectiveness of corporate governance in adding or reducing the information asymmetry relationship with earnings management practices that occurred in the company.

3. Academia

Provides information related to the Asymetry Information, Earnings Management and the Good Corporate Governance Mechanism

4. Next Researchers

The results of this study are expected to contribute to theory development, especially relating to corporate governance in the perspective of agency theory.

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