The Effect of Good Corporate Governance and Financial Distress on Earnings Management in Indonesian and Malaysia Companies Entered in ASEAN Corporate Governance Scorecard

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Abstract This research was conducted to determine whether Good Corporate Governance and Financial Distress can influence Earnings Management. The sampling technique used was purposive sampling. The study was conducted on companies in Indonesia and Malaysia that were included in the ASEAN Corporate Governance Scorecard with a research period of 3 (three) years (2015-2017). The model estimation used is multiple regression analysis. The expected results of this research proposal are Good Corporate Governance and Financial Distress able to influence Earnings Management. The results showed that the coefficient of determination adjusted for 0.062 means 6.2% variable Earnings Management is influenced by Good Corporate Governance and Financial Distress variables. While the remaining 93.8% influenced by another factor. Result of F test that simultaneously variable of Good Corporate Governance and Financial Distress have significant influence to earnings management variable. The result of partial variable t-test of Good Corporate Governance has no effect both to Earnings Management and Financial Distress on Earnings Management.

Keywords Good Corporate Governance, Financial Distress, Profit Management

1. Introduction
Agency theory is defined as a contract whereby one or more people (principals) involve other people (agents) to perform several services for their interests which include partial delegation of authority to decision-making for agents (Jensen and Meckling, 1976).

Agency theory also assumes that the agent managing the company has more internal company information than the principal. This happens because the principal is not likely to keep an eye on every action taken by the agent. Therefore, agents need to provide information such as financial reports to the principal routinely and transparently. However, not all information is conveyed by the agent to the principal or even the conditions reported are different from the reality in the field. This condition is called information asymmetry, where the agent knows more information about the company than the principal.

According to Indracahya and Anggraini (2017), the asymmetry of information between the agent and the principal may trigger manager to do dysfunctional behavior. With the information gap between managers and company owners, management has the opportunity to maximize their interests, one of which is by making earnings management.
The best information that the principal expects is that the company is still in sound financial condition and far from bankruptcy. But if the opposite happens, the company experiences a Financial Distress, so it can trigger managers as agents to cover the real conditions of the principal by conducting earnings management. Companies can suffer losses due to mistakes from agents in managing the company, or worse, agents intentionally take actions that are selfish without looking at the interests of principals or called moral hazard (Mafiroh and Triyono, 2016). According to Syachrudin et al. (2018) the financial distress can be viewed from the composition of the balance sheet that is the comparison of the amount of assets and liabilities, from the income statement if the company continues to lose, and from the cash flow statement if the cash inflow is smaller than the cash outflow.

Corporate governance, which is a concept based on agency theory, is expected to function as a tool to give confidence to investors as principals that they will receive returns on the funds they invest (Herawaty, 2008). The implementation of GCG is expected to improve management oversight to encourage companies to make decisions, prevent opportunistic actions that are inconsistent with corporate interests, and reduce information asymmetry between management and corporate stakeholders (Pernamasari, 2018). With the implementation of Good Corporate Governance, it is expected to reduce the practice of earnings management when the company experienced Financial Distress.

This research makes companies in Indonesia and Malaysia become members of the 2015 ASEAN CG Scorecard assessment as the object of research.

Source: ASEAN CG Scorecard report and Assessment (2015)

Figure 1. Mean ASEAN CG Scorecard for 2012-2015

This is based on the growth in the realization of domestic investment (PMDN) and Foreign Investment (PMA) investments in Indonesia throughout 2017 from January to December through the Rp 692.8 trillion figures from the previous year’s realization of Rp 612.8 trillion. This number exceeds the target of realization of domestic investment and FDI in 2017 of Rp. 678.8 trillion. (www.bkpm.go.id)

In addition, the Malaysian Economy also experienced an increase that also exceeded the estimated target. According to the IMF, Malaysia’s economic growth is 5.8 percent in 2017, 0.5 percent higher than the projected growth of 5.3 percent in 2018. (www.imf.org)

The difference between this research and other studies is that earnings management variables use the Discretionary Revenue proxy by measuring using the Conditional Revenue Model developed by Stubben (2010), while the majority of other studies in ASEAN use the Jones (1991) Discretionary Accrual proxy as a proxy for measure earnings management. Another difference is that this study uses ASEAN CG scorecard as a proxy to measure good corporate governance.

The population used in this study is a company going public in Indonesia and Malaysia which was one of the participants of the ASEAN CG Scorecard Assessment in 2015. The reasons for the selection were first, Indonesia and Malaysia, one of the countries included in the assessment members in the ASEAN CG Scorecard. Secondly, Indonesia and Malaysia as developing and developed countries. Third, Indonesia and Malaysia experienced the ASIA crisis in 1997-1998.
Based on the description of the background above, this study is entitled "The Effect Of Good Corporate Governance And Financial Distress On Profit Management In Indonesian Companies And Malaysia Entered In The ASEAN Corporate Governance Scorecard".

1.1. Problem Identification
Based on the description, the problems that will be examined in this study can be formulated, namely:
1) Does good corporate governance affect earnings management?
2) Does financial distress affect earnings management?

2. Literature Review
2.1. Earnings Management
Earnings management is the selection of accounting policies by managers to achieve certain goals (Scott, 2015). Earnings management in this study is proxied by discretionary revenue (DR) and calculated using the Stubben (2010) Conditional Revenue Model.

The value of earnings management that is proxied by discretionary revenues is the residual value of the regression equation. In the previous study, it was generally used, namely accrual proxy with the Jones model and Modified Jones model measurement model.

2.2. Corporate Governance
The National Governance Policy Committee (2006) divides the principles of corporate governance into five, namely transparency, accountability, responsibility, independence, and fairness. This principle is better known as abbreviation TARIF. The following is an explanation of the principles in corporate governance according to KNKG (2006):

1) Transparency
To maintain objectivity in conducting business, companies must provide material and relevant information in a way that is easily accessible and understood by stakeholders. The company must take the initiative to disclose not only the problems required by legislation but also important matters for decision making by shareholders, creditors, and other stakeholders.

2) Accountability
Companies must be able to account for their performance transparently and fairly. For this reason, the company must be managed properly, measured and in accordance with the interests of the company while taking into account the interests of shareholders and other stakeholders. Accountability is a prerequisite needed to achieve sustainable performance.

3) Responsibility
The company must comply with laws and regulations and carry out responsibilities towards the community and the environment so that business continuity can be maintained in the long term and receive recognition as a good corporate citizen.

4) Independence
To facilitate the implementation of the Good Corporate Governance principle, companies must be managed independently so that each company organ does not dominate each other and cannot be intervened by other parties.

5) Fairness and Equality
In carrying out its activities, companies must always pay attention to the interests of shareholders and other stakeholders based on the principle of fairness and equality.

Good Corporate Governance in this study was measured using the ASEAN CG Score Card 2014, the assessment category consisted of two levels, namely:
1) Level 1

Assessment at level 1 contains five main aspects that refer to the OECD principles and each aspect has 179 items that are used as guidelines. The five aspects are:

Table 1. Structure and Composition Level 1

<table>
<thead>
<tr>
<th>Level 2</th>
<th>Number of Question</th>
<th>Weight (% of Total Level 1 score)</th>
<th>Maximum Attainable Score</th>
</tr>
</thead>
<tbody>
<tr>
<td>Part A: Rights of Shareholders</td>
<td>25</td>
<td>10</td>
<td>10 points</td>
</tr>
<tr>
<td>Part B: Equitable Treatment of Shareholders</td>
<td>18</td>
<td>15</td>
<td>15 points</td>
</tr>
<tr>
<td>Part C: Role of Shareholders</td>
<td>21</td>
<td>10</td>
<td>10 points</td>
</tr>
<tr>
<td>Part D: Disclosure and Transparency</td>
<td>41</td>
<td>25</td>
<td>25 points</td>
</tr>
<tr>
<td>Part E: Responsibilities of the Board</td>
<td>74</td>
<td>40</td>
<td>40 points</td>
</tr>
</tbody>
</table>

Source: ASEAN CG Scorecard Assessment (2014)

How to calculate level 1 scores as follows:

\[
\text{Score} = \frac{\text{No of items scored by PLC}}{\text{Total no. of Question}} \times \text{Maximum attainable score of part (in points)}
\]

Source: ASEAN CG Scorecard Assessment (2014)

The five aspects can be explained as follows:

a) The rights of shareholders.

b) The equitable treatment of shareholders.

c) The role of stakeholders in corporate governance.

d) Disclosure and transparency.

e) The responsibilities of the board.

2) Level 2

Level 2 contains bonuses and penalties with the composition of 11 bonus items and 21 penalty items. Level 2 total scores are calculated by adding bonus scores and penalty scores.

Table 2. Structure and Composition Level 2

<table>
<thead>
<tr>
<th>Level 2</th>
<th>Number of Question</th>
<th>Maximum Score (points)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Bonus</td>
<td>11</td>
<td>26</td>
</tr>
<tr>
<td>Penalty</td>
<td>22</td>
<td>-52</td>
</tr>
</tbody>
</table>

Source: ASEAN CG Scorecard Assessment (2014)

To determine the number of scores, namely:

\[
\text{Total skor} = \text{total skor level 1} + \text{total skor level 2}
\]

2.3. Financial Distress

Financial Distress is a condition where companies face financial difficulties. Financial Distress is defined as the stage of decline in financial conditions that occur before the occurrence of bankruptcy or liquidation (Altman, 1968). Financial distress can be described from two extreme points namely short-term liquidity difficulties to insolvable. Short-term financial difficulties are usually short-term but can develop into severe. Indicators of financial difficulties can be seen from the analysis of cash flow, company strategy analysis, and company financial statements.
Financial distress was measured using Altman Z-Score according to Altman’s (1968) and Selahudin et al. (2014). Mathematically the prediction model of financial difficulties produced by Altman (1968) can be formulated as follows:

\[ Z = 0.012X_1 + 0.014X_2 + 0.033X_3 + 0.006X_4 + 0.999X_5 \]

Where:
- \( Z \) = Z-score
- \( X_1 \) = Working Capital/Total Assets
- \( X_2 \) = Retained Earnings/Total Assets
- \( X_3 \) = Earning Before Interest and Taxes/Total Assets
- \( X_4 \) = Market Value of Equity/Book Value of Total Liabilities
- \( X_5 \) = Sales/Total Assets

Prediction of the company's financial condition according to Altman (1968) can be seen from the value of the Z-Score with the following conditions:

1) For a Z-Score smaller than 1.80, it means that the company is experiencing financial difficulties and the risk of bankruptcy is high.
2) For the Z-Score value between 1.80 to 2.99, the company is considered to be in the gray area. In this area, there is a possibility that the company will go bankrupt and some will not.
3) For the value of Z-Score greater than 2.99, give an assessment that the company is in a very healthy state so the possibility of bankruptcy is very small.

Research conducted by Kaspillai and Mahentrian (2013) on Bursa Malaysia and Salama (2010) found results that were in line that Good Corporate Governance had an effect on Earnings Management. However, Chalevas and Thovas (2010) who researched companies in the United Kingdom found different results, namely Good Corporate Governance did not affect Profit Management. In previous studies, the influence of earnings management on firm value showed mixed results, including Sugitha's research (2014) stating that earnings management has a positive and significant influence on firm value. However, different from the results of Herawaty (2008), and Lestari and Pamudji (2013) research suggests that earnings management has a negative effect on firm value. Then found the results that contradict the research, namely with research conducted by Kristianti (2016) and Dervish (2012) suggesting that earnings management does not affect the value of the company.

Selahudin et al. (2014) examined companies listed on the Malaysian and Thai stock exchanges, finding that companies in Malaysia and Thailand did earnings management when they experienced Financial Distress, namely when the crisis occurred in 1997-1998. The purpose of this study is to find out whether Good Corporate Governance and Financial Distress are able to influence Profit Management in companies in Indonesia and Malaysia that are included in the ASEAN Corporate Governance Scorecard.

2.4. Previous Research

The research conducted by Indracahya and Faisol (2017) with the title The Effect of Good Corporate Governance Elements, Leverage, Firm Age, Company Size And Profitability on Earning Management shows that Good Corporate Governance has a significant influence on Earnings Management and the effect is negative, Leverage and Profitability have a significant influence on Earnings Management and the effects that are generated are positive, the age of the company does not have a significant effect on earnings management, company size does not have a significant effect on Earnings Management. Mohammadi and Amini (2016) in their research entitled Investigating the Relationship between Financial Distress and Earning management in Corporations of Accepted in Tehran Stock Exchange shows the result that Financial Distress and Earnings Management have a positive and significant relationship.

Iqbal et al. (2015) in their research entitled Corporate Governance and Earnings Management: A case of Karachi Stock Exchange Listed Company shows the result that Good Corporate Governance influences Earnings Management. In another research by Kaspillai and Mahenthiran (2013) with the title Deferred Taxes, Earning Management, and Corporate Governance: Malaysian Evidence, shows that Good Corporate Governance Influences Earnings Management.
2.5. Theoretical Framework

Based on the description previously stated and the literature review, the related variables in this study can be formulated through a framework of thought as follows:

![Theoretical Framework Diagram]

3. Research Hypothesis

Based on the study of theory and the study of previous studies, a temporary hypothesis can be taken, namely:

- $H_1$: Good Corporate Governance influences Earnings Management.

4. Methodology of research

4.1. Type of Research

This type of research is causal research, namely research that aims to test hypotheses about the effect of one or several variables (independent) on other variables (dependent). The researcher used the research design to provide empirical evidence about Good Corporate Governance and Financial Distress as independent variables, and Good Corporate Governance as the dependent variable.

4.2. Variable Research and Operationalization

**Earnings Management**

Earnings management is the selection of accounting policies by managers to achieve certain goals (Scott, 2015). Earnings management in this study is proxied by discretionary revenue (DR) and calculated using the Stubben (2010) Conditional Revenue Model. The discretionary revenue (DR) calculation formula is:

$$
\Delta AR_{it} = \alpha + \beta_1 \Delta R_{it} + \beta_2 \Delta R_{it} \times SIZE_{it} + \beta_3 \Delta R_{it} \times AGE_{it} + \beta_4 \Delta R_{it} \times AGE\_SQ_{it} + \beta_5 \Delta R_{it} \times GRR\_P_{it} \\
+ \beta_6 \Delta R_{it} \times GRR\_N_{it} + \beta_7 \Delta R_{it} \times GRM + \beta_8 \Delta R_{it} \times GRM\_SQ_{it} + \varepsilon_{it}
$$

(1)

Where:

- $\Delta AR_{it}$ = Changes in company receivables i in year t
- $\Delta R_{it}$ = Changes in company revenue i in year t
- $SIZE_{it}$ = Natural log of total assets of the company i in year t
- $AGE_{it}$ = Natural log of company age i in year t
- $AGE\_SQ_{it}$ = The square of the natural log of the age of company i in year t
- $GRR\_P_{it}$ = Growth rate in a revenue positive
- $GRR\_N_{it}$ = Growth rate in a revenue negative
- $GRM_{it}$ = Growth revenue margin
- $GRM\_SQ_{it}$ = The square of the Company GRM i in year t
- $\varepsilon_{it}$ = error
The value of earnings management which is proxied by discretionary revenues is the residual value of the regression equation. In the previous study, it was generally used, namely accrual proxy with the Jones model and Modified Jones model measurement model.

Good Corporate Governance

Good Corporate Governance as a system used to direct and control the company's business activities (OECD). Good Corporate Governance in this study was measured using the ASEAN CG Scorecard 2015, the assessment category consisted of two levels, namely:

a. Level 1

Assessment at level 1 contains five main aspects that refer to the OECD principles and each aspect has 179 items that are used as guidelines. The five aspects are:

<table>
<thead>
<tr>
<th>Table 3. Structure and Composition of Level 1</th>
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</tr>
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<td>Number of Question</td>
</tr>
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<tr>
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<tr>
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<tr>
<td>40 points</td>
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</tbody>
</table>

Source: ASEAN CG Scorecard Assessment (2015)

How to calculate level 1 scores as follows:

\[
\text{Score} = \frac{\text{No of items scored by PLC}}{\text{Total no. of Questions}} \times \text{Maximum attainable score of part (in points)}
\]

Source: ASEAN CG Scorecard Assessment (2015)

b. Level 2

Level 2 contains bonuses and penalties with a composition of 11 bonus items and 22 penalty items. Level 2 total scores are calculated by adding bonus scores and penalty scores.

<table>
<thead>
<tr>
<th>Table 4. Structure and Composition of Level 2</th>
</tr>
</thead>
<tbody>
<tr>
<td>Level 2</td>
</tr>
<tr>
<td>Number of Question</td>
</tr>
<tr>
<td>Maximum Score (points)</td>
</tr>
<tr>
<td>Bonus</td>
</tr>
<tr>
<td>11</td>
</tr>
<tr>
<td>26</td>
</tr>
<tr>
<td>Penalty</td>
</tr>
<tr>
<td>22</td>
</tr>
<tr>
<td>-52</td>
</tr>
</tbody>
</table>

Source: ASEAN CG Scorecard Assessment (2015)

To determine the number of scores, namely:

Total score: total score level 1 + total score level 2

Financial Distress

Financial distress was measured using Altman Z-Score according to Altman's (1968) and Selahudin et al. (2014). Mathematically the prediction model of financial difficulties generated by Altman (1968) can be formulated as follows:

\[
Z = 0.012X_1 + 0.014X_2 + 0.033X_3 + 0.006X_4 + 0.999X_5
\]
Where:
\[ Z = Z\text{-score} \]
\[ X_1 = \frac{\text{Working Capital}}{\text{Total Assets}} \]
\[ X_2 = \frac{\text{Retained Earnings}}{\text{Total Assets}} \]
\[ X_3 = \frac{\text{Earning Before Interest and Taxes}}{\text{Total Assets}} \]
\[ X_4 = \frac{\text{Market Value of Equity}}{\text{Book Value of Total Liabilities}} \]
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Prediction of the company's financial condition according to Altman (1968) can be seen from the value of the Z-Score with the following conditions:
1) For a Z-Score smaller than 1.80, it means that the company is experiencing financial difficulties and the risk of bankruptcy is high.
2) For the Z-Score value between 1.80 to 2.99, the company is considered to be in the gray area. In this area there is a possibility that the company will go bankrupt and some will not.
3) For the value of Z-Score greater than 2.99, give an assessment that the company is in a very healthy state so the possibility of bankruptcy is very small.

4.3. Population and Research Samples
The populations in this study were companies in Indonesia and Malaysia who were members of the ASEAN CG Scorecard assessment in 2015. Sampling was done by purposive sampling which was part of a non-probability sampling method. For members of the population who do not meet the requirements, they are not selected as research samples.

4.4. Data Collection Technique
The technique used in collecting research data is carried out by means of documentation (collecting data available on research objects) and literature studies from the literature relating to problems in writing this research.

4.5. Data Analysis Method
Data analysis was performed using multiple linear regression analysis includes analysis of descriptive statistical tests, classic assumption test and multiple regression test.

5. Results and discussions
5.1. Description of Research Object
The research object data is obtained from the Indonesia Stock Exchange and Bursa Malaysia which provide information on the company's financial statements by accessing their second official website, www.idx.co.id and www.bursamalaysia.com. This research was carried out in Indonesia, where the object that became the center of research was a company going public in Indonesia and Malaysia which was one of the participants of the 2015 ASEAN CG Scorecard Assessment.
5.2. Results of Descriptive Statistics Analysis

Table 5. Descriptive Statistics

<table>
<thead>
<tr>
<th>Variable</th>
<th>N</th>
<th>Minimum</th>
<th>Maximum</th>
<th>Mean</th>
<th>Std. Deviation</th>
</tr>
</thead>
<tbody>
<tr>
<td>DA</td>
<td>120</td>
<td>1.7919</td>
<td>1.5500</td>
<td>.359163</td>
<td>.3683480</td>
</tr>
<tr>
<td>OCG</td>
<td>120</td>
<td>37.1779</td>
<td>79.2225</td>
<td>63.471839</td>
<td>8.6038763</td>
</tr>
<tr>
<td>FD</td>
<td>120</td>
<td>.0077</td>
<td>20.2990</td>
<td>4.718670</td>
<td>4.3099829</td>
</tr>
<tr>
<td>Valid N (listwise)</td>
<td>120</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

From the results of the descriptive statistical test, information is obtained that Earnings Management variables have a range of values from -1.7919 to 1.5500 which is the lowest value namely Bank Rakyat Indonesia (Persero) Tbk in 2018 and the highest value namely Petronas Dagangan Berhad. The average value of Earnings Management is 0.3592 and the standard deviation is 0.36835. This means that the data distribution is not too varied; the data is good enough to be used in the regression test, because the data distribution is close to the average value.

The Good Corporate Governance variables have a range of values from 37.1779 to 79.2225 which is the lowest value namely Maxis Berhad in 2016 and the highest value namely Nestle (Malaysia) Berhad in 2018. The average value of Good Corporate Governance is 63.4718 and the standard deviation is 8.60388.

The Financial Distress variables have a range of values from 0.0077 to 20.2990 which is the lowest value namely Maxis Berhad in 2017 and the highest value namely Malayan Banking Berhad. The average value of Financial Distress is 4.72867 and the standard deviation is 4.30998.

Classic Assumption Test

1. Normality Test

The normality test aims to test whether the model in regression, the confounding variable or normal residual distribution (Ghozali, 2016). In principle, normality can be detected by looking at the spread of data (dots) on the diagonal axis of the graph or by looking at the residual histogram.

Table 6. Normality Test

<table>
<thead>
<tr>
<th>One-Sample Kolmogorov-Smirnov Test</th>
</tr>
</thead>
<tbody>
<tr>
<td>N</td>
</tr>
<tr>
<td>---</td>
</tr>
<tr>
<td>120</td>
</tr>
</tbody>
</table>

From the above results, we see in Asymp Sig. (2-tailed) and it can be seen that the residual unstandardized value is 0.200. Because the value is greater than 5% or 0.05 then it can be concluded that the data is normally distributed.
2. **Multicollinearity Test**

   **Table 7. Multicollinearity Test**

<table>
<thead>
<tr>
<th>Model</th>
<th>Collinearity Statistics</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Tolerance</td>
</tr>
<tr>
<td>1</td>
<td>(Constant)</td>
</tr>
<tr>
<td>GCG</td>
<td>.955</td>
</tr>
<tr>
<td>FD</td>
<td>.955</td>
</tr>
</tbody>
</table>

   a. Dependent Variable: DA

   From the results above, it can be seen that the variance inflation factor (VIF) values of the three variables, namely GCG, earnings management and Financial Distress are less than 5 (1,047), so it can be assumed that there are no multicollinearity problems between independent variables.

3. **Heteroscedasticity Test**

   **Table 8. Heteroscedasticity test**

<table>
<thead>
<tr>
<th>Model</th>
<th>Unstandardized Coefficients</th>
<th>Standardized Coefficients</th>
<th>t</th>
<th>Sig.</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>B</td>
<td>Std. Error</td>
<td>Beta</td>
<td></td>
</tr>
<tr>
<td>1</td>
<td>.032</td>
<td>.131</td>
<td>.083</td>
<td>.881</td>
</tr>
<tr>
<td>GCG</td>
<td>.002</td>
<td>.002</td>
<td>.053</td>
<td>.562</td>
</tr>
<tr>
<td>FD</td>
<td>.002</td>
<td>.004</td>
<td>.053</td>
<td>.562</td>
</tr>
</tbody>
</table>

   a. Dependent Variable: RES2

   From the output above, it can be seen that the Sig values are 0.380 and 0.575. Because the value of Sig (0.380 and 0.575) > 5% (0.05), then the H0 is accepted, meaning there are no symptoms of heteroscedasticity. With this it can be concluded that there is no problem with heteroscedasticity in the regression model.

4. **Autocorrelation Test**

   **Table 9. Autocorrelation Test**

   | Model Summary |
   |-------|-----------------|
   | Model | Durbin-Watson   |
   | 1     | 1.798           |

   a. Predictors: (Constant), FD, GCG
   b. Dependent Variable: DA

   From the output above, the DW value obtained from the regression model is 1.798. it can be concluded that there is no autocracy because the DW value is between -2 and +2 or -2 <DW <+2.

**Model Feasibility Test**

1. **Analysis of the Coefficient of Determination (R²)**

   **Table 10. Coefficient of Determination**

   233
Based on the table above, the number R2 (R Square) is 0.062 or 6.2%. This shows that the percentage contribution of the influence of independent variables (GCG and Financial Distress) on the dependent variable (Earnings Management) is 6.2%. Or variations in the independent variables used in the model (GCG and Financial Distress) are able to explain 6.2% variation in the dependent variable (earnings management). While the remaining 93.8% is influenced or explained by other variables not included in this research model.

2. Simultaneous Regression Coefficient Test (Test F)

Table 11. F Test Results

<table>
<thead>
<tr>
<th>Model</th>
<th>Sum of Squares</th>
<th>df</th>
<th>Mean Square</th>
<th>F</th>
<th>Sig.</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Regression</td>
<td>9.535</td>
<td>117</td>
<td>0.073</td>
<td>3.898</td>
</tr>
<tr>
<td></td>
<td>Residual</td>
<td>8104</td>
<td>119</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Total</td>
<td>9193</td>
<td>119</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Based on the table obtained Sig of 0.023 <0.05, Ho is rejected. This means that there is a significant influence between GCG and Financial Distress together on Profit Management. So it can be concluded that GCG and Financial Distress jointly influence earnings management. Thus, the resulting regression model is feasible to analyze.

3. Regression Coefficient Test (t Test)

Table 12. Partial Test – t-test

<table>
<thead>
<tr>
<th>Model</th>
<th>Unstandardized Coefficients</th>
<th>Standardized Coefficients</th>
<th>t</th>
<th>Sig</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>B</td>
<td>Std. Error</td>
<td>Beta</td>
<td></td>
</tr>
<tr>
<td>1</td>
<td>(Constant)</td>
<td>-0.091</td>
<td>.232</td>
<td>-.393</td>
</tr>
<tr>
<td></td>
<td>GCG</td>
<td>.006</td>
<td>.004</td>
<td>.153</td>
</tr>
<tr>
<td></td>
<td>FD</td>
<td>0.013</td>
<td>.007</td>
<td>.165</td>
</tr>
</tbody>
</table>

From the table above, it can be seen that Sig is 0.097 for GCG and 0.070 for Financial Distress. And it can be concluded:

a) For the GCG variable, namely Sig (0.097)> 0.05, partially there is no significant effect between GCG and Profit Management. So from this case, it can be concluded that partially GCG has no effect on Profit Management.

b) For Financial Distress variables, namely Sig (0.070)> 0.05 means that partially there is no significant influence between Financial Distress and Profit Management. So from this case, it can be concluded that partially Financial Distress has no effect on Profit Management. From the table the resulting regression model is as follows: $Y = -0.091 + 0.006X_1 + 0.013X_2$

The interpretations of the regression above are as follows:

a) Constants ($a$)
This means that if all the independent variables have a value of zero (0) then the value of the dependent variable (Y or Earnings Management) is -0.091. In other words, the value of Earnings Management will decrease by 0.091. This means that if there is no Good Corporate Governance variable, it can reduce the level of Profit Management. Similarly, the Financial Distress variable, if there is no Financial Distress, then the practice of Profit Management will not occur.

b) GCG (X1) to Earnings Management (Y)

The coefficient value of Good Corporate Governance (GCG) for variable X1 is 0.006. This implies that every increase in the value of one unit of GCG then the variable Profit Management (Y) will increase by 0.006 assuming that the other independent variables of the regression model are fixed.

c) FD (X2) to Profit Management (Y)

The coefficient of Financial Distress for variable X2 is 0.013 and has a positive sign, this indicates that Financial Distress has a relationship in line with Systematic Risk. This implies that each increase in one unit of Financial Distress then the Profit Management variable (Y) will increase by 0.01 assuming that the other independent variables of the regression model are fixed.

6. Conclusions and recommendations

6.1. Conclusions

The F test results explain that simultaneously the Good Corporate Governance and Financial Distress variables have an influence on the Profit Management variable. The magnitude of the effect that arises can be seen in the results of the research shown in the adjusted coefficient of determination indicates that the variable Profit Management is influenced by the variable Good Corporate Governance and Financial Distress is not significant but only a small part. While the rest is influenced by other factors. Partial t-test results of variables Good Corporate Governance and Financial Distress have no effect on Earnings Management. On this basis, the model used in this study is stated to need to be analyzed further because the results of this study still hold hope that Good Corporate Governance can later influence and can reduce the value of Profit Management.

6.2. Recommendations

For the next researcher, it is expected to take a larger number of samples than the number of samples used in this study. In addition, the object of research can also be expanded by adding ASEAN countries that are included in the ASEAN CG Scorecard.

References


