

RESEARCH ARTICLE

THE EFFECT OF RIIL EARNING MANAGEMENT ON FIRM VALUE BY GOOD CORPORATE GOVERNANCE AS MODERATING

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ABSTRACT

This study examined the effect of riil earnings management on firm value with Good Corporate Governance as a moderating variable. This research was an explanatory research and this research examined to effect riil earnings management with GCG as moderation on firm value. The population was manufacturing companies listed on the Indonesia Stock Exchange in 2010-2015. The sampling method used purposive sampling method. This research variable were Riil Earnings Management. The results showed that riil earnings management from operating cash flow, from production costs and from discretionary costs didn't have a effect on firm value. Quality auditors had significant effect on firm value. Independent commissioners had a significant influence on the value of the company. Institutional ownership had a significant effect on firm value. Management ownership didn't have a effect on firm value.

Key words: Earning, Management, Good Corporate Governance and firm value.

INTRODUCTION

Earnings management is a management action to influence earnings reporting. The existence of earnings management can produce false profits that can reduce the value of the company in the future (Siallagan and Mahfoedz 2006). Managers who have information on the company's net income will act opportunistically to make earnings management by maximizing current profits or saving them for years to come. Stakeholder oversight mechanisms are needed to reduce the manager's opportunistic behavior. The supervision mechanism is called good coporate governance, one of the key elements in improving economic efficiency, among others, a series of relationships between company management, board of commissioners, shareholders and other stakeholders. Good Corporate Governance is related to investor confidence in which managers control managers (Shleifer and Vishny, 1997). Good corporate governance mechanism is characterized by institutional ownership, management ownership, audit and independent commissioners. Institutional ownership and management ownership are believed to be able to limit the behavior of managers in earnings management. Rajgopal *et al.*, (1999) and Darmawati (2003) found that the existence of audit committees and independent commissioners of the company proved effective in preventing earnings management practices, because the existence of audit committees and independent commissioners aims to oversee the course of the company's activities in achieving company goals. Taheer and Salem (2017) also found that institutional ownership and board of directors have an effect on the value of the company. Real earnings management influences the company's value with corporate governance mechanisms. Roychowdhury (2006) found that real earnings management conducted by company management will show good performance in the short term or increase the value of the company.

Kamil and Hapsari (2014) found that accrual earnings management does not affect the value of the company, while corporate governance mechanisms simultaneously have a significant effect on firm value. Pamungkas (2012) shows that accrual earnings management can reduce firm value. Ferdawati (2008) found that real earnings management has a significant positive effect on firm value. The purpose of this study is to analyze the effect of earnings management which consists of real earnings management from operating flows, from production costs and from discretionary costs on firm value; and to analyze audit quality as a moderating variable in the effect of real earnings management through the flow of operations, real earnings management of production costs and real earnings management of discretionary costs on firm value.

Literature Review and Hypotheses

Agency Theory: Agency theory is basically a theory that arises because of a conflict of interest between the principal and the agent. This theory assumes that each individual is solely motivated by his own interests which creates a conflict of interest between the principal and the agent. Agency theory is often used as a basis for previous studies on corporate governance, especially regarding the existence of committees. This is due to the importance of aspects of monitoring (monitoring) for the realization of good corporate governance. When viewed from an agency perspective, there are two common management oversight mechanisms, namely internal supervision and external supervision. Internal control mechanisms are the board of commissioners and committees (Chen *et al.*, 2009), while the external supervision mechanism is an external auditor (Subramaniam *et al.*, 2009). Management of Real Profit and Firm valueThe profit presented by managers in the financial statements is often a reference for shareholders or company owners to find out the state of the company. While managers as company managers know more internal information and prospects for the company in the future. This can lead to information gaps. This condition is often referred to

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as information asymmetry (Jensen and Meckling, 1976). Because of this information asymmetry, the company owner cannot know the actual condition of the company and its prospects in the future that can be used by the manager to make earnings management. Basically managers do earnings management to increase the value of the company. This activity can actually increase the value of the company in the short term period but can reduce the value of the company in the future. The hypothesis proposed are:

- H1:** Real earnings management through operating cash flow has a negative effect on Firm value
- H2:** Real earnings management through production costs has a negative effect on Firm value
- H3:** Real earnings management through discretionary costs negatively affects firm value

Good Corporate Governance and Firm values

Auditor Quality and firm value: Auditor quality is defined as the possibility in which an auditor finds and reports about a violation in his client's accounting system De Angelo (1981). Investors perceive that the company being audited by a Large Public Accountant Office will disclose the report appropriately and reliably so that it will increase investor confidence. towards the company. Ardiana (2014) shows the positive effect of KAP size on firm value, with the increasing credibility of financial statements, it is expected that it will affect the company's stock price. Afza and Razid (2014) describe auditor quality that is proxied by the size of a public accounting firm that has a positive and strong influence on firm value (ROA and Tobins Q). therefore the hypothesis of the effect of auditor quality on the value of the company can be formulated as follows:

- H4:** Audit quality has a positive effect on firm value.

Independent Commissioners and Firm value: The interests of managers and shareholders can be harmonized by the existence of a board of commissioners, because they represent the main internal mechanisms for monitoring behavior that exploit short-term opportunities or benefits and ignore long-term benefits of management. Ardiana and Sari (2014) found that independent Commissioners had a positive and significant effect on the value of the company (price book value) before and after considering the control variables which consisted of profitability, audit committee, funding structure, and age of the company. Therefore, the hypothesis of the effect of independent commissioners on the value of the company can be formulated as follows

- H5:** Independent Commissioners positively influence the value of the company

Institutional Ownership and Firm value: The concentration of institutional ownership is the company's shares owned by institutions or institutions such as insurance companies, investment companies and other institutional ownership. Institutional ownership has an important role in minimizing agency conflicts that occur between managers and shareholders. The existence of institutional investors is considered capable of being an effective monitoring mechanism in every decision taken by managers because these investors are considered to have competencies related to investment and company management. Sabrina (2014) proves

that institutional ownership has a significant effect on firm value (Tobins' Q). Therefore, the hypothesis of the effect of institutional ownership on firm value can be formulated as follows.

- H6:** Institutional ownership has a positive effect on firm value

Managerial Ownership and Firm value: Jensen and Meckling (1976) in Edgina (2008) said that an increase in managerial ownership in a company encourages managers to optimally create company performance and motivate managers to act carefully, because they share the consequences of their actions. That way, the ownership of management in a company raises suspicions of providing added value to the company. Rachmawati and Triatmoko (2007) stated that in their research managerial ownership has a positive effect on firm value, therefore, the hypothesis of the effect of institutional ownership on firm value can be formulated as follows:

- H7:** Managerial ownership has a positive effect on the value of the company

Effect of Profit Management on Firm value with Good Corporate Governance as moderating variables

a. Audit Quality: According to Ardiati (2005), auditing can reduce the information asymmetry that exists between management and company stakeholders by allowing parties outside the company to verify the validity of financial statements. The effectiveness of auditing and its ability to prevent earnings management is expected to vary with the varying quality of auditors. High-quality auditing is considered as a deterrent to effective earnings management (Ardiati 2005). The hypothesis that can be submitted in this study are:

- H8:** The effect of real earnings management through operating cash flows on firm value is weakened by audit quality.
- H9:** The effect of real earnings management through operating costs on firm value is weakened by audit quality.
- H10:** The effect of real earnings management through discretionary costs on firm value is weakened by audit quality

b. Independent Commissioner: Wedari (2004) concluded that independent commissioners had a negative and significant effect on discretionary accruals. Companies that organize a corporate governance system are believed to limit opportunistic earnings management. Therefore, the higher the proportion of independent commissioners, managerial ownership, the less likely the earnings management will be. This negative relationship between corporate governance and earnings management can weaken the influence between earnings management and firm value. The hypothesis that can be submitted are:

- H11:** The effect of real earnings management through operating cash flows on firm value is weakened by the presence of independent commissioners.
- H12:** The effect of real earnings management through operating costs on firm value is weakened by the presence of independent commissioners.
- H13:** The effect of real earnings management through discretionary costs on firm value is weakened by the presence of independent commissioners

c. Institutional Ownership Institutional: Ownership has the ability to control management through an effective monitoring process so as to reduce earnings management. Cornet (2006) concludes that corporate supervisory actions by institutional investors can encourage managers to focus their attention more on the company's performance so that it will reduce opportunistic or selfish behavior. The hypothesis that can be submitted are:

H14: The effect of real earnings management through operating cash flows on firm value is weakened by institutional ownership.

H15: The effect of real earnings management through operating costs on firm value is weakened by institutional ownership.

H16: The effect of real earnings management through discretionary costs on firm value is weakened by institutional ownership

d. Managerial Ownership: Madiastuty and Machfoedz (2003) stated that managerial ownership is one mechanism that can limit managerial behavior of managers in the form of earnings management, although Wedari (2004) concludes that managerial ownership also has other motives. In this study refers to the existing theory that managerial ownership can function as a corporate governance mechanism so that it can reduce the actions of managers in manipulating profits. This means that managerial ownership is negatively related to earnings management. The hypothesis that can be submitted are:

H17: The effect of real earnings management through operating cash flows on firm value is weakened by managerial ownership.

H18: The effect of real earnings management through operating costs on firm value is weakened by managerial ownership.

H19: The effect of real earnings management through discretionary costs on firm value is weakened by managerial ownership.

RESEARCH METHODS

The population were all manufacturing industries listed on the Indonesia Stock Exchange in 2010-2015. Sampling using purposive sampling method with the following criteria a) The company has never carried out acquisition and merger activities during 2007-2015 and b) The existence of financial statements during 2007-2015. Secondary data collected from the 2015 Indonesia Capital Market Directory and the Company's Financial Statements that have been published. The independent variables in this study are Real Profit Management (Em) which has three proxies, namely Abnormal Cash Flow Operation (ABCFO), Abnormal Discretionary Expense (ABNDISEXP) Abnormal Production Costs (ABNPROD). Dependent variables, namely Firm value (Q). Good Corporate Governance is a moderating variable. Data analysis methods used include MRA analysis, classical assumption test and hypothesis testing with t test.

RESULTS

Based on the sample selection, the total sample used in this study is 101 financial report data each year during the 9-year

study period so that the observation data is 909. Statistical descriptive describes the average value, standard deviation, minimum value, and maximum value for the research variables. Descriptive statistical results are presented unless the variable in the form of the world does not need descriptive statistics. The results of descriptive statistics are presented in Table 1.

Table 1. Statistic Descriptive

Variable	Minimum	Maximum	Mean	Std. Deviation
Firm Value (Q)	0,0174	3,9306	1,0005	0,8755
Editor quality (KA)	0,0000	1,0000	0,4631	0,4989
Independent Commissioner (KI)	0,1217	0,6196	0,3712	0,1082
Institutional Ownership (INST)	0,2143	0,8000	0,3781	0,1085
Ownership of Management (KM)	0,0000	0,2536	0,0298	0,0668
RES CFO FIX (EM1)	-0,4926	0,5062	0,0063	0,1475
RES PROD (EM2)	-1,0308	1,0031	-0,0110	0,2816
RES DISEXP (EM3)	-0,4020	0,4027	-0,0052	0,1396

Based on Table 1 shows the descriptive statistics of each research variable. The description of the value of the company proxied by Tobin's Q has an average value of 1,0005. The standard deviation is 0.8755, which means that the size of the data distribution of this company is quite large, this is supported by the standard deviation value which is increasingly away from the average value and the size of the distribution is getting bigger. The lowest value of the company size is 0.0174 and the highest value of the company size is 3.9306. Independent commissioners have an average value of 0.3712 or 37.12%. The standard deviation is 0.1082 or 10.82%, which means that the size of the data dissemination of independent commissioners is quite large, this is supported by the value of standard deviations that are increasingly away from the average value and the size of the distribution is getting bigger. The lowest value of independent commissioners was 0.1217 or 12.17% and the highest value of independent commissioners was 0.6196 or 62.96%. Management ownership has an average value of 0.0298. The standard deviation is 0.0668 which means that the size of the data distribution of ownership management is quite large, this is supported by the standard deviation value which is increasingly away from the average value and the size of the distribution is getting bigger. The lowest value of management ownership is 0.0000 and the highest value of management ownership is 0.2536. Institutional ownership has an average value of 0.3781. The standard deviation is 0.1085, which means that the size of the distribution of institutional ownership data is quite large, this is supported by the standard deviation value which is increasingly away from the average value and the size of the distribution is getting bigger. The lowest value of institutional ownership is 0.2143 and the highest value of institutional ownership is 0.8000. Real earnings management through operating cash flows has an average value of 0.0063. The standard deviation is 0.1475 which means that the size of the data distribution of real earnings management is quite large, this is supported by the standard deviation value which is increasingly away from the average value and the size of the distribution is getting bigger. The lowest value of real earnings management is -0.4926 and the highest value of real earnings management is 0.5062. Real earnings management through discretionary costs has an average value of -0.0110. The standard deviation is 0.2816 which means that the size of the data dissemination of real earnings management is quite large, this is supported by the standard deviation value which is increasingly away from the average value and the size of the distribution is getting bigger. Lowest value Real earnings

management through discretionary costs of -1.0308 and the highest value Real earnings management through discretionary costs is 1.0031. Real earnings management through discretionary costs has an average value of -0.0052. The standard deviation is 0.1396 which means that the size of the distribution of real earnings management data through this discretionary cost is quite large, this is supported by the standard deviation value which is increasingly away from the average value and the size of the distribution is getting bigger. The lowest value of real earnings management through discretionary costs is -0.4020 and the highest value of real earnings management through discretionary fees is 0.4027. The results of testing hypotheses in this study are explained in Table 2 below. Based on the results of testing the hypothesis it can be explained the discussion of the results of the research as follows.

Table 2. Hypothesis Testing Results

Variable	t	Sig.	Keterangan
(Constant)	8,237	0,000	-
RES CFO FIX (EM1)	-1,408	0,159	Not Significant
RES PROD (EM2)	-0,815	0,415	Not significant
RES DISEXP (EM3)	1,248	0,212	Not significant
Editor quality (KA)	6,045	0,000	Significant
Independent Commissioner (KI)	-2,103	0,036	Significant
Institutional Ownership (INST)	2,426	0,015	Significant
Ownership of Management (KM)	-0,626	0,532	Not significant
KA*EM1 (Moderat1)	5,778	0,000	Significant
KA*EM2 (Moderat2)	-2,873	0,004	Significant
KA*EM3 (Moderat3)	3,874	0,000	Significant
Ki*EM1 (Moderat4)	-1,992	0,047	Significant
Ki*EM2 (Moderat5)	-1,514	0,130	Not significant
Ki*EM3 (Moderat6)	0,505	0,614	Significant
INST*EM1 (Moderat7)	2,552	0,011	Not significant
INST*EM2 (Moderat8)	1,700	0,089	Not significant
INST*EM3 (Moderat9)	-0,380	0,704	Not significant
KM*EM1 (Moderat10)	-0,029	0,977	Not significant
KM*EM2 (Moderat11)	0,925	0,355	Not significant
KM*EM3 (Moderat12)	0,006	0,996	Not significant

DISCUSSION

The effect of Profit Management on Firm value: Based on the results of the test, it is found that the riil earnings management of operating cash flow, real earnings management of production costs and real earnings management of discretionary costs does not prove to have a significant effect on firm value. This shows that earnings management by the company cannot increase the value of the company. Riil earnings management from operating cash flows does not have a significant effect on the value of the company. The company is suspected of doing real earnings management through operating cash flow if the average cash flow of abnormal operating activities is negative cannot increase the value of the company. This cash flow statement will provide useful information about the company's ability to generate from operating activities, make investments, pay off obligations, and pay dividends. The cash flow report reports the size of cash flows for three business activities: operations, investments and funding. Operating cash flows or cash flows from operating activities are cash basis equivalents for accrual net income, more generally, cash flow information helps in assessing a company's ability to fulfill its obligations, pay dividends, increase capacity and obtain funding. Cash flow from operating activities (cash flow from operations or CFO) is an indicator that determines whether a company's operational activities can generate sufficient cash flows to pay off short-term loans, maintain the company's operational capabilities, and finance expenses for operational activities. Earnings management activities of real operations carried out by

management through daily corporate activities during the current accounting period cannot be a measure of investors for the value of the company. Therefore, this earnings management can be carried out at any time throughout the accounting period. This timing is an important part of the company in this case the manager has an incentive to do real activities in operating cash flow. Otkarina and Hutagaoul (2008) found that companies that allegedly tend to do real earnings management through cash flow operating activities have a higher market performance than companies suspected of not doing real earnings management. Riil earnings management from production costs does not have a significant effect on firm value. This shows that the second hypothesis (H2) states that the Rii earnings management of production costs does not have a significant effect on the value of the company, it is not proven. Riil earnings management from production costs is not able to increase the value of the company. Real earnings management by reporting activities by conducting large-scale production (overproduction). Managers of manufacturing companies can make large-scale production that is producing goods larger than needed with the aim of achieving the expected demand so that profits can increase. Production on a large scale causes fixed overhead costs to be divided by the large number of units of goods so that the average cost per unit and cost of goods sold decrease. Thomas and Zhang (2002) found that companies carry out large-scale production with the aim of increasing reported profits. This matter cannot increase the value of the company because investors will assess in the aspect of profit obtained not only by looking at the production costs incurred.

Riil earnings management through discretionary fees does not significantly influence the value of the company. This shows that the third hypothesis (H3) states that riil earnings management through discretionary costs has a significant effect on firm value, not proven. Earnings management carried out by raising profits or avoiding reporting negative earnings or losses can also be done by reducing discretionary costs. Discretionary costs that can be reduced are advertising costs, research and development costs, and sales, general and administrative costs such as employee training costs and repair and travel costs. Reduction of these costs at the end of the period causes debt accounts to decrease below normal and have an impact on positive abnormal accruals. This is an investor's assessment of the profits earned by the company. Based on agency theory, agency relations can cause conflicts of interest between owners (investors) and managers (agents). Contracts are made in the hope of minimizing these conflicts of interest. The results of this study found that the actions of earnings management carried out by managers will not provide a favorable reaction which will have an impact on increasing the value of the company reflected in the company's stock price. So that when the goals held between the manager and the owner of the capital are different, the agency conflict cannot be avoided in the company. The management will lose the capital owner by behaving unethically and doing accounting fraud. Agency conflicts that occur within a company can have an impact on the quality of earnings generated, this is because managers will act opportunistically. Opportunistic profits will certainly be detrimental to some parties who have low quality will not represent actual information. Thus, profits that have low quality are very detrimental to investors and the company will also be detrimental because this is related to the value of the company which is reflected in the prices of shares traded. The results of

this study are not consistent with the research of Roychowdhury (2006) and Herawaty (2008) which states that earnings management influences the value of the company. The results of this study are in accordance with the research of Kamil and Hapsari (2014) who found that earnings management did not have a significant effect on firm value.

The Effect of auditor quality on Firm value: Based on the test results obtained that the quality of auditors has a significant effect on the value of the company. This shows that the quality of auditors can increase the value of the company. If the quality of the auditor gets better, the value of the company will get better. This shows that the fourth hypothesis (H4) states that the quality of auditors has a significant effect on the value of the company, proven to be true. Audit quality is an important consideration for investors to assess the fairness of a financial report. Audit quality is seen as the ability to enhance the quality of a financial report for a company so that high-quality auditors are expected to increase investor confidence. Quality audits are very important to ensure that the accounting profession fulfills the responsibilities of investors, the general public, the government and other parties who rely on the quality of audited financial reports. The quality of quality financial reports will make investors interested in investing in companies, which in turn will increase the value of the company. The results of this study in accordance with Ardiana's research (2014) show the positive The effect of KAP size on firm value, with increasing credibility of the financial statements, it is expected that it will affect the company's stock price. Afza and Razid (2014) describe auditor quality that is proxied by the size of a public accounting firm that has a positive and strong influence on firm value (ROA and Tobins Q).

The effect of independent commissioners on firm values: Based on the test results, it is found that independent commissioners have a significant effect on the value of the company. This shows that independent commissioners can increase the value of the company. If the independent commissioner gets better, the value of the company will get better. This shows that the fifth hypothesis (H5) which states that independent commissioners have a significant effect on the value of the company, is proven to be true. The proportion of independent board of directors is the number of independent commissioners in the company. The increasing number of independent commissioners indicates that the independent board of commissioners performs a better supervisory and coordination function within the company. The board of commissioners plays an important role in the company, especially in the implementation of GCG. The board of commissioners is the core of corporate governance that is tasked with ensuring the company's strategy, supervising managers in managing the company, and requiring accountability. Because the board of commissioners is responsible for supervising management in charge of improving the efficiency and competitiveness of the company, the board of commissioners is the company's resilience and success center. The board of directors must also monitor the effectiveness of corporate governance practices implemented by the company, and make adjustments when needed. Demands for transparency and independence are evident from the demand that companies have more independent commissioners who supervise the actions of executives (Lastanti, 2004). This result is in accordance with Ardiana and Sari's (2014) research finding that independent commissioners

have a positive and significant effect on the value of the company (price book value). This is in accordance with Lastanti (2004) which proves that the independence of the board of directors has a positive effect on the value of the company.

The effect of institutional ownership on firm value: Based on the test results obtained that institutional ownership has a significant effect on the value of the company. This shows that institutional ownership can increase firm value. If institutional ownership gets better, the value of the company will get better. This shows that the sixth hypothesis (H6) states that institutional ownership has a significant effect on the value of the company, proven to be true. The existence of this institution is capable of being an effective monitoring tool for companies. Institutional ownership acts as a party that monitors companies in general and managers as company managers in particular. The greater the institutional ownership, the more efficient utilization of company assets and is expected to also act as a precaution on the waste made by management. A high level of institutional ownership will lead to greater oversight by institutional investors, thus blocking the opportunistic behavior of managers. Institutional ownership has a significant effect on shareholder value. This means that institutional ownership is a reliable mechanism that can motivate managers to improve their performance which can ultimately improve the value of the company. This result is in accordance with Sabrina's (2014) study, proving that institutional ownership has a significant effect on firm value. **Effect of Management Ownership on Firm value** Based on the test results, it is found that management ownership does not have a significant effect on the value of the company. This shows that management ownership cannot increase firm value. Although management ownership is getting better, it is not necessarily increasing the value of the company. This shows that the seventh hypothesis (H7) which states that management ownership has a significant effect on firm value, is not proven. This insignificant influence is caused by the agency problem between shareholders and managers. Managerial ownership is the proportion of shareholders from the management who actively participate in company decision making. With the ownership of management in a company, it will be interesting to suppose that the value of the company does not increase as a result of increased management ownership so that agency conflicts will occur. Ownership by large management will be effective in monitoring company activities. With a high proportion of ownership, the manager will feel that he owns the company, so that he will do everything possible to take actions that can maximize his prosperity. This is based on the logic, that an increase in the proportion of shares held by managers will reduce the tendency of managers to take excessive action. Thus it will unite the interests of managers with shareholders, this has a positive impact on increasing the value of the company. Agency problems are assumed to be lost if a manager is also at the same time as an owner. Managers who are also shareholders will not increase the value of the company. The results of this study are not consistent with the research of Rachmawati and Triatmoko (2007) stating that in their research managerial ownership has a positive effect on firm value

The effect of profit management on firm value with good corporate governance as moderating variables: Earnings management actions according to agency theory can be minimized through a good corporate governance mechanism

that can align the interests of various parties. Corporate governance is a mechanism that can be used by shareholders and corporate creditors to control the manager's actions. The implementation of good corporate governance is expected to be an obstacle to earnings management activities so that financial statements can describe the company's fundamental values. The corporate governance mechanism that can control the manager's actions is: (1) enlarging the company's shareholding by, (2) increasing institutional ownership of shares. (3) enlarge the portion of independent commissioners. (3) improve audit quality.

The results of Good Corporate Governance testing as moderating variables are explained as follows.

a. The Effect of Profit Management on Firm value with Audit Quality as Moderating Variables: The results of testing the real earnings management of operating cash flows on the value of the company with audit quality as moderation proved to have a significant effect. This shows that operating cash flows are obtained from increased sales or accelerated sales. The sales manager will try to increase sales during the accounting period with the aim of increasing profits to achieve profit targets. This can be done by the manager by increasing sales or accelerating sales from the coming period to the current period by offering attractive and bold discounts and offering a softer credit period. By giving bold discounts this year will increase the number of sales so as to achieve short-term targets and their performance looks good and the manager can get bonuses. However, this discount will make customers expect to get the same discount in the future, thus increasing current year's profits but having a negative impact on future cash flows. So that if profits increase, investors will look at the company's financial performance so as to increase the value of the company. The results of testing the effect of real earnings management through operating costs on firm value with audit quality as moderation proved to have a significant effect. These results are due to the effect of real earnings management through operating costs on firm value with audit quality as moderation explained by earnings management actions by means of a company manager can increase profits by doing large-scale production. Large-scale production causes fixed overhead costs divided by the large number of units of goods resulting in an average cost per unit and goods sold down. The decrease in the cost of sold goods will have an impact on increasing operating margins. The results of testing the effect of real earnings management on discretionary costs on firm value with audit quality as moderation proved to have a significant effect. Real earnings management from discretionary costs carried out with discretionary expenses which can be reduced is advertising, research and development expenses, general sales expenses and administrative expenses. Reducing the burden can increase the current period's profit and can also increase the cash flow of the current period, if the company pays such fees in cash. However, if the reduction is without careful and careful consideration, it can adversely affect its future earnings. Therefore, the reduction of discretionary expenditure extensively from normal economic conditions is an earnings management action. The results of this study are in accordance with Ardiati's (2005) study that audit quality can moderate the effect of earnings management on firm value.

b. The Effect of Profit Management on Firm value with Independent Commissioners as Moderating Variables: The results of real earnings management testing of operating cash flows on the value of the company with independent commissioners as moderation proved to have a significant effect. The results of testing the effect of real earnings management through operating costs on the value of companies with independent commissioners as moderation did not prove to have a significant effect. This shows that the twelfth hypothesis which states that real earnings management through operating costs has a significant effect on the value of the company with independent commissioners as moderation, is not proven true. The results of testing the effect of real earnings management on discretionary costs on the value of companies with independent commissioners as moderation proved to have a significant effect. It shows that the thirteenth hypothesis which states that real earnings management through discretionary has a significant effect on the value of the company with independent commissioners as moderation, proven to be true. The existence of an independent board of commissioners in Indonesia has not been able to reduce real earnings management. This is due to the existence of an independent board of directors in the company only to meet regulatory requirements. So that the company does not attach importance to the competence and integrity of its independent commissioners. This can happen because the appointment of an independent board of directors is based solely on appreciation, the existence of family relationships or close acquaintances (nepotism). The results of this study were also supported by Veronica and Utama (2005) and Boediono (2005) which stated that the proportion of independent board of commissioners was not proven to have an effect on earnings management actions taken in companies in Indonesia.

c. Effect of Profit Management on Firm value with Institutional Ownership as Moderating Variables: The results of testing the real earnings management of operating cash flows on the value of the company with institutional ownership as moderation did not prove to have a significant effect. Real earnings management through operating costs on firm value with institutional ownership as moderation does not prove to have a significant effect. Testing the effect of real earnings management on discretionary costs on firm value with institutional ownership as moderation proved to have a significant effect. This shows that the sixteenth hypothesis which states that real earnings management through discretionary has a significant effect on the value of the company with institutional ownership as moderation, is not proven true. Moderating variables of institutional ownership have no significant effect on the relationship between earnings management and firm value. This shows that the variable was not able to reduce the effect of earnings management actions on firm value. Share ownership owned by institutional parties cannot strengthen or weaken the effect of earnings management on firm value. Institutional parties cannot control the company more closely so that the actions of managers to manage earnings cannot be reduced. The higher the level of institutional ownership does not make the level of control carried out by external parties to the company so that the agency costs that occur within the company are stronger and the value of the company does

not increase. This is not in accordance with Jiambavo's opinion, *et al.*, (1996) states that there is a feedback effect from institutional ownership that can reduce earnings management by the company. If the earnings management is efficient, high institutional ownership will improve profit management by the company, not opportunistically, so that high institutional ownership will reduce earnings management. Cornet *et al.*, (2006) stated that corporate supervision actions by institutional investors can encourage managers to focus their attention more on company performance so that it will reduce opportunistic or selfish behavior. This study does not support research conducted by Midiastuty and Machfoedz (2003) which states that institutional ownership has a significant negative effect on earnings management, while this study contradicts the research conducted by Herawaty (2008) which states that institutional ownership has a positive effect on earnings management actions. This study is in accordance with the research of Wahyudi and Pawestri (2006) concluding that institutional ownership structure does not affect financial decisions or firm values.

d. The effect of Profit Management on Firm value with Management Ownership as Moderating Variables: The results of testing the real earnings management of operating cash flows on the value of the company with management ownership as moderation proved to have a significant effect. The test results show that real earnings management through operating costs on firm value with management ownership as moderation does not prove to have a significant effect. It shows that the eighteenth hypothesis which states that real earnings management through operating costs has a significant effect on the value of the company with management ownership as moderation, is rejected. Testing the effect of real earnings management on discretionary costs on the value of companies with management ownership as moderation has proven to have a significant effect. This shows that the ninth hypothesis *belasyang* states that real earnings management through discretionary influence significantly on the value of the company with management ownership as moderation, rejected. Moderating variables of managerial ownership do not affect the relationship between earnings management and firm value. This study indicates that companies in the sample do not use managerial ownership to reduce earnings management actions. This may occur because of the level of company rules or lack of proper supervision because the owner acts as an agent. Thus, the greater the managerial ownership, the greater the earnings management actions are carried out, so that there is a tendency for managers to act at will and to be less responsible. The concept of corporate governance is the separation between ownership and management within the company to minimize a conflict because of differences in interests between the two, then it is necessary to have effective control rules and mechanisms. One effort that can be done is to pay attention to the company's ownership structure as a basis for identifying the distribution of power among various parties. However, the results of this study found that managerial ownership as an internal control mechanism cannot regulate and control the company to provide and increase the company's value to shareholders. This is because the majority of the managerial ownership of the research sample is so small that the manager has not felt the benefits of ownership. Theoretically, when management ownership

is low, the incentives for the possibility of managerial opportunistic behavior will increase. This means that if the ownership of shares by the manager is enlarged so that the manager will not manipulate profits for his interests. This research is consistent with research conducted by Herawaty (2008) which states that managerial ownership is not a moderating variable between earnings management and firm value, while this research is contrary to the research of Rachmawati and Triatmoko (2007) who found that there is a relationship between firm value and percentage shares owned by company management.

Conclusion

Based on the results of data analysis shows conclusions 1) Riil earnings management from operating cash flows, from production costs and from discretionary costs does not significantly influence the value of the company. This shows that earnings management by the company cannot increase the value of the company; 2) The quality of auditors has a significant effect on the value of the company; 3) Independent Commissioners have a significant effect on the value of the company; 4) institutional ownership has a significant effect on the value of the company; 5) Management ownership does not significantly influence the value of the company; 6) Real earnings management from operating cash flow, real earnings management from production costs and real earnings management through discretionary costs affect the value of the company with audit quality as moderation; 7) The test results show that the Riil earnings management from operating cash flow, real earnings management from production costs and real earnings management from discretionary costs does not significantly influence the value of the company with independent commissioners as moderation; 8) Riil earnings management from operating cash flow, real earnings management from production costs and real earnings management from discretionary costs does not significantly influence the value of the company with institutional ownership as moderation; 9) Riil earnings management from operating cash flow, real earnings management from production costs and real earnings management from discretionary costs does not have a significant effect on firm value with managerial ownership as moderation

Suggestion

Suggestions that can be submitted include 1) For creditors, investors, financial analysts and auditors it is advisable to be careful in understanding the profit reported by management in the financial statements. Considering that the reported profit can be raised or lowered by utilizing the flexibility of financial accounting standards and government regulations; 2) further research uses another approach that is more appropriate in calculating discretionary accruals that are suitable for conditions in Indonesia, for example the Instrumental Variable (IV) approach by Kang and Sivaramakrishnan (1995) which claims that the detection model IV is better than some previous models. Future research should use other firm value measurement models that are expected to provide better comparisons

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