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# THE EFFECT OF EARNINGS MANAGEMENT ON FIRM VALUE IS MODERATED BY CORPORATE GOVERNANCE PRACTICES IN MANUFACTURING COMPANIES LISTED IN THE INDONESIA STOCK EXCHANGE

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## *ABSTRACT*

*This study aims to determine the effect of earnings management on firm value moderated by corporate governance practices in manufacturing companies listed on the Indonesia stock exchange in the period 2014-2018. Earnings management variables are measured by discretionary accruals using a modified Jones Model and company value is measured using Tobin's Q ratio. The population in this study is a manufacturing company. Sampling method using purposive sampling method and obtained a sample of 22 samples. Hypothesis testing is done using multiple regression analysis assisted by the Eviews version 9 program. The results showed that earnings management had a positive effect on firm value. Institutional ownership and independent commissioners moderate the relationship between earnings management and firm value.*

*Key words: earnings management, firm value, managerial ownership, institutional ownership, independent commitment, audit committee*

## *PRELIMINARY*

*The purpose of establishing a company is, first, to achieve maximum profit. Second, to prosper the company owners or shareholders, and third to maximize the value of the company as reflected in the market price.*

*According to Kristanti (2016), one of the goals in a company is to maximize company value, where if the value of the company is high or good, then it describes prosperity for shareholders. Ross, Westerfield, Jaffie (2013), said that company value is a market value that can provide maximum prosperity for shareholders if the company value increases. Therefore, to produce good corporate value, the principal or shareholders will hand over the management of the company to the agent, in this case a professional management party trusted by the shareholders, who is then obliged to convey information on the condition of the company as outlined in the form of a report. finance to shareholders.*

*Financial reports are a means of communicating financial information to parties outside the corporation or company. According to Brigham and Houston (2011), a financial statement is an overview of the financial condition of a company at a certain time. Therefore, financial reports are a very important tool to obtain information regarding the financial position and results achieved by the company. In preparing financial statements, the accrual basis is chosen because it is more rational and fair in reflecting the company's financial statements in real terms, but on the other hand, the use*

*of the accrual basis can provide flexibility to management in choosing the accounting method as long as it does not deviate from the applicable Financial Accounting Standards.*

*Manipulation by management causes investors to lose confidence in their investments, causing investors to withdraw funds for their investments, as a result, the company's value will decrease. Therefore, it is necessary to monitor and control the interests of investors from misconduct by management (Mawati et al., 2017).*

*Earnings management is affected by conflicts of interest differences between shareholders (principal) and agents as managers (company management), which arise because each party tries to achieve or consider the level of prosperity it wants. Agency theory assumes that each individual is motivated by individual interests, giving rise to a conflict of interest between the agent and the principal. The agent is motivated to maximize the fulfillment of his economic and psychological needs, among others in obtaining compensation or bonuses, while the principal is motivated to enter into a contract for the welfare of himself with ever-increasing profitability, this is known as an agency problem.*

*Agency problems between shareholders and potential managers occur when management does not own a majority share of the company and certain shareholders want managers to work with the aim of maximizing shareholder prosperity (Kodrat and Herdinata, 2009). Therefore, the interests of managers with external shareholders can be reconciled if share ownership by managers is enlarged so that managers will not manipulate profits for their interests.*

*Agency conflicts that result in pseudo-reported earnings, resulting in low earnings quality, which in turn reduces the company's value in the future. The low quality of earnings results in errors in decision making by users of these financial statements, such as investors and creditors, so that the firm's value will decrease (Siallagan and Machfoeds, 2006).*

*Herawaty (2008) identifies that the independent commissioner variable, institutional ownership and audit quality are moderating variables between earnings management and firm value. Meanwhile, it is different from the research results of Ridwan and Gunardi (2013) which found that institutional ownership, managerial ownership and KAP classification are moderating variables. Darwis (2012), in his research, found that managerial ownership was not able to moderate the relationship between earnings management and firm value, while institutional ownership was able to moderate the relationship between earnings management and firm value.*

*This research was conducted at manufacturing companies listed on the IDX because in addition to having many current assets, fixed assets and current liabilities, manufacturing companies are also profit-oriented companies in which there is a bonus incentive which is one of the motivations for managers to do earnings management. Sulistyanto (2008) states that these components are the objects of managerial engineering, namely current assets, fixed assets, current liabilities and profits. The components of current assets that are often the object of managerial engineering consist of components of cash or cash equivalents, accounts receivable, inventories, and prepaid expenses (Sulistyanto, 2008). Meanwhile, the components of fixed assets that are often subject to managerial engineering are the depreciation method and the estimated value of the economic life of the asset concerned.*

*Based on the description above, this study aims to determine the effect of earnings management on firm value moderated by corporate governance practices in manufacturing companies listed on the Indonesian stock exchange.*

## *LITERATURE REVIEW*

### *Agency Theory*

*Agency theory arises because of the separation between the shareholders (principal) and the managers (agents) who manage the company. Agency theory views that the company as an agent for shareholders, will act consciously for its own interests (self interest), not as a party who is wise and fair to shareholders. The relationship between management and company owners is a paradigm of principal (shareholder) and agent (manager) relationships, where the company owner (principal) gives formal trust in the form of a work relationship contract to the manager (agent) who provides management services (Nature and Herdinata, 2009). The existence of an agency relationship results in various conflicts of interest in the company, both between managers and shareholders.*

### *Earnings management*

*According to Kieso (2011), defines earnings management as planning the timing of revenues, expenses, gains and losses to smooth out fluctuations in earnings. According to Ortega and Grant (in Murhadi, 2009), earnings management occurs because of the possibility of flexibility in making financial reports to regulate the company's operational profits. Schipper (in Riske and Basuki (2013), states that earnings management is a condition in which management intervenes in the process of preparing financial reports for external parties so that it can increase, level and decrease earnings. Earnings management is one of the factors that can reduce the credibility of financial reports,*

*According to Tunggal (2011), earnings management usually involves several more aggressive steps, namely, (1) strategic improvements and irregular losses, (2) changes in methods or estimates with full disclosure, (3) changes in methods or estimates with little or no disclosures, (4) non GAAP (General Accepted Accounting Principles) accounting, and (5) fictitious transactions.*

### *Corporate Governance*

*According to FCGI (2001, in Retno, 2012), corporate governance is a set of regulations that regulate the relationship between shareholders, company managers, creditors, government, employees and other internal and external holders relating to their rights and obligations. or in other words a system that regulates and controls the company. In addition, FCGI also explained that the purpose of corporate governance is to create added value for all interested parties (stakeholders). The implementation of corporate governance is intended to achieve several things, such as: (1) maximizing the company's intention for shareholders, by applying the principles of transparency, accountability, fairness and responsibility, so that the company has a strong competitiveness, both nationally and internationally as well as creating a climate that supports investment, (2) encouraging professional, transparent and efficient company management and empowering functions and increasing the independence of the board of commissioners, directors and General Meeting of Shareholders. Encourage shareholders, members of the board of commissioners and members of the board of directors to make decisions and carry out actions based on high moral values and decisions on laws and regulations.*

### *Managerial ownership*

*Managerial share ownership can help unify interests between shareholders and managers, where the increasing proportion of managerial share ownership, the better the company's performance. In companies with managerial ownership, managers who are also shareholders, of course, will align their interests as shareholders. Meanwhile, in a company, without managerial ownership, managers who are not shareholders may only be concerned with their own interests. Managerial ownership structure is the level of share ownership by management who is actively involved in decision making. The measurement is seen from the proportion of shares owned by management at the end of the year which is presented in the form of a presentation.*

### *Institutional Ownership*

*Institutional shareholders usually take the form of entities such as banking, insurance, pension funds and mutual funds. Institutional investors have the capability to analyze financial statements directly than individual investors. Institutional ownership can encourage an increase in more optimal supervision so that its existence has an important meaning for management monitoring.*

### *Independent Ccommissioner*

*According to Puspitasari (2014), an independent commissioner is a body within a company which usually consists of independent commissioners from outside the company whose function is to assess the company's performance in a broad and overall manner. The independent commissioner aims to balance decision making, particularly in the context of protecting minority shareholders and related parties.*

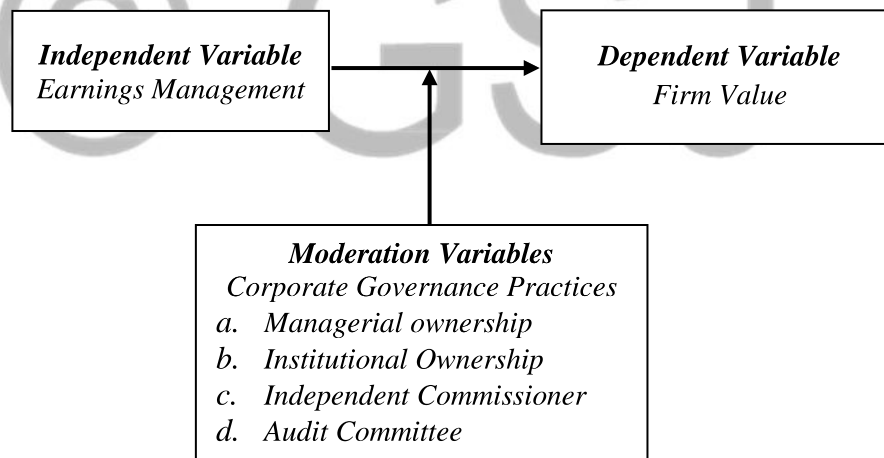
### *Audit Committee*

*The duties and responsibilities of the audit committee are to ensure that financial reports are presented fairly in accordance with generally accepted accounting principles, further ensure that the company's internal control structure is properly implemented, and ensure follow-up on audit findings is carried out by management. The audit committee processes the prospective external auditors including fees for their services to be delivered to the board of commissioners and the number of members of the audit committee must be adjusted to the complexity of the company while still taking into account the effectiveness in making subsequent decisions. The audit committee is chaired by an independent commissioner and its members can be commissioners and / or professional players from outside the company (KNKG, 2006).*

### *Firm Value*

*Firm value is very important, because high company value will be followed by high prosperity for shareholders (Rika Susanti, 2010 in Retno, 2012). The higher the stock price, the higher the company value. A high company value is the desire of company owners, because a high value indicates the prosperity of shareholders is also high. The wealth of shareholders and the company is represented by market prices, which are a reflection of investment, financing, and asset management decisions. To measure firm value, there are several ratios that can be used, one of which is the alternative that can be used is to use the Tobin's Q ratio. This ratio was developed by Professor James Tobin (1967) and is considered to provide the best information, because this ratio can explain cross-sectional differences in investment decision making. Kristanti (2016), said that the ratio is a concept that can show current financial market estimates of the value of the proceeds from each fund invested in the target company.*

## *CONCEPTUAL FRAMEWORK*




*The agency theory perspective is the basis for understanding the issues of corporate governance and earnings management. The agent is motivated to maximize the fulfillment of economic and psychological needs, among others in obtaining compensation or bonuses (opportunic management), while the principal is motivated to enter into a contract for the welfare of himself with ever-increasing profitability, this is what is known as agency problems.*

*Managers (agents) have the flexibility to choose several alternatives in recording transactions as well as selecting options that exist in the accounting treatment. This flexibility is used by company management to manage company profits. Managers as company managers know more about the company's internal information and prospects in the future compared to the shareholders (principal). giving rise to information asymmetry. The asymmetry between management and owner provides an opportunity for managers to carry out earnings management to increase company value at a certain time so that it can mislead owners (shareholders) regarding the true value of the company.*

*Corporate governance which is a concept based on agency theory, is expected to serve as a tool to provide confidence to investors that they will receive a return on the funds they invested. Sheieifer and Vishny (1997), state that corporate governance is related to how investors believe that managers will provide benefits for investors, confident that managers will not steal / embezzle or invest into projects that are not profitable related to the funds / capital that have been invested. investors and is concerned with how investors control managers.*

## *RESEARCH METHODS*

### *Population and Sample Research*

*The population that becomes the object of this research is manufacturing companies listed on the Indonesia Stock Exchange (IDX).*

*The sample of this research is a manufacturing company in the 2015-2018 period. Selection of research samples based on purposive sampling with the aim of getting a representative sample according to predetermined criteria. The following are the characteristics of the sample selection used for this study:*

1. *Manufacturing company listed on the Indonesia Stock Exchange (IDX).*
2. *Companies that publish annual financial reports consistently from 2014 to 2018.*
3. *Companies that have data on managerial ownership, institutional ownership, independent commissioners and audit committees.*
4. *Companies that present financial reports in rupiah.*

### *Types and Sources of Data*

*The type of data used in this research is quantitative data, namely data in the form of numbers or numbers. Based on data sources, this study uses secondary data. The research data was obtained from the Indonesia Stock Exchange website (www.idx.co.id). This data is a financial report issued by manufacturing companies listed on the Indonesia Stock Exchange (IDX) during 2014 to 2018.*

### *Method of collecting data*

*The data collected in this study were collected by:*

1. *Literature review*
   *The data and theory in this study were obtained from literature, articles, journals and previous research relevant to the research and theoretical basis.*
2. *Documentation Studies*
   *This is done by collecting secondary data in the form of company financial reports from the official website of the Indonesia Stock Exchange (www.idx.co.id).*

### *Research variable*

### *Independent Variable*

*The independent variable in this study is earnings management. Earnings management is proxied by discretionary accruals using a modified Jones model by Dechow et.al (in Herawaty, 2008). This model is used because it is considered to be the best model in detecting earnings management.*

*Calculating total accruals using the cash flow approach, namely:*

$$TAC = NI_{it} - CFO_{it}$$

1. *Determine the coefficient of the total accrual regression.*
   *Discretionary accrual is the difference between total accrual and non-discretionary accrual. The first step to determine non-discretionary accruals is to perform the following regression:*

$$\frac{TA_{it}}{A_{it-1}} = \propto_1 \left(\frac{1}{A_{it-1}}\right) + \propto_2 \left(\frac{\Delta REV_{it}}{A_{it-1}}\right) + \propto_3 \left(\frac{PPE_{it}}{A_{it-1}}\right) + e_{it}$$

2. *Determine non-discretionary accruals.*
   *The regression that is performed produces a coefficient,,. The coefficient, and is then used to predict non-discretionary accruals through the following equation:* $\propto_1 \propto_2 \propto_3 \ \ \propto_1 \propto_2 \propto_3$

$$NDA_{it} = \propto_1 \left(\frac{1}{A_{it-1}}\right) + \propto_2 \left(\frac{\Delta REV_{it} - \Delta REC_{it}}{A_{it-1}}\right) + \propto_3 \left(\frac{PPE_{it}}{A_{it-1}}\right) + e_{it}$$

3. *Furthermore, the discretionary accruals can be calculated as follows:*

$$DA_{it} = \left(\frac{TA_{it}}{A_{it-1}}\right) - NDA_{it}$$

*Information:*

| | |
|---|---|
| *TAit* | *: Total accruals of company i in period t* |
| *NIit* | *: Net profit of company i in year t* |
| *Ait-1* | *: Total assets for the sample of firm i in year t-1* |
| *CFO* | *: Cash flows from operating activities* |
| *NDAit* | *: Non discretionary accrual company i in year t* |
| *DAit* | *: Discretionary accrual company i in year t* |
| *ΔREVit* | *: Change in company i income from year t-1 to year t* |
| *ΔRECit* | *: Change in net value of receivables i from year t-1 to year t* |
| *PPEit* | *: Fixed assets of company i in year t* |
| $\propto_{1,}, \propto_2 \propto_3$ | *: Regression coefficient* $\boldsymbol{e}$ |
| *e* | *: Error term company i in year t* |

***Dependent Variable***

*The dependent variable used in this study is firm value.*

*Firm value can be measured using the Tobin's Q formula which is calculated using the formula:*

$$Q = \frac{MVE + D}{BVE + D}$$

*Information:*

| | |
|---|---|
| *Q* | *: The value of the company* |
| *MVE* | *: Market value of equity (Equity Market Value)* |
| *D* | *: Book value of total debt* |
| *BE* | *: Book value of equity (Equity Book Value)* |

***Moderation Variables***

*In this study, the moderating variable between earning management and firm value is corporate governance. The corporate governance mechanisms in this study are managerial ownership, institutional ownership, independent commissioners and audit committee.*

1. *Managerial ownership*
   *Managerial ownership is the amount of shares owned by management from the total shares outstanding. Managerial ownership is calculated by the number of shares owned by managers, directors, commissioners divided by the total number of shares outstanding.*
2. *Institutional Ownership*
   *Institutional ownership is the number of share ownership owned by the institution. Institutional ownership is calculated by the number of shares owned by the institution divided by the total number of shares outstanding.*
3. *Independent Commissioner*
   *The monitoring function performed by the board of commissioners is influenced by the number or size of the board of commissioners. Independent commissioners who have at least 30% of the total number of commissioners, have met the guidelines for good corporate governance in order to maintain independence, making decisions that are effective, precise and fast. The indicator used to measure independent commissioners is by dividing the number of independent commissioners by the total number of commissioners in the company.*

4. *Audit Committee*
   *The audit committee is expected to reduce earnings management activities which in turn will affect earnings quality. The audit committee is measured by dividing the number of independent audit committee members to the total audit committee.*

***Data analysis technique***
*Methods of data analysis in this study using descriptive statistics, classical assumption test, normality test, multicollinearity test, heteroscedasticity test, and autocorrelation test. Hypothesis testing uses multiple regression analysis.*

## *RESULTS AND DISCUSSION*

### 1. *Descriptive statistics*

*Based on the results of descriptive statistics, it can be seen that Earning Management worth around -81,089 to 33,652, with an average of 0.106 and a standard deviation of 13,177. Independent Commissioner a value of about 0.333 to 1,000, with an average of 0.417 and a standard deviation of 0.133. Managerial ownership worth around 0.0001 to 0.963, with an average of 0.145 and a standard deviation of 0.246. Institutional Ownership a value of around 0.019 to 0.980, with an average of 0.626 and a standard deviation of 0.200. Audit Committee worth about 2 to 5, with an average of 3,136 and a standard deviation of 0.624. The value of the company valued at around 0.276 to 2.866, with an average of 1224 and a standard deviation of 0.624.*

### 2. *Classic assumption test*

*In this study, the classical assumption test conducted is normality test, multicollinearity test, heteroscedasticity test, and autocorrelation test. Of all the data and regression models tested, all show that there is no violation of the classical assumption test.*

### 3. *Multiple Regression Analysis*

*To see influence Earning Management and Corporate Governance towards the Value of manufacturing companies listed on the Indonesia Stock Exchange (BEI) in 2014-2017 regression analysis is used with the general equation as follows.*

$$Q_{it} = \propto_1 EM_{it} + \propto_2 KomInd_{it} + \propto_3 KepMan_{it} + \propto_4 KepIns_{it} + \propto_5 KoA_{it} + \propto_6 EM^{*}KepInd_{it} + \propto_7 EM^{*}KepMan_{it} + \propto_8 EM^{*}KepIns_{it} + \propto_9 EM^{*}KoA_{it} + e$$

*Based on the analysis that has been done, the following results are obtained.*

***Summary of Fixed Effect Model Test Results***

| *Variable* | *Coefficient* |
|---|---|
| C | 0.237905 |
| EM | 0.046417 |
| KOMIND | 0.502384 |
| KEPMAN | -0.063259 |
| KEPINS | -0.006479 |
| KOA | 0.227965 |
| EM_KOMIND | -0.053751 |
| EM_KEPMAN | -0.008892 |
| EM_KEPINS | 0.040894 |
| EM_KOA | 0.002209 |

*Source: Data output results, Eviews 9*

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*Based on the calculation results in Table 5.5, the multiple regression equation is obtained as follows:*

*Q = 0.237905 + 0.046417 EM + 0.502384 KomInd -0.063259 KepMan -0.006479 KepIns + 0.227965 KoA -0.053751 EM * KomInd -0.008892 EM * KepMan + 0.040894 EM * KepIns + 0.002209 KoA*

*From the regression equation above, it can be analyzed as follows:*

a. *The constant is equal to 0.237905 states that the amount of Firm Value when all variables are independent is ZERO is equal to 0.237905.*
b. *EM regression coefficient of 0.046417 states that each addition of 1 unit of EM will increase The value of the company amounting to 0.046417.*
c. *The KomInd regression coefficient of 0.502384 states that each additional KomInd of 1 unit, it will increase The value of the company amounting to 0.502384.*
d. *KepMan regression coefficient of -0.063259 states that each additional KepMan 1 unit, it will decrease The value of the company amounting to 0.063259.*
e. *KepIns regression coefficient of -0.006479 states that each additional KepIns of 1 unit, it will decrease The value of the company amounting to 0.006479.*
f. *The CoA regression coefficient of 0.227965 states that each addition of 1 unit of KoA, it will increase The value of the company amounting to 0.227965.*
g. *EM * KomInd regression coefficient of -0.053751states that each addition of 1 unit EM * KomInd, it will decrease The value of the company amounting to 0.053751.*
h. *EM * KepMan regression coefficient of -0.008892 states that each addition of 1 unit EM * KepMan, it will decrease The value of the company amounting to 0.008892.*
i. *EM * KepIns regression coefficient of 0.040894 states that every addition of 1 unit EM * KepIns, it will increase The value of the company amounting to 0.040894.*
j. *The regression coefficient EM * CoA is 0.002209 states that every addition of 1 unit EM * KoA, it will increase The value of the company amounting to 0.002209.*

### 4. *Analysis of the coefficient of determination*

***Summary of the coefficient of determination***

| | |
|---|---|
| R-squared | 0.581017 |
| Adjusted R-squared | 0.543308 |
| SE of regression | 0.421472 |

*Source: Data output results, Eviews 9*

*The table above shows that the coefficient of determination or R2 is 0.5810 or 58.10%. This shows that the independent variables jointly affect the dependent variable by 58.10%, while the remaining 41.90% can be explained by other variables outside the regression model above.*

### 5. *Hypothesis test*

***F test***

*The F test is used in testing the regression coefficient as a whole to determine the effect of the independent variables simultaneously on the dependent variable.*

***Summary of F Test Results***

| | |
|---|---|
| F-statistic | 15.40812 |
| Prob (F-statistic) | 0.000000 |

*Source: Data output results, Eviews 9*

*From the table above, the probability F-value is 0.000 and the F-count value is 15.408. With a significance value less than 0.05, it can be concluded that the Ho hypothesis is rejected,*



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*which means that at a significance level of 5% there is a simultaneous significant effect of the independent variables on the dependent variable.*

***T test***

*Partial testing is done to determine the effect of one independent variable on the dependent variable assuming the other variables are constant.*

***Summary of t-test results for regression***

| *Variable* | *Coefficient* | *t-Statistic* | *Prob.* |
|---|---|---|---|
| *C* | *0.237905* | *0.792312* | *0.4301* |
| *EM* | *0.046417* | *2.622836* | *0.0101* |
| *KOMIND* | *0.502384* | *1.432686* | *0.1551* |
| *KEPMAN* | *-0.063259* | *-0.342242* | *0.7329* |
| *KEPINS* | *-0.006479* | *-0.028527* | *0.9773* |
| *KOA* | *0.227965* | *3.059502* | *0.0028* |
| *EM_KOMIND* | *-0.053751* | *-2.659600* | *0.0091* |
| *EM_KEPMAN* | *-0.008892* | *-0.906037* | *0.3671* |
| *EM_KEPINS* | *0.040894* | *2.698516* | *0.0082* |
| *EM_KOA* | *0.002209* | *0.755032* | *0.4520* |

*Source: Data output results, Eviews 9*

## ***6. Discussion***

***The Effect of Earnings Management on Firm Value***

*Based on the results of hypothesis testing, it shows that earnings management has a positive effect on firm value. This can be seen in table where earnings management has a p-value of 0.0101 when compared with the significance value (α) = 0.05, then the p-value is < 0.05. Thus hypothesis 1 which states that earnings management has a positive effect on firm value is accepted. This shows that earnings management has an effect on firm value. Thus, this proves that the earnings management actions taken by managers can have an impact on the survival of the company. Where investors will give an unfavorable reaction which will have an impact on the decline in company value which is reflected in the company's stock price. The results of this study are consistent with research conducted by Herawaty (2008) which states that earnings management has a positive effect on firm value.*

***Corporate Governance, Earnings Management, and Company Value***

**1. *Managerial ownership***

*Based on the results of hypothesis testing, it shows that managerial ownership does not moderate the relationship between earnings management and firm value. This can be seen in table where the p-value is 0.3671 when compared with the significance value (α) = 0.05, then the p-value is> 0.05. Thus, hypothesis 2 which states that managerial ownership moderates the relationship between earnings management and firm value is rejected. This suggests that managerial ownership can strengthen earnings management actions. This study indicates that the companies in the sample do not use managerial ownership to reduce earnings management actions. This may be due to a degree of leniency in company regulations or a lack of proper supervision as the owner acts as agent. Thus, the greater the managerial ownership, the greater the earnings management actions taken, so that there is a tendency for managers to act arbitrarily and less responsibly.This research supports research conducted by Herawaty (2008) which states that managerial ownership is not variable. moderating variable between earnings management and firm value.*

**2. *Institutional Ownership***

*Based on the results of hypothesis testing, it shows that institutional ownership moderates the relationship between earnings management and firm value. This can be seen in table where the p-value is 0.0082 when compared with the significance value (α) = 0.05, then the p-value is <0.05. Thus hypothesis 3 which states institutional ownership moderates the relationship between earnings management and firm value is accepted. This shows that institutional ownership of shares can weaken the effect of earnings management on firm value. This may be because institutional parties can control the company more thoroughly so that the possibility of management doing earnings management can be reduced.*

**3. *Independent Commissioner***

*Based on the results of hypothesis testing, it shows that independent commissioners moderate the relationship between earnings management and firm value. This can be seen in table where the p-value is 0.0091 when compared with the significance value (α) = 0.05, then the p-value is <0.05. Thus hypothesis 4 which states that independent commissioners moderate the relationship between earnings management and firm value is accepted. This shows that the greater the proportion of independent commissioners can reduce earnings management activity and this will have an impact on the increase in firm value. This supports research conducted by Herawaty (2008), where independent commissioners can monitor management performance in order to harmonize differences in interests between owners and management. However, this study contradicts the research of Fauzan Kamil (2014), which states that independent commissioners do not moderate the relationship between earnings management and firm value.*

**4. *Audit Committee***

*Based on the results of hypothesis testing, it shows that the audit committee does not moderate the relationship between earnings management and firm value. This can be seen in table where the p-value is 0.4520 when compared with the significance value (α) = 0.05, then the p-value is <0.05. Thus, hypothesis 5 which states that the audit committee does not moderate the relationship between earnings management and firm value is rejected. This shows that the increase and decrease in the number of members in the audit committee is not a guarantee that it will reduce earnings management practices in the company. This may occur due to the inadequate performance of the audit committee in monitoring and implementing company internal control.*

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## *CONCLUSIONS AND RECOMMENDATIONS*

*Based on the research results, the following conclusions were obtained:*

1. *Earnings management has a positive effect on firm value. This explains that earnings management actions can reduce firm value.*
2. *Managerial ownership does not modulate the relationship between earnings management and firm value. This suggests that managerial ownership can strengthen earnings management actions.*
3. *Institutional ownership moderates the relationship between earnings management and firm value. This shows that institutional ownership of shares can reduce earnings management actions in the company.*
4. *Independent commissioners moderate the relationship between earnings management and firm value. This shows that the greater the proportion of independent commissioners can reduce earnings management activities and this will have an impact on the increase in firm value.*
5. *The audit committee did not moderate the relationship between earnings management and firm value. This shows that the number of members in the audit committee is not a guarantee that it will reduce earnings management practices in the company.*

*Based on the conclusions in the research above, the suggestions that can be submitted by the researcher include:*

1. *Further research needs to identify other corporate governance mechanisms to determine how they affect earnings management and firm value, such as incentive systems for management, board of directors, GMS meetings, and so on.*
2. *Using a sample of companies that are not only manufacturing companies, but can be developed using samples from other company groups listed on the Indonesia Stock Exchange.*

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