International Journal of Research and Review
Vol. 10; Issue: 1; January 2023
Website: www.ijrrjournal.com
Research Paper *E-ISSN: 2349-9788; P-ISSN: 2454-2237*

The Effect of Good Corporate Governance on Financial Performance with Earning Management as a Mediation Variable in SOEs Listed on the Indonesia Stock Exchange

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DOI: https://doi.org/10.52403/ijrr.20230165

ABSTRACT

This study aims to empirically prove the effect of good corporate governance on company financial performance with earnings management as a mediating variable in state-owned companies listed on the Indonesia Stock Exchange (IDX) for the 2011-2020 period. The data used in this study were collected using documentation techniques, and the type of data used in this study was secondary data. Data processing uses panel data regression, and the tool used in the study is EViews version 12. The results show that independent directors and independent audit committees directly have a significant negative effect on financial performance, government ownership partially has a significant positive impact on financial performance, and independent commissioners have no significant negative effect on financial performance. In contrast, earnings management had no significant positive impact on financial performance in state-owned companies listed on the IDX from 2011 to 2020. The results also show that independent directors and independent audit committees have no significant positive effect on financial performance. In contrast, independent commissioners and government ownership have no significant negative impact on earnings management. The research did not find the mediating role of earnings management on the influence of independent directors, independent commissioners, government ownership, and independent audit committees on the company's financial performance.

Keywords: Good Corporate Governance, Independent Director, Independent Commissioner, Government Ownership, Independent Audit Committee, Financial Performance, Earning Management

INTRODUCTION

Financial performance is outlined in financial reports, which are important to produce information as evidence of management's accountability for company performance. Financial reports are essential instruments as a basis for sources of information used by external parties to assess company performance. Companies can signal to principals or investors regarding company information from management for management's responsibility in providing investor welfare (Alamsyah, 2017). The information must be relevant and reliable to describe a company's financial condition. Good financial performance is necessary for a company to show that the company can increase the prosperity of investors and the company can grow well (Rahayu & Sari, 2018). Likewise, State-Owned Enterprises (BUMN), especially those whose shares are traded on the Indonesia Stock Exchange, must also have good financial performance.

State-Owned Enterprises (BUMN), in accordance with the Law of the Republic of Indonesia Number 19 of 2003, are business entities whose capital is wholly or mostly owned by the state through direct

participation from separated state assets. The purpose of establishing BUMN is (1) to contribute to the development of the national economy; (2) to pursue profit; (3) to provide public benefits in the form of providing goods and/or services of high quality and sufficient to meet the needs of the public; in general and state revenue in particular (4) pioneering business activities that the private sector and cooperatives cannot yet implement; and (5) actively participate in providing guidance and assistance to entrepreneurs from economically weak groups, cooperatives, and the community. Meanwhile, a Limited Liability Company, hereinafter referred to as a Persero, is a BUMN in the form of a limited liability company whose capital is divided into shares of which all or at least 51% (fifty-one percent) of the shares are owned by the Republic of Indonesia whose main objective is to pursue profit.

The financial performance of SOEs listed on the Indonesia Stock Exchange (IDX) in the 2011-2020 period is still not optimal. During this period, several BUMNs suffered substantial losses, and there were also BUMNs that experienced losses for several years in a row. PT Garuda Indonesia (Persero) Tbk experienced losses for 4 years, and PT Krakatau Steel (Persero) Tbk for 8 years. This condition signals that there are SOEs whose conditions are unhealthy and require special attention from their stakeholders, especially regarding corporate governance.

Table 1. Losses of BUMN Companies in 2011-2020 (in millions of rupiah)

Company	Year				
	2011	2012	2013	2014	2015
PT Aneka Tambang (Persero) Tbk	-	-	-	743,530	1,440,853
PT Garuda Indonesia (Persero) Tbk	-	-	-	4,627,568	-
PT Indofarma (Persero) Tbk	-	-	54,223	-	-
PT Jasa Marga (Persero) Tbk	-	-	-	-	-
PT Krakatau Steel (Persero) Tbk	-	189,145	165,770	1,951,736	4,504
PT Perusahaan Gas Negara (Persero) Tbk	-	-	-	-	-
PT Timah (Persero) Tbk	-	-	-	-	-
PT Waskita Karya (Persero) Tbk	-	-	-	-	-

Company	Year				
	2016	2017	2018	2019	2020
PT Aneka Tambang (Persero) Tbk	-	-	-	-	-
PT Garuda Indonesia (Persero) Tbk	-	2,891,000	3,314,549	619,533	34,872,913
PT Indofarma (Persero) Tbk	17,367	46,285	32,736	-	-
PT Jasa Marga (Persero) Tbk	-	-	-	-	41,429
PT Krakatau Steel (Persero) Tbk	2,428,208	1,166	1,117,397	7,025,426	-
PT Perusahaan Gas Negara (Persero) Tbk	-	-	-	-	3,043,409
PT Timah (Persero) Tbk	-	-	-	611,284	340,602
PT Waskita Karya (Persero) Tbk	-	-	-	-	9,495,726

In addition to sub-optimal financial performance, earnings management is also a problem faced by BUMN. Earnings management case related to PT Garuda Indonesia (Persero) Tbk in 2018 by recognizing income all at once in one year, or recognizing income spread over the term of the agreement. The Ministry of Finance's Center for Financial Profession Development (PPPK Kemenkeu) found violations by the auditors who conducted an audit of PT Garuda Indonesia Tbk which influenced the opinion of the independent auditor's report. The Ministry of Finance imposed a license suspension sanction for 12 months for the auditor of the financial statements of PT. Garuda Indonesia (Persero) Tbk and Subsidiaries for Fiscal Year 2018. In addition, all members of the Board of Directors of PT Garuda Indonesia were also subject to Administrative Sanctions in the form of IDR 100,000,000 each for violating Bapepam Regulation Number VIII.G.11 concerning the Responsibility of Directors for Financial Statements. Administrative Sanctions were also imposed jointly in the amount of IDR 100,000,000 to all members of the board of directors and board of commissioners who signed the 2018 Annual Report for violating OJK Regulation Number 29/POJK.004/2016 concerning Annual Reports of Issuers or Public Companies (kemenkeu.go.en, 2019).

These phenomena provide a signal or picture that companies that are promising and are considered to have integrity, are not necessarily good at implementing the principles of conservatism, the need for the role of good corporate governance so that the checks and balances mechanism runs well to convince investors that the information provided in the financial statements has good quality. Performance improvement can be achieved through supervision or monitoring of management performance and assurance of management accountability to stakeholders based on certain regulatory frameworks. The role of the board of directors, board of commissioners, and

committees has responsibility in monitoring and supervise management efficiency.

Indonesia is currently using accrual-based accounting standards, whereas, on the other hand, accrual-based accounting can cause distortion. Therefore, it needs to be identified and adjusted for use, so that accounting information can reflect good business activities (Subramanyam & Wild, 2009). This accounting distortion is a deviation from the information reported in a financial statement to the existing business conditions, therefore earnings management is one of the results of accrual accounting distortions.

Based on the description that has been disclosed, the researcher is interested in reviewing the effect of the implementation of Good Corporate Governance proxied by directors, independent commissioners, government ownership, and audit committees on financial performance by including earnings management as a mediating variable. Regarding the background and phenomena described, the researcher is interested in researching "The Influence of Good Corporate Governance on Financial Performance with Earning Management as a Mediation Variable in SOEs Listed on the Indonesian Stock Exchange."

LITERATURE REVIEW

Financial Performance

Investors, in general, prefer profit information that can be seen in the financial statements regardless of the process of obtaining the profit. Investors, especially when analyzing or looking for information on a company's financial statements, are more focused on its profitability ratios, which illustrate financial performance. Brigham & Houston (2019) states that the profitability ratio compares net income to total assets in measuring returns. Also, to determine the ability of each company to generate profits (Kasmir, 2015). The results of measuring performance achievement become the basis for company management or managers to improve performance in the next period. They are used as a basis for reward and punishment.

The profitability ratio is a measure of the success of company management because profitability is seen as an important factor and is in great demand by stakeholders, and reflects the performance and growth prospects of a company and can influence creditors to provide loans and funding to investors who are interested in the prospectus. If a company with poor revenue projections, it will be able to reduce market prices compared to other companies, both the same kinds, with good earnings forecasts (Rahman et al., 2013). Given the importance of revenue, managers certainly do not want to show a red report card on financial position to various stakeholders. Therefore, they manipulate accounting numbers in financial reports using the flexibility provided by Financial Accounting Standards and are also supported by bonus motivation which is in line with profit growth.

Return on assets is used in this study to project financial performance because ROA is one of the company's financial ratios related to profitability. Profitability is proxied to ROA, where the goal is to measure the company's management's ability to earn profits at the level of income and assets. Financial performance proxied by ROA, as used in Boachie's research (2021), is formulated as follows:

$$ROA = \frac{Net\ Income}{Total\ Assets}$$

The development of financial ratios shows the better ability of management in the process of earning profits. Therefore, management is motivated to use earnings management practices so that reported earnings show good trends and can foster investor confidence in company management, as in Amalia et al. (2019), Guna & Herawaty (2010), Amertha (2013), Alves (2012), and Astari &

Suryanawa (2017).

Good Corporate Governance (GCG)

Corporate governance, according to (La Porta et al., 2007), is a set of mechanisms by which outside investors protect themselves against the takeover by people within the company. The minimal role of corporate governance practices will affect the company's failure. Good corporate governance practices in general, can improve a company's performance and will also have an impact on the company's environment (Stuebs & Sun, 2015), this indicates the important role of good corporate governance in maintaining stability, performance, and the company's environment.

Good corporate governance is a closed to improve company performance by controlling internal performance (Widyaningrum et al., 2018). Every agency or government needs synergy to implement deep and sustainable changes through good corporate governance codes (Krenn, 2015). Corporate governance is also a system, process, and a set of rules governing the relationship between various interested parties (stakeholders), especially in the narrow sense of the relationship between owners (principals) and management (agents) to achieve company goals (Ratnawardhani, 2017). These systems, processes, and sets of regulations concentrate on improving the quality of corporate governance and the roles and responsibilities of all parties involved in the corporate governance process.

The GCG mechanism used in this study consists of four proxies, namely directors, independent commissioners, government ownership, and audit committees.

a) Board of Directors

Directors represent the number of people serving as directors on the company's board at the end of the year. The board of directors is responsible for all activities led by the company, and the purpose of corporate governance is to facilitate the interests of stakeholders and ensure that the company can run effectively without any obstacles (Shaji & Shajahan, 2020). Directors must have good proportions to run the company well.

The size of the board of directors used in this study is formulated as used in Boachie's research (2021) as follows:

$$Independent\ Director = \frac{Number\ of\ Independent\ Directors}{Number\ of\ Directors}$$

Arora & Bodhanwala (2018) found that adequate representation of independent directors on the board of directors improves corporate performance in India. Meanwhile, different opinions state that even though they are called independent directors, in practice, they are not fully independent, so the existence of an independent director does not contribute to performance. Board independence and oversight becomes ineffective (Assenga et al., 2018; Ferrer & Banderlipe Ii, 2012; Haniffa & Hudaib, 2006; Kılıç & Kuzey, 2019).

b) Board Of Commissioners

One of the good corporate governance mechanisms is the existence of an independent commissioner who is a member of the board of commissioners. With the existence of an independent commissioner, it is expected to reduce agency conflicts and information asymmetry among investors. Independent Commissioners are members of the commissioners who are not affiliated with management, other members of the board of commissioners, and controlling shareholders. They are free from business relationships and other relationships that may affect their ability to act independently or act solely in the interests of the company (Guna & Herawaty, 2010). The board of commissioners used in this study was formulated as used in Fariha et al.'s research. (2022) as follows:

$$Independent\ Commissioner = \frac{Number\ of\ Independent\ Commissioners}{Number\ of\ Commissioners}$$

Independent commissioners with high professionalism will produce more objective decisions and realize effectiveness in supervising company performance (Kamaliah, 2020). Thus, the decisions taken are not in the interests of certain parties, and managers act only in the interests of the company and other stakeholders to improve financial performance. According to Ahmed & Hamdan (2015), a key element in the effectiveness of the board of commissioners is having an independent commissioner. Therefore, with more independent commissioners, the decision-making process will be more objective to improve financial performance (Pucheta-Martínez and Gallego-Álvarez, 2020). However, Fariha et al. (2022) found a negative and significant relationship between board independence and company performance.

c) Government Ownership

Government ownership is the percentage of share ownership owned by the government as an external monitoring agent caused by the large investment in the capital market (Yonnedi & Sari, 2009). Ownership in BUMN has a special meaning that the owner cannot directly control the company. The owner is only represented by a designated official (e.g., Minister). Agreements can occur between owner representatives and management, and between owner representatives and management with creditors (Hastuti, 2005). The government as a shareholder and stakeholder has the right to make decisions that will influence policies in a Good Corporate Governance mechanism. This not only maximizes shareholder value but also aims to increase company value and return capital in the form of profits to the Government.

Government ownership used in this study is formulated as used in the study of Kuo et al. (2020) as follows:

$$Government\ Ownership = \frac{Number\ of\ Government\ Shares}{Number\ of\ Shares\ Outstanding}$$

Chang & Wong (2004) found that government participation in business entities helps produce positive results on the company's financial performance. Government participation can help secure scarce resources and reduce agency problems in firms with poor corporate governance (Qian, 1995, 1996).

The relationship between government presence in corporate governance and performance draws controversial conclusions among previous studies. Government is usually associated with greater information asymmetry, or government has priority social and political policy goals over maximizing corporate profits (Borisova et al., 2015; Sun et al., 2002). This leads to a significant negative correlation between government ownership or government involvement and performance in firms that have been tested empirically in various industries, as in the research by Chen et al. (2018); Zhou (2018); Cornett et al. (2010); Sun & Tong (2003). In addition, Kuo et al. (2020) also found that government ownership is negatively correlated with company efficiency. But on the other hand, government governance benefits companies first with lower financial constraints, lower debt costs, and then the company's market value, earnings management, and company performance (Le at al., 2021; Boubakri et al., 2018; Ding et al., 2018; Shailer & Wang, 2015). Nguyen & Nguyen (2020) and Kubo & Phan (2019) also find that government ownership positively affects company performance. As a result, it isn't easy to predict the government's impact on company performance.

d) Independent Audit Committee

Agency conflicts can cause problems where the decisions taken by agents will tend to

pursue their own benefits and short-term achievements of the agents themselves such as bonuses and incentives (Saputra & Wardhani, 2017). The principal gives management and supervision authority to the agent, but information asymmetry is one of the obstacles that arise between the agent and the principal. Information asymmetry is a condition where managers have access to information on company prospects that are not owned by other parties (Aljana & Purwanto, 2017). The existence of an audit committee can play a role in the company's internal control to reduce information asymmetry on the part of management and shareholders (Saputra and Wardhani, 2017). The audit committee, according to the Regulation of the Chairman of BAPEPAM-LK No. IX. I.5 regarding the Formation and Work Implementation Guidelines of the Audit Committee, is a committee formed by the Board of Commissioners to assist in carrying out its duties and functions where the audit committee is tasked with providing opinions to the board of commissioners on reports or matters submitted by the directors to the board of commissioners and identify matters that require the attention of the board of commissioners.

The audit committee used in this study is formulated as used in Kapoor & Goel's research (2019) as follows:

$$\text{Independent Audit Committee} = \frac{\text{Number of Independent Audit Committee Members}}{\text{Number of Audit Committee Members}}$$

Previous studies have reported that the effectiveness of audit committees is highly dependent on the characteristics of the committee, such as its size and independence (Ika & Ghazali, 2012; Herdjiono & Sari, 2017). The audit committee serves as one of the most important mechanisms as far as corporate governance is concerned because of its role in monitoring and maintaining the credibility and integrity of financial information provided by an organization (Tornyeva & Wireko, 2012). Previous studies have shown that the presence of external members on audit committees can reduce managers' opportunistic behavior, improve company quality and information transparency by reducing reported falsification of information (De Vlaminck & Sarens, 2013; Sultana et al., 2015), and improve performance (Dinu & Nedelcu, 2015; Kallamu & Saat, 2015).

Earning Management

The mediating variable used in this study is earnings management, which is an indication of the actions of managers who report earnings to maximize certain interests by using existing accounting policies. Earnings management is calculated by measuring the relationship between total accruals and operating cash flow. The earnings management measurement tool adopts the Modified Jones model as used in Chakroun & Amar's research (2022). In this model where discretionary accruals are used to measure earnings management are used as proxies, as for the steps in finding the value of discretionary accruals:

1. Calculating total accruals using the cash flow approach:
$$TAit = NIit - CFOit$$
2. Finding parameter or coefficient values based on total accrual regression with the Jones Model.
$$\frac{TAit}{Ait-1} = \beta 1\left(\frac{1}{Ait-1}\right) + \beta 2\left(\frac{\Delta REVit}{Ait-1}\right) + \beta 3\left(\frac{PPEit}{Ait-1}\right)$$
3. Using the parameter values β1, β2 and β3, the value of nondiscretionary accruals can be calculated using the following formula:
$$NDAit = \beta 1\left(\frac{1}{Ait-1}\right) + \beta 2\left(\frac{\Delta REVit - \Delta RECit}{Ait-1}\right) + \beta 3\left(\frac{PPEit}{Ait-1}\right)$$
4. Calculation of discretionary accruals.
$$DAit = \frac{TAit}{Ait-1} - NDAit$$

Information:

TAit = total company accruals in year t
NIit = Net profit after tax in year t
CFOit = operating cash flow in year t
Ait-1 = Total assets of the company at the end of the previous year (t-1)
ΔREVit = Change in total income in year t compared to the last year (t-1)
PPEit = Company Property, Plant, and

Equipment in year t
ΔRECit = Change in total net receivables in year t compared to the previous year (t-1)
NDAit = Non-Discretionary Accruals in year t
DAit = Discretionary Accruals in year t
β1, β2, β3 = Parameter values or coefficient values.

Earnings management is closely related to the level of profit earned. This is because the profits obtained by an entity are often used as a benchmark for users of financial statements in assessing the level of success of an entity (Dechow & Skinner, 2000; Alhadab et al., 2015). Therefore, managers are motivated to manipulate earnings for their benefit by choosing accounting methods, rules, and guidelines (reducing depreciation, provisions, changing stock valuation, etc.) and ignoring stakeholders' welfare (Gunny, 2010; Zang, 2012). As a result, the information provided to owners by management needs to be guaranteed to reflect the actual financial condition of the company.
Several studies have focused on the impact of earnings management on financial performance, but there are still things that could be improved. Several researchers (Chakroun & Amar, 2022; Bouaziz et al., 2020; Vorst, 2016) confirm the negative impact of earnings management on financial performance. At the same time, some other researchers imply a positive effect (Al-Shattarat et al., 2018; Gunny & Zhang, 2013; Gunny, 2010).

Control Variables

Agency costs are associated with the separation of management from ownership, which may be greater in larger firms (Jensen and Meckling, 1976). Thus, large firms provide more information than small firms to reduce agency (monitoring) costs. Alsaeed (2006), Hussainey & Aljifri (2012), and Alkhatib (2014) recognize that companies with high leverage may face higher agency costs due to higher audit fees. As such, they argue for more information (voluntary) disclosure in these companies' annual reports to reduce these costs. Lastly, agency theory suggests that managers of large profitable firms may want to disclose more information to gain personal benefits, such as continuing their management position and compensation (Inchausti, 1997). Using these arguments, researchers use firm size and leverage as control variables.

a) Leverage

The ratio is used to describe how the company has grown and acquired its assets each period and provides evidence about the ratio of debt to total assets of the company, where more companies tend to choose accounting methods to stimulate increased reported income, given that there are management motives as agents in attracting creditors. Both investors and creditors use this number to make decisions about the company.

$$LEV = \frac{Total\ Debt}{Total\ Asset}$$

b) Firm Size

Larger firms enjoy economies of scale and require "better" governance to respond to their more complex operations (Black et al., 2006). Asset logs impact company performance (Bhatt & Bhattacharya, 2015). The asset log measures firm size (Anderson & Reeb, 2003; Bhatt & Bhattacharya, 2015).

$$FRMSIZE = Ln\ Total\ Asset$$

Framework

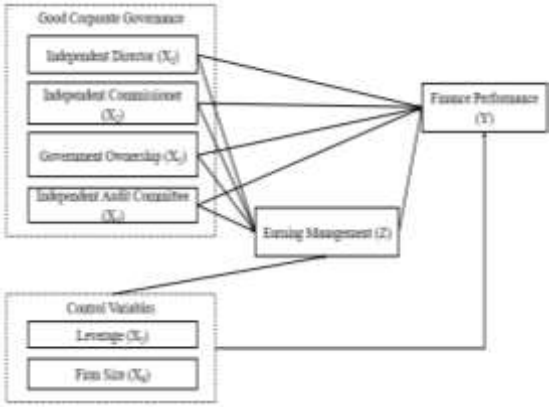

Figure 1. Framework

*H*1: GCG proxied by independent directors has a significant positive effect on financial performance.
*H*2: GCG proxied by independent commissioners has a significant positive effect on financial performance.
*H*3: GCG proxied by government ownership has a significant positive effect on financial performance.
*H*4: GCG proxied by an independent audit committee has a significant positive effect on financial performance.
*H*5: GCG proxied by independent directors significantly negatively affects earnings management.
H6: GCG proxied by independent commissioners significantly negatively affects earnings management.
H7: GCG proxied by government ownership significantly negatively affects earnings management.
H8: GCG proxied by an independent audit committee significantly negatively affects earnings management.
H9: Earnings management has a significant negative effect on financial performance.
H10: GCG proxied by independent directors significantly affects financial performance mediated by earnings management.
H11: GCG proxied by independent commissioners significantly affects financial performance mediated by earnings management.
H12: GCG proxied by government ownership significantly affects financial performance mediated by earnings management.
H13: GCG proxied by an independent audit committee significantly affects financial performance mediated by earnings management.

MATERIALS & METHODS

The type of research used in this study is classified as causal associative research. Causal associative research seeks causal influences (relationships) and aims to determine the effect of the independent variables on the dependent variable. This study aims to see the effect of Good Corporate Governance on financial performance with earnings management as a mediating variable in SOEs listed on the Indonesia Stock Exchange.
The population in this study are non-financial SOEs listed on the Indonesia Stock Exchange from 2011-2020.
The sampling technique in this study was to use a purposive sampling technique. So, the sampling in this study has the following criteria:

1. The company population is all non-financial SOEs on the Indonesia Stock Exchange for 2011 - 2020.
2. The company publishes its complete financial statements for 31 December 2011-2020 on the Indonesian stock exchange website or the company's website.
3. The company has completed financial report data related to the research variables studied.
4. Companies that, during the study period, remained state-owned enterprises.

Based on the sample criteria, there were 100 observations in this study (10 companies x 10 years of research). The SOEs listed on the IDX that match the research sample criteria are as follows:

Table 2. List of SOEs on the IDX as Research Samples

No	Company	Code
1	PT Adhi Karya Tbk	ADHI
2	PT Garuda Indonesia Tbk	GIAA
3	PT Jasa Marga Tbk	JSMR
4	PT Krakatau Steel Tbk	KRAS
5	PT Pembangunan Perumahan Tbk	PTPP
6	PT Semen Baturaja Tbk	SMBR
7	PT Semen Indonesia Tbk	SMGR
8	PT Telekomunikasi Indonesia Tbk	TLKM
9	PT Waskita Karya Tbk	WSKT
10	PT Wijaya Karya Tbk	WIKA

The data analysis method used in this study is the method of multiple linear regression analysis (linear multivariate) and the mediation test. Data processing techniques are carried out using the EViews program.

RESULT

Descriptive Statistics

Table 3. Descriptive Statistics Results

	X1	X2	X3	X4	LEV	SIZE	Z	Y
Mean	0.117900	0.368300	0.623600	0.878800	0.610000	31.03920	0.020545	0.043608
Median	0.130000	0.330000	0.650000	1.000000	0.680000	31.23000	0.017330	0.034424
Maximum	0.500000	0.670000	1.000000	1.000000	1.180000	33.14000	0.315460	0.259975
Minimum	0.000000	0.000000	0.010000	0.000000	0.010000	27.61000	-0.196940	-0.229531
Std. Dev.	0.129664	0.102514	0.132165	0.184157	0.212242	1.155807	0.074589	0.074048

Source: Eviews Output 12, processed by Researchers, 2022

Based on the table above, it can be seen the results of the descriptive statistical analysis for the independent variables, control variables, mediating variables, and dependent variables:

1. The mean of independent directors (X1) of state-owned companies listed on the IDX in 2011-2020 is 11.79%. The maximum independent directorship is 50% at PT Jasa Marga, Tbk, in 2018 and 2019. The minimum independent director is 0 or does not have an independent director at PT Adhi Karya, Tbk in 2013-2020, and several other companies.
2. The mean of independent commissioners (X2) of state-owned companies listed on the IDX in 2011-2020 is 36.83%. The maximum number of independent commissioners was 67% at PT Telekomunikasi Indonesia, Tbk, in 2019. The minimum independent commissioner is 0 or does not have an independent commissioner at PT Semen Baturaja, Tbk in 2011 and PT Waskita Karya, Tbk in 2011.
3. The mean government ownership (X3) of BUMN companies listed on the IDX in 2011-2020 is 62.36%. The maximum government ownership was 100% in PT Semen Baturaja, Tbk, in 2011 and 2012. The minimum government ownership was 1% in PT Waskita Karya, Tbk, in 2011.
4. The mean of the independent audit committee (X4) of BUMN companies listed on the IDX in 2011-2020 is 87.88%. The maximum independent audit committee is 100% for PT Adhi Karya, Tbk, in 2011 and 2020, and several other companies. The minimum independent audit committee is 0 or does not have an independent audit committee at PT Semen Indonesia, Tbk in 2011 and PT Waskita Karya, Tbk in 2011.
5. The mean leverage (X5) of BUMN companies listed on the IDX in 2011-2020 is 61%. The maximum leverage is 118% at PT Garuda Indonesia, Tbk, in 2020. The minimum leverage is 1% at PT Semen Baturaja, Tbk, in 2014.
6. The mean firm size of BUMN companies (X6) listed on the IDX in 2011-2020 is 31.03920. The maximum firm size is 33.14000 at PT Telekomunikasi Indonesia, Tbk in 2020, and the minimum is 27.61000 at PT Semen Baturaja, Tbk in 2011.
7. The mean earnings management (Z) of BUMN companies listed on the IDX in 2011-2020 is 0.020545. The maximum earning management was 0.315460 at PT Waskita Karya, Tbk, in 2016. The minimum earning management is -0.196940 at PT Garuda Indonesia, Tbk, in 2020.
8. The mean financial performance (Y) of BUMN companies listed on the IDX in 2011-2020 is 4.36%. The maximum financial performance was 25.59% for PT Semen Baturaja, Tbk, in 2011. The minimum financial performance was -22.95% for PT Garuda Indonesia, Tb,k in 2020.

Estimation Model Determination

This study uses a panel regression test, so several tests are needed to determine the most appropriate estimation model for this study. Panel data regression can be done by testing three analytical models, namely common, fixed, and random effects.

a) Chow Test

The Chow test is used to determine the panel data analysis model. The Chow test is used to choose between the Fixed Effect model or

the Common Effect model, which should be used.
H0: Common Effects
Ha: Fixed Effects
If the results of this specification test show a Chi-Square probability > 0.05, then the Common Effect model is selected. Conversely, if the Chi-square probability <0.05, then the model that should be used is the Fixed Effect. The following are the results of the model specification test in this study:

Table 4. Substructure I of Chow Test Results

Redundant Fixed Effects Tests
Equation: Untitled
Test cross-section fixed effects

Effects Test	Statistic	d.f.	Prob.
Cross-section F	11.712297	(9,83)	0.0000
Cross-section Chi-square	81.978340	9	0.0000

Source: Eviews Output 12, processed by Researchers, 2022

The table above shows the probability cross-section F, 0.0000 <0.05, so the most appropriate estimation model for substructure I is the fixed effect model (FEM).

Table 5. Substructure II of Chow Test Results

Redundant Fixed Effects Tests
Equation: Untitled
Test cross-section fixed effects

Effects Test	Statistic	d.f.	Prob.
Cross-section F	5.148726	(9,84)	0.0000
Cross-section Chi-square	43.931837	9	0.0000

Source: Eviews Output 12, processed by Researchers, 2022

The table above shows the value of the probability cross-section F, which is 0.0000 <0.05, so the most appropriate estimation model for substructure II is the fixed effect model (FEM).

b) Hausman Test

The Hausman test determines which model should be used: the Fixed Effect model or the Random Effect model. The Hausman Test Hypothesis is as follows:
H0: Random Effects
Ha: Fixed Effects
If the results of this specification test show a random cross-section probability of more than 0.05, then the chosen model is Random Effect. Conversely, if the Chi-square probability is less than 0.05, the Fixed Effect model should be used. Hausman test results are as follows:

Table 6. Substructure I of the Hausman Test

Correlated Random Effects - Hausman Test
Equation: Untitled
Test cross-section random effects

Test Summary	Chi-Sq. Statistic	Chi-Sq. d.f.	Prob.
Cross-section random	27.675757	7	0.0003

Source: Eviews Output 12, processed by Researchers, 2022

The table above shows that the random cross-section probability is 0.0003 < 0.05, so the fixed effect model (FEM) is the most appropriate estimation model. In this study, the Lagrange multiplier test was not carried out for substructure I because after the Chow test and Hausman test was carried out, there was consistency in the results, namely the most appropriate panel regression estimation method for substructure I in this study was the fixed effect model (FEM).

Table 7. Substructure II of the Hausman Test

Correlated Random Effects - Hausman Test
Equation: Untitled
Test cross-section random effects

Test Summary	Chi-Sq. Statistic	Chi-Sq. d.f.	Prob.
Cross-section random	30.267990	6	0.0000

Source: Eviews Output 12, processed by Researchers, 2022

The table above shows the probability of a random cross-section having a value of 0.0000 <0.05, so the most appropriate estimation model is the fixed effect model (FEM). In this study, the Lagrange multiplier test was not carried out for substructure II because after the Chow test and Hausman test was carried out, there was consistency in the results, namely the most appropriate panel regression estimation method for substructure II in this study was the fixed effect model (FEM).

Hypothesis Testing

Hypothesis testing will be carried out through analysis of the coefficient of determination, simultaneous effect testing (F test), and partial effect testing (t-test).

Table 8. Substructure I of Fixed Effect Model

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	0.971097	0.173635	5.592738	0.0000
I_DIR	-0.090837	0.040146	-2.262666	0.0263
I_COM	-0.003581	0.041563	-0.086164	0.9315
GOV	0.202195	0.055834	3.621353	0.0005
I_AUD	-0.084941	0.026041	-3.261804	0.0016
LEV	-0.218439	0.040008	-5.459858	0.0000
SIZE	-0.026893	0.006039	-4.453203	0.0000
EARNM	0.052453	0.061723	0.849814	0.3979
Effects Specification				
Cross-section fixed (dummy variables)				
Root MSE	0.031746	R-squared		0.814336
Mean dependent var	0.043606	Adjusted R-squared		0.778545
S.D. dependent var	0.074048	S.E. of regression		0.034846
Akaike info criterion	-3.722075	Sum squared resid		0.100783
Schwarz criterion	-3.279196	Log likelihood		203.1037
Hannan-Quinn criter.	-3.542834	F-statistic		22.75271
Durbin-Watson stat	1.697690	Prob(F-statistic)		0.000000

Source: Eviews Output 12, processed by Researchers, 2022

Table 9. Substructure II of Fixed Effect Model

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	-0.483981	0.302360	-1.600678	0.1132
I_DIR	0.077401	0.070462	1.098484	0.2751
I_COM	-0.068832	0.073086	-0.941783	0.3490
GOV	-0.154159	0.097254	-1.585116	0.1167
I_AUD	0.028024	0.045931	0.610132	0.5434
LEV	-0.170700	0.068226	-2.501975	0.0143
SIZE	0.022436	0.010391	2.159198	0.0337
Effects Specification				
Cross-section fixed (dummy variables)				
Root MSE	0.056455	R-squared		0.421331
Mean dependent var	0.020545	Adjusted R-squared		0.317997
S.D. dependent var	0.074589	S.E. of regression		0.061598
Akaike info criterion	-2.590732	Sum squared resid		0.318721
Schwarz criterion	-2.173905	Log likelihood		145.5366
Hannan-Quinn criter.	-2.422035	F-statistic		4.077375
Durbin-Watson stat	1.797333	Prob(F-statistic)		0.000016

Source: Eviews Output 12, processed by Researchers, 2022

1. Coefficient of Determination

Table 8 shows that the coefficient of determination (adjusted R-squared) for substructure I is 0.778545 (77.85%). This value can be interpreted as independent directors, independent commissioners, government ownership, independent audit committees, leverage, firm size, and earnings management simultaneously or jointly affecting financial performance by 77.85%. Other factors influence the remaining 22.15%.

Table 9 shows that the coefficient of determination (adjusted R-squared) for substructure II is 0.317997 (31.80%). This value can be interpreted as independent directors, independent commissioners, government ownership, independent audit committee, leverage, and firm size simultaneously or jointly affecting earnings management by 31.80%; other factors influence the remaining 22.15%.

2. Simultaneous Influence Test (Test F)

Based on Table 8, Prob. F (statistic) for substructure I has a value of 0.00 <0.05, which means that the independent variable is Good Corporate Governance which is proxied by independent directors (X1), independent commissioners (X2), government ownership (X3) and independent audit committees (X4), leverage (X5), firm size (X6) and earnings management (Z) simultaneously have a significant effect on financial performance (Y) as the dependent variable.

Based on Table 9, Prob. F (statistic) for substructure II has a value of 0.00 <0.05, which means that the independent variable is Good Corporate Governance which is proxied by independent directors (X1), independent commissioners (X2), government ownership (X3) and independent audit committees (X4), leverage (X5). Firm size (X6) simultaneously significantly affects earnings management (Z) as the dependent variable.

3. Partial Significance Test (Statistical-t Test)

Based on table 8, it can be seen the results of the t (partial) statistical test using the fixed effect model panel regression equation which can be explained in detail as follows for substructure I:

Y = 0.971097 - 0.090837X1it - 0.003581X2it + 0.202195X3it - 0.084941X4it - 0.218439X5it - 0.026893X6it + 0.052453Zit + e

Based on table 8, it can be seen the results of the t (partial) statistical test using the fixed effect model panel regression equation which can be explained in detail as follows for substructure II:

Z = -0.483981 + 0.077401X1it - 0.068832X2it - 0.154159X3it + 0.028024X4it - 0.170700X5it + 0.022436X6it + e

4. Mediation Test

The mediation significance test was conducted to determine whether earnings management is significant in mediating the effect of independent directors, independent commissioners, government ownership, independent audit committees, leverage, and firm size on financial performance. The Sobel test is used to ascertain further the direct and indirect relationship between the independent and dependent variables through mediating variables.

$$t = \frac{ab}{\sqrt{b^2 S_a^2 + a^2 S_b^2 + S_a^2 S_b^2}}$$

Based on tables 8 and 9 it can be obtained the value of each coefficient for each interaction. The following table presents the results of the Sobel test calculation using the Sobel test calculator on the site https://quantpsy.org/sobel/sobel.htm.

Table 10. Mediation Test Results

No.	Mediation Path	a	b	Sa	Sb	t-count	p-value
1	X1>>>Z>>>Y	0.077401	0.052453	0.070402	0.061723	0.672151	0.501487
2	X2>>>Z>>>Y	-0.068832	0.052453	0.073086	0.061723	-0.630928	0.528087
3	X3>>>Z>>>Y	-0.154159	0.052453	0.097254	0.061723	-0.748967	0.453877
4	X4>>>Z>>>Y	0.028024	0.052453	0.045931	0.061723	0.495622	0.620161
5	X5>>>Z>>>Y	-0.170700	0.052453	0.068226	0.061723	-0.804664	0.421014
6	X6>>>Z>>>Y	0.022436	0.052453	0.010391	0.061723	0.790769	0.429079

Source: https://quantpsy.org/sobel/sobel.htm, processed by researchers, 2022

CONCLUSION

The results of this study provide several conclusions that can be drawn based on the discussion of the problems that have been carried out. The following are the conclusions that the author has summarized in this study:

1. Good Corporate Governance proxied by independent directors has a significant negative effect on financial performance in BUMN companies registered with BUMN for the 2011-2020 period.
2. Good Corporate Governance proxied by independent commissioners has no significant negative effect on financial performance in BUMN companies registered with BUMN for the 2011-2020 period.
3. Good Corporate Governance, proxied by government ownership, has a significant positive effect on financial performance in BUMN companies registered with BUMN for the 2011-2020 period.
4. Good Corporate Governance proxied by an independent audit committee has a significant negative effect on financial performance in BUMN companies registered with BUMN for the 2011-2020 period.
5. Good Corporate Governance proxied by independent directors has no significant positive effect on earnings management in BUMN companies registered with BUMN for the 2011-2020 period.
6. Good Corporate Governance proxied by independent commissioners has a non-significant negative effect on earnings management partially in BUMN companies registered in BUMN for the 2011-2020 period.
7. Good Corporate Governance, which is proxied by government ownership, has a non-significant negative effect on earnings management partially in BUMN companies registered in BUMN for the 2011-2020 period.
8. Good Corporate Governance proxied by the independent audit committee has no significant positive effect on earnings management in BUMN companies registered in BUMN for the 2011-2020 period.
9. Earnings management partially has no significant positive effect on financial performance in BUMN companies registered with BUMN for the 2011-2020 period.
10. Earnings management cannot mediate the relationship between Good Corporate Governance proxied by independent directors on the financial performance of BUMN companies registered in BUMN for the 2011-2020 period.
11. Earnings management cannot mediate the relationship between Good

Corporate Governance proxied by independent commissioners on the financial performance of BUMN companies registered in BUMN for the 2011-2020 period.

12. Earnings management cannot mediate the relationship between Good Corporate Governance, which is proxied by government ownership of the financial performance of BUMN companies registered in BUMN for the 2011-2020 period.
13. Earnings management cannot mediate the relationship between Good Corporate Governance proxied by the independent audit committee on the financial performance of BUMN companies registered in BUMN for the 2011-2020 period.
14. In state-owned companies listed on the IDX for the 2011-2020 period, independence has yet to improve the company's financial performance significantly. The appointment of independent members is only to comply with applicable regulations and may not function independently; therefore, their presence does not affect the company's performance.

RESEARCH LIMITATIONS

Based on the research conducted, the limitations of the study are as follows:

1. This research only covers state-owned companies listed on the Indonesia Stock Exchange for the 2011-2020 period, which causes too few research samples so that the research results show things that are different from existing theories.
2. The GCG variables used in this study only focused on four variables: independent directors, independent commissioners, government ownership, and independent audit committees. There are still other factors related to GCG.
3. Financial performance is measured using only one measuring tool, ROA, and there is still financial performance measurement using ROE, ROI, Tobin's Q, and others.
4. Measurement of earnings management uses only one measurement tool, the Jones Model. It is feared that measurements using only one model cannot reflect whether the company is indicated to apply earnings management or not.
5. The results of variable testing may not be able to describe the reality of conditions in the company because the tests are only carried out based on secondary data.

SUGGESTION

Based on the limitations of the research, the suggestions given to make future research input are as follows:

1. In future studies, it is expected to increase the number of samples and years of observation to obtain more comprehensive results. Future research is also expected to be able to use other variables or other indicators following developments in theory, standards, or regulations, as well as recent phenomena that influence company financial performance and earnings management. Independence in BUMN can also be used as a research focus to see how BUMN implements independence in corporate governance.
2. Investors must also be more selective in choosing state-owned companies as a place to invest. One of the considerations that can be taken from this research is that government ownership can improve company performance. Still, BUMN also has a social mission that can affect company goals. The role of independence is also not effective in improving company performance.
3. The government, shareholders, company management, and stakeholders related to SOEs are expected to pay more attention to the independence function to improve

company performance and not just comply with existing rules or regulations.

Declaration by Authors

Acknowledgement: None
Source of Funding: None
Conflict of Interest: The authors declare no conflict of interest.

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How to cite this article: Abram Yuda Sibuea, Abdillah Arif Nasution, Sirojuzilam. The effect of good corporate governance on financial performance with earning management as a mediation variable in SOEs listed on the Indonesia Stock Exchange. *International Journal of Research and Review*. 2023; 10(1): 561-577. DOI: *https://doi.org/10.52403/ijrr.20230165*

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