The Role Of The Board Of Commissioners In Earnings Management

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Abstract

The company's management tries to make the company's performance look very good, which aims to attract investor interest to invest, besides that management has the motive to get bigger compensation by showing good company performance. To show good corporate performance then management will apply earnings management that is by applying adjustments to financial statements. To prevent management from applying earnings management to the detriment of investors, it is necessary to supervise the behavior of management in making the financial statements by applying corporate governance, one of the corporate governance mechanisms is the company must have the board of commissioner responsible for overseeing the company's management activities in managing the company.

An indicator of the board of commissioners used is the composition of the independent commissioner, the number of board of commissioner's meeting, the board of commissioner's education and for the measurement of earnings management using Modified Jones Model. In this research, the data used is financial data of mining company sub-sector that listed in Indonesia Stock Exchange year 2012 - 2014.

The results of this study conclude that the composition of the independent board of commissioners can reduce the occurrence of earnings management, the number of meetings involving the board of commissioners can prevent the occurrence of earnings management and education background board of commissioners cannot prevent the occurrence of earnings management.

Suggestions for further research, for the educational background of the board of commissioners, should use a percentage of the total members of the board of commissioners who have the background of financial education.

Keywords: *Board Of Commissioners; Earnings Management*

1. Background

Corporate governance in Indonesia gained great attention with the government establishing the National Committee on Corporate Governance Policy in 1999, with the implementation of corporate governance encouraging companies to be transparent and efficient and accountable by optimizing the functioning of the Board of Commissioners. However, the implementation of GCG in Indonesia is still at an unsatisfactory level (Asian Development Bank, 2014) as shown in Figure 1.

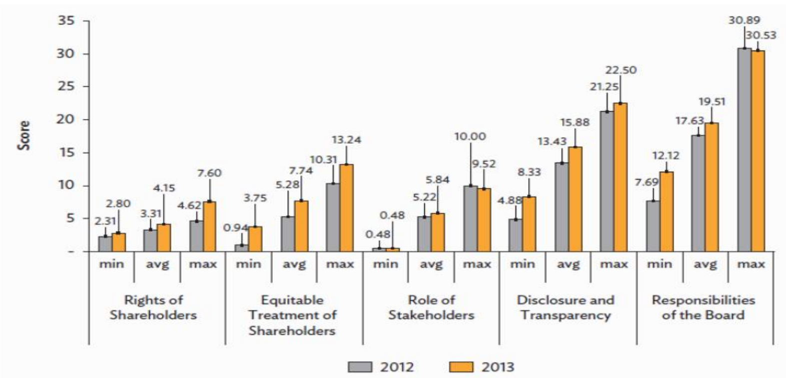

Figure 1
Corporate Governance Improvement from 2012 to 2013 in terms of OECD Principles in Indonesia

Avg = *average*, max = *maximum*, min = *minimum*, OECD = *Organisation for Economic Co-operation and Development.*

Note: Maximum score earned for Rights of Shareholders is 10 points, Equitable Treatment of Shareholders is 15 points, Role of Stakeholders is 10 points, Disclosure and Transparency are 25 points and Responsibility of the Board is 40 points

In implementing good corporate governance depends on the application of securities and corporate law, good accounting standards, strong regulations, an efficient judicial system and a strong determination to fight corruption applied by governments and companies in Asia (Barton et al, 2004). Corporate governance is a proposed concept for improving corporate performance through supervision or monitoring of management performance and ensuring accountability of management to stakeholders by establishing on the regulatory framework (Nasution & Setiawan, 2007) (Mulyadi & Anwar, 2015)

Implementation of good corporate governance required the company to overcome the problems that arise as a result of agency problems. Agency problems arise from the owner of the fund (principal) and management (agent).Jensen and Meckling (1976) stated that the agency problem is management as the recipient of the mandate of the principal, not always acting in the operating company to maximize the interests of the principal. To minimize the agency problems, the company must have the composition of the board of commissioners who come from outside the company so that it can affect the action of earnings management. (Boediono, 2005) (Cornett, Marcus, & Tehranian, 2008) results of research conducted by (Chen, Elder, & Hsieh, 2007) Companies that have independent commissioners will tend not to apply earnings management.

2. Literature Review

In companies listed on the stock exchange, there will be two interests namely, the interests of shareholders as a principal of profits for shareholders in the form of dividends and the interests of management as an agent that is getting a bonus or a larger salary, therefore, the possibility of management will apply earnings management for achieving management goals (Jensen & Meckling 1976).

With the existence of these differences of interest then required a good corporate governance, corporate governance as a normative framework is, the company rules in carrying out its operations - with regulations issued by the legal system, the court system, the stock market, and labor law (Claessens & Yurtoglu, 2013)

Nasution & Setiawan, (2007) stated composition of the board of commissioners negatively affects earnings management. This indicates that corporate governance mechanism proposed through the existence of independent parties in the board of commissioners can reduce the acts of earnings management that occurred.

Management will tend not to earn earnings management when firms have more oversight by the independent board of commissioners (Cornett et al., 2008) this is in line with research conducted by (Chen et al., 2007)

Hypothesis

The hypothesis in this research is "There is significant influence from the independent commissioner, board of commissioner meeting, board of commissioner's education to earnings management level"

3. Research Methods

In this research, the data used is financial data of mining company sub-sector that listed in Indonesia Stock Exchange year 2012 – 2014.

In this study, the variables used are the board of commissioners and earnings management as a dependent variable. Measurements performed for each variable are as follows:

1. The proportion of the board of commissioners of independence is measured by dividing the number of members of the board of commissioners who come from outside the company (independent) to the total of all members of the board of commissioners of the company.
2. A total number of meetings conducted by the board of commissioners.
3. Education background of the board of commissioner, if the background of financial education hence will be given value 1, if not, then 0.
4. Earnings management using the formula:

Modified Jones Model (Dechow et al., 1995). TA = NIit – CFOit

4. RESULTS AND RESEARCH ANALYSIS

Tabel 1Descriptive Statistics

	N	Minimum	Maximum	Mean	Std. Deviation
X_1	60	,25	,75	,4130	,11341
X_2	60	,00	17,00	5,7333	4,33694
X_3	60	,00	1,00	,9333	,25155
Y	60	-6001385652000,00	915692449840,00	-608816365563,9666	1337674839735,61200
Valid N (listwise)	60				

From Table 4.1 shows the results of the descriptive analysis as follows:

1. Average variable percentage Independent Commissioner 41.3 %
2. Average variable number of independent commissioners meeting 5.7 times a year
3. Average independent education commissioner variables 0.93

Average variable earnings management -6.088.163 has the meaning that the average coal mining subsector companies do decrease income.

Table 2 Determination

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	,277[a]	,076	,027	1319507577872,58600

a. Predictors: (Constant), x3, x2, x1

According to Table 2, the adjusted R2 of 27%, which means the percentage of independent commissioners, the number of independent commissioners' meeting and the financial background of the independent commissioner influence the earnings management by 27%, the results include the small influence of it in line with test result's f or influence simultaneously in Table 3 below:

Table 3 ANOVA f test

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	8071450743302020000000000,000	3	2690483581100673000000000,000	1,545	,213[b]
	Residual	97501613891537980000000000,000	56	1741100248063178300000000,000		

	Total	10557306463484000 0000000000,000	59			

a. Dependent Variable: y
b. Predictors: (Constant), x3, x2, x1

Table 3 shows the value of 1.54 with a significance level of 0.213> 0.05 which mean that simultaneously the independent percentage of independent commissioners, the number of independent board of commissioners and the financial background of the independent commissioner have no effect on earnings management. This is strengthened by the result of t-test that is the partial influence test in Table 4.

Table 4 t test.

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	-822243116156,403	902613533617,051		-,911	,366
	x_1	1530136379098,443	1676573163114,884	,130	,913	,365
	x_2	85779893934,639	43614854764,631	,278	1,967	,054
	x_3	-975347463429,091	720900055819,928	-,183	-1,353	,182

a. Dependent Variable: y

Based on Table 4 above it can be seen the effect of partial influence percentage of independent commissioners, the number of independent board of commissioners meeting and the background of financial education to earnings management as follows:

X1 sig of 0.366 where 0.366> 0.05 then X1 has no effect
X2 sig of 0.054 where 0.054> 0.05 then X2 has no effect
X3 sig is 0.182 where 0.182> 0.05 then X3 has no effect

Discussion

Based on Table 4 then known regression equation as follows

$$Y = -8.222 + 1.530 + 8.577-9.7534$$

From the equation, it is known that the constant value of -8.222 has the meaning of the company's earnings management income decreasing. It is in accordance with Table 4.1 which states the average or mean for earnings management of -6.088.163.

Based on Table 4 it is known that the composition of the board of commissioners or the percentage of the independent board of commissioners has no effect on earnings management but has a positive direction of +1.530 which means although no effect but can reduce the occurrence of earnings management

Based on Table 4 which states the frequency of meetings of the board of commissioners has no effect but has a positive direction of +8.577 which means the board of commissioners can oversee the performance of management so as to reduce the occurrence of earnings management.

Based on Table 4 it is known that the educational background of commissioners who have education in the field of finance does not have influence on earnings management but have negative direction equal to -9.7534 this is contrary to the function of the board of commissioner who can reduce the happening of earnings management, with negative direction of educational background of finance give an opportunity. To management to make earnings management, with good financial knowledge earnings management is done decreasing income with the aim of tax avoidance is to avoid excessive tax avoidance but without violating the law.

5. Conclusions

1) The composition of the independent board of commissioners can reduce the occurrence of earnings management.

2) The number of meetings involving the board of commissioners can prevent the occurrence of earnings management.
3) The background of the board of commissioners' education cannot prevent the occurrence of income management decreasing income.

For further research; For educational background, the board of commissioners should use a percentage of the total members of the board of commissioners who have the background of financial education.

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Risk Mapping on Financial Technology

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Abstract

Financial Technology (Fintech) is an innovation in the financial industry. The ease that are offered in this service making fintech as a solution to the financing requirement. This innovation also has risks, risk that is inherent in the software and service provided to the customer or the user of fintech application i.e. community and perpetrator of the UMKM. This research uses a risk-mapping approach which is divided into three parts namely pure risk, speculative risk, and money laundry/terrorism risk. The methodology used is the descriptive statistics.

Keywords: Risk; fintech

A. Background

Digital industrial development since 2015 until 2017 is very rapid. The spotlight from The Media The Ministry of Communications and Information of Republic of Indonesia reveals that Indonesia holds the number of people that is very large about 250 million people and it make Indonesia as a big market. Smartphone user in Indonesia also growing rapidly. Research institutions of digital marketing, Emarketer, estimate at 2018 the number of active smartphone users in Indonesia will be more than 100 million people. It makes Indonesia as the biggest four country with active smartphone user in the world after China, India, and America.

In line with growth of the use of smartphone, development of digital based industrial is very fast. Start-up industry become more variegated as a response toward the needs of smartphone users who keep growing every year.

The development of technology encourage creativity various parties to develop start up industry in Indonesia. The financial industry is also enliven start up industry. This innovation is known to financial services industry based on technology or fintech (financial technology).

The Financial Services Authority (OJK) issue regulations OJK Number 77/POJK.01/2016 about Loan Money Services Based on Information Technology (LPMUBTI). After the rules were issued, in the early year, there have been 37 fintech companies listed on OJK. Companies that already enrolled in OJK is the type of savings and loan fintech. Meanwhile, another fintech like the agency, or supporters of financial sector is not including in the context of fintech treaty.

Fintech offer an ease and new services in the middle gap between financial institutions and non financial with the community. But this innovation also has risks, both the risk inherent in the software or the services provided to consumers or fintech application users that is the community and UMKMs agents.

B. Methodology

This research using descriptive statistics analysis that is provide a description or a description of a data viewed from the average (mean), standard deviations, variant, maximum, minimum, sum, range, kurtosis and skewness (slant distribution) (Ghozali (2013)). This analysis used to transform lab data in the form of tabulation data in the form of table and charts so that it will be easy to understand and interpret.

C. The development of UMKM sector

Sector growth of Small-Medium Enterprises (UMKM) in Indonesia within 5 years from 2009 to 2013 is quite fast.

Table 1. UMKM Growth 2009-2013

Indicator	Denomination	2009	2010	2011	2012	2013
The amount of UMKM	Unit	52.764.603	53.823.732	55.206.444	56.534.592	57.895.721
The amount of UMKM labor	Person	96.211.332	99.401.775	101.722.458	107.657.509	114.144.082
Contributions of PDB UMKM (constant price)	Rp. Billion	1.212.599	1.282.572	1.369.326	1.451.460	1.536.919

Source: www.bps.go.id

Based on information in the table 1 the number of UMKM units since 2009 until 2013 increasing every year and expected to keep growing in later years. This sector is a sector that is growing fast in the middle of digital economy era and creative industry, this sector also create labor quite a lot in Indonesia along with the increasing of UMKM every year. Bank Indonesia mention that the distribution of credits to UMKM sector experienced growth and in general the growth is higher compared to the total bank credits. So that UMKM is a market that has bright prospects for financial services industry that moves in the fields of funding or distribution of financing.

D. Fund Need and Fintech

According to the definition of Bank Indonesia UMKM credit is all the provision of money or bill that can be equalized with it in the Indonesian unit (the rupiah) and foreign currencies, based on the approval or the agreement of loan between bank rapporteur with a bank and the third party that is not bank which satisfies the criteria of business according to the prevailing regulations. But UMKM not only received loans from banks, they can also obtain loans through funding institution which is not bank and in the last 2 years they can also obtain loans through fintech. The following are the examples of fintech that gives ease loans:

Table 2 Website Fintech and Offered Facility

	Websites Fintech Name	Funding Facilities and Loans Offered
1	https://uangteman.com/	The very fast process, security details, unsecured, transparent nominal amount paid at the beginning, spread in Indonesia.
2	https://drrupiah.com/	Quick, only a few minutes, a simple procedure, transparent loans amount, the period and a total return bills
3	https://amartha.com/	Prevent debt burden excess, justice for borrowers and investors, the sharing system/the margin that is responsible, secrecy and security data, transparent, punctuality respond to help
4	https://www.taralite.com/	Loans for online merchant without collateral, interests ranging from 0,99 % monthly flat
5	https://www.investree.id/	Attractive return, measurable risk, with the process of simple application — 100% online— you can start fund from Rp. 5,000,000 to Business Loan and Rp 1,000,000 to Employee Loan
6	https://modalku.co.id/	Transparency over the risk and return and provide lenders and services are just in time for borrowers and lenders
7	https://www.koinworks.com/	Safe investment, make arrangements portfolios and leading partners
8	https://mekar.id/	Funding for various sectors in Indonesia, Interests 10 % per year, The investment choices varied, Investment guaranteed
9	https://pinjam.co.id/	The capital cost more efficient, assessment online 24 hours, The Easier Process, The Reliable Partner, Privacy & Comfort Transactions, Security Awake

Source: http://www.duwitmu.com processed

Through information in the table 1.2 it can be seen that fintech provide the ease on the consumer among them; fast process, simple procedure, loans without collateral and the cost as well as lower risk. Where they do not or rarely given by banking industry or funding. The financial industry based on technology try to understand the characteristic of Indonesia community better and investors of UMKM in the needs of funding when they are not successfully in looking for funding through banking and financing but because of low by its terms and system.

E. Risk Mapping on fintech

Fintech innovation gave the quite large impact in the financial industry in Indonesia. But this innovation is absent from risk. Risk arose because there is a condition of uncertainty. Fintech gave a facility for borrowers of funds and the ease has the stood up risk. In this research, mapping risk divided into three parts i.e pure risk, speculative risk (Hanafi , 2009) and money laundry/terrorism risk.

- Pure Risk
  The risk where there is only possible loss. In this case, fintech having legal risk which is contract risk is not conforming as expected, documentation is not right. If dispute that cause the funds, partners and borrowers funds unable to fulfill its obligation it will cause harm. There is little information about risk in singular complex transactions, much less what happens at higher levels of aggregation because of recent innovation, market opacity, data fragmentation, incomplete knowledge and conflicting interests by Hwang (2015).
- Speculative Risk
  The risk where we expect the loss and also advantage
  1. Credit risk, a risk because counterparty failed to fulfill their obligations to a company. Fintech promised the fast funding to the borrowers. But if UMKM who run by borrowers is down and experience loss prolonged there is a potential borrowers cannot pay their obligations.
  2. Operational risk, operational activities risk does not run smoothly and result in a loss: system failure, human error, less control and procedure. Fintech is the financial industry based on technology then the system and the good control is a thing that become a top priority in giving its services. But when the system and control not functioning maximum there will be a potential that company has affected by hacker, viruses and data stealing that result in a loss. Innovative instruments more desirable, efficient and effective, but also more vulnerable to abuse and misuse. These characteristics include the ease of access to the system, the shortness of execution times, the possibility to carry out transactions without a direct contact with the counterpart, the availability of an anonymity regime and the consequent dissimulation of the actual identity of the economic actors that have carried out the transaction by Merlonghi (2010).
- Money Laundry/Terrorism Risk
  The ease of transaction and new method given in the start up era made fintech as a source of funding required by the community as well as UMKM. But the need for transparency of funds and the allocation of funds in fintech to ensure that source and allocation of funds is legal. The availability of specific IT and communication technologies permits the transfer of monetary values in electronic form both between users (peer-to-peer) and between a user and a system merchant, without necessarily having to go through the intervention of either a centralized structure or the traditional financial intermediaries. Moreover, these payment instruments can easily be used in an international context, as they appear to be indifferent to geographical distances and barriers. They also offer an opportunity to "spread" a financial crime across different jurisdictions: thus, a crime can be committed in one country and then be judged in another country, with the consequence that the ascertainment of responsibilities and sanctions may become very burdensome and uncertain. It can actually be very difficult to identify the law that is applicable in case of controversies, illicit actions and abuses, and to gather evidence regarding the transactions that have been carried out by Merlonghi (2010). Funds that are destined for terrorist organisations could easily be transferred through virtual environments undetected due to the fact that transactions are likely to be for relatively small values and, therefore, more likely to blend very easily with the millions of transactions that take place in these environments every day. In addition, the use of anonymous payment methods and the use of privacy enhancing software ensure that there is very little chance of identifying the real-world identity of those who perform these transactions or those who receive the funds by Irwin (2014).

F. Conclusion

Development of start up industry and innovation in the financial industry gave a different service in the financial industry. Fintech is an innovation that present to answer the needs of the community and UMKM perpetrator toward the ease of getting fund that is not given by banking industry and financing. But fintech as the financial industry based on technology also having risk. Mapping risk into three parts namely pure risk, speculative risk and money laundry/terrorism risk. All the three risks tending to map losses that would happen if the uncertainty really happened. Pure risk and speculative risk were also found in the financial conventional industry. The other, money laundry/terrorism risk is a new approach of risk identification of the method or system that runs on fintech because this industry is easy to get source funding in general.

Several ways to mitigate the risk is to apply KYC (Know Your Client) both the giver or of the recipients as well, any regulations that distinguish fintech services with the kind of financial conventional industry, the determination regulations of the cost and interest and oversight of fintech performance at regular intervals.

Therefore it will be required deeper analysis when it comes to borrow fund through fintech one of them is to ensure that fintech was registered in authority financial services (OJK), transparency from a partner that give or borrow fund, clarity and transparency risk contract and return any period of.

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