THE EFFECT OF CEO TENURE, MANAGERIAL SKILLS AND EARNING POWER ON EARNINGS MANIPULATION WITH CORPORATE GOVERNANCE AS A MODERATING VARIABLE ON MANUFACTURING COMPANIES IN INDONESIA STOCK EXCHANGE

Vinola Herawaty, Magister Accounting, FEB Trisakti University
Dita Solihah, FEB Universitas Trisakti

ABSTRACT

The purpose of this research is empirically to find out the effect of CEO tenure, managerial skills and earning power with corporate governance as a moderating variable on earnings manipulation. Controlling variables are firm size and leverage. This research uses panel data with probitmodelbecause dependent is qualitative and discrete, while the independent variables with the scale ratio. The research is done by using manufacturing companies listed on the Indonesia Stock Exchange during 2012-2016 as a sample. Sample determination is done by using purposive sampling method. The total sample of this research are 240 manufacturing companies. Based on the hypothesis testing result, it can be concluded that CEO tenure and managerial skills have positive effects on earning manipulation, while, earning power and corporate governance have negative effects on earnings manipulation. Corporate governance only strengthens the negative effect of earning power on earnings manipulation.

Keywords: CEO Tenure, Managerial Skills, Earning Power, Corporate Governance, Earnings Manipulation, Firm Size, Leverage**.**

INTRODUCTION

Earnings management can be viewed from the efficient or opportunistic contracting perspective. From the perspective of efficient contracts in Positive Accounting Theory, earnings management can be considered good because it can improve the efficiency of the contract. Efficient contracts, allowing managers to manage earnings in rigid and incomplete contracts. Under these circumstances, the earnings managementby managers in terms of bonus schemes, debt agreements and political costs must be interpreted carefully, because they can take the form of efficient or opportunistic behavior. (Priantinah, 2016). An opportunistic earnings management actions leads to earnings manipulation.

According Riyanto (2013) Earnings power is the ability to know the efficiency of the company by looking at the size of the earnings generated by the company. Investors assume that high earning power will guarantee a high return on investment and provide a reasonable return not only for investors but also for creditors, as well as governments in decision-making. The manager as a person running a business is required to be competent in making decisions related to his business so that ultimately will contribute to the maximum performance and value of the company. According to Demerjian et al., (2013) capable managers are managers who are able to make decisions that deliver the company to a higher level of efficiency. By having a capable manager, then the company will be able to generate optimal profit, because a capable manager is considered to have the ability and high integrity and experience, so that managers can take the right decision for the progress of a company.

Corporate governance has become a phenomenaldiscussionand triggers various research on the quality of its implementation by companies, especially Go public companies. This is due to increased awareness of the important role of corporate governance which is a key mechanism to protect the interests of shareholders as the owners of the company. The phenomenon of corporate governance becomes a concern in today's business world. In addition to being part of the concept of business unity is also a must in a company to apply principles of corporate governance well.

The longer the CEO's tenure he will reveal the lower corporate governance practices because he will choose a secure position from his power, as well as the low supervision of the board of directors. Conversely, the shorter CEO's term, the greater the oversight of the board of directors and stakeholders does not yet have a secure position seen from his power, which will reveal more corporate governance practices.

CEO Tenure and earnings management topics are quite interesting topics to discuss. The authors redeveloped the previous research of Muniroh (2016) which concluded that the Tenure CEO had a positive influence on earnings management. This study adds corporate governance variable as amoderating variable and transforms earnings management into earnings manipulation, where earnings manipulation includes the behavior of earnings management in terms of opportunistic, so earnings manipulation becomes dependent as measured by Beneish M-Score (1999).

LITERATURE REVIEW AND DEVELOPMENT OF HYPOTHESES

Literature Review

Agency theory

Agency theory was introduced by Jensen and Meckling(1976).They define agency theory as a contract in which one or more party principal's principal delegates its authority to the manager to do something on their behalf and make decisions. Agency theory is concerned with resolving problems that can exist in agency relationships due to unaligned goals or different aversion levels to risk. The most common agency relationship in finance occurs between shareholders (principal) and company executives (agents).

Positive accounting theory

According to Scott (2015) positive accounting theory is a theory that predicts the actions of accounting policy selection by company managers and how managers respond to the proposed new accounting standards. According to positive accounting theory, the accounting procedures used by companies do not have to be the same as others, but companies are given the flexibility to choose one of the available alternative procedures to minimize contract costs and maximize company value.

Earning power

In general, one of the aspects used by market participants in assessing the prospects of a company is the company's ability to earn profits (earning power). Untuk mengukur earning power, according to Riyanto (2013) states that the calculation of earnings power on the basis of an analysis system intended to show the efficiency of the company used by users of financial statements. The high and low earning power can be determined by several factors that can be seen from financial ratios, namely: Profit Margin and Return on Assets.

Managerial skills

Dechow (1995) defines managerial skills as a skill or personal characteristics that help achieve high performance in management tasks. Demerjian et al., (2013) examines managerial skills in finance, namely how efficient a company is in the financial sector relative to other companies. Managers who have a high level of skill will be more skilled at processing information, there are two things that drive managers to make earnings management. These two things are bonus compensation and information asymmetry between management and company owners.

One other form of manager's characteristics is skill. As an agent, managers must have the skills to be able to manage the company properly. Some explanations about a capable manager, among others:

1. A capable manager is a manager who has extensive knowledge regarding the company's business, so that it can make better judgments and estimates (Demerjian et al., 2013).
2. A competent manager produces high returns through profitable investment opportunities.
3. A capable manager is able to create value from the use of resources controlled by the company.

Corporate governance

According to the Forum for Corporate Governance in Indonesia (FCGI) (2008) corporate governance is a set of rules governing the relationship between shareholders, managers (managers) of companies, creditors, government, employees and other internal and external stakeholders related to their rights and obligations or in other words a system that regulates and controls the company. Besides that, FCGI (2008) explains that the purpose of Corporate Governance is to create added value for all interested parties (stakeholders). In more detail, the terminology of Corporate Governance can be used to explain the roles and behavior of the Board of Directors, Board of Commissioners, Management (Management) of the company and shareholders.

Principles of corporate governance: As described by the OECD (Organization for Economic Co-operation and Development) (2015) there are principles in Corporate Governance, namely:

1. Shareholders' rights
2. The same treatment of shareholders
3. The role of all stakeholders in Corporate Governance
4. Transparency and explanation
5. The role of the Board of Commissioners

Earnings manipulation

Healy & Wahlen (1999) state that "*earnings management occurs when managers use judgment in preparing financial statements and structuring transactions to change their financial statements and to deceive (mislead) the company's stakeholders about the company's economic performance or affect contractual outcomes which relies on accounting report figures.*"

Types of earnings management: According to Scott (2015), there are 2 types of earnings management, namely:

1. Opportunistic Earnings Management: The tendency of management to report earnings opportunistically by maximizing its utility (earnings manipulation)..
2. Efficient of EarningsManagement: Earnings management that aims to inform or convey certain information to stakeholders.

Beneish M-score: Beneish M-Score is a mathematical model that formulates several analysis ratios and consists of eight variables to identify the occurrence of financial fraud or the tendency to be involved in obtaining manipulation. Beneish M-Score calculation results with more than -2.22 are classified as manipulator companies, if less than -2.22 are classified as non-manipulator companies. According to Beneish (1999) eight variables used in the Beneish M-Score include:

1. Day's Sales in Receivables Index (DSRI). A large amount of days sales in receivables can mean the consequences of changes in credit policy to spur sales in the face of increasing competition, but an increase that is not proportional to accounts receivable can also be affected by inflation. So, a large increase in DSRI is related to the possibility that income and income are exaggerated.
2. Gross Margin Index (GMI), when GMI is greater than 1, gross margins have deteriorated. Beneish (1999) states that poor gross margins are a negative signal about the company's prospects. So if a company with a bad prospect is more likely to be involved in earnings manipulation.
3. Asset Quality Index (AQI). If the AQI value is greater than 1, the company has the competence to increase deferred costs or increase intangible assets and manipulate income. So the greater the AQI, indicating a decrease in asset quality, the greater the possibility of income manipulation.
4. Sales Growth Index (SGI). Results greater than 1 indicate that sales increased from the previous year. SGI is not an indication of income manipulation, but companies are experiencing Sales growth is more likely to manipulate income.
5. Depreciation Index (DEPI). If DEPI greater than 1 indicates that the rate at which depreciated assets are reduced, increases the likelihood that the company has revised its estimated useful lives or adopted new methods that increase revenue.
6. Sales, General and Administration Expenses Index (SGAI). Beneish (1999) if there is an increase that is disproportionate in sales will give a negative indication of future company prospects.
7. Total Accrual to Total Assets (TATA). Accrual provides a consistent opportunity to commit fraud. So, a greater positive result is related to potential earnings manipulation.
8. Leverage Index (LVGI). LVGI is the ratio of total debt to total assets in year t to the ratio with respect to year t -1. LVGI greater than 1 indicates increased leverage. Therefore companies that have an increase in leverage are more susceptible to income manipulation.

After calculating each variable, then formulated into the Beneish M-Score Model formula:

$$\text{M-Score} = -4.84 + 0.920\ DSRI + 0.528\ GMI + 0.404\ AQI + 0.892\ SGI + 0.115\ DEPI - 0.172\ SGAI - 0.327\ LVGI + 4.697\ TATA$$

CEO tenure

Chief Executive Officer (CEO) tenure is the length of time a president director runs a company. Hambrick and Fukutomi (1991) divided the CEO tenure into five phases. These phases are response to mandate, experimentation, and selection of an enduring theme, convergence, and dysfunction.

The longer the CEO takes office, the more experience and knowledge the CEO has. CEOs are increasingly skilled at doing their jobs. These increasingly honed skills make the CEO feel bored and tired. According to Hambrick and Fukutomi (1991) this behavior is included in the fifth phase which is also the last phase, namely dysfunction. In this phase, the CEO has become more skilled and has more control over his jobs which results in the CEO feeling bored and tired. Decision making becomes slower and is based on more limited information.

Hypothesis Development

CEO tenure and earnings manipulation practice

The CEO has primary responsibility for the company's financial statements. The company is said to have a good performance if it produces large profits. In his tenure, stakeholders expect the company's performance to increase from year to year; this is the kind that encourages the CEO to present the company's financial statements as well as possible. Throughout his tenure, CEOs may be involved in earnings manipulation practices. Earnings manipulation is an intervention that is intentionally carried out by the management in the process of determining the amount of profit, usually to meet personal goals (Scott, 2015). This intervention can be done through the selection of accounting policies, accounting estimates, and real actions. According to Healy and Wahlen (1999) the purpose of earnings manipulation is to influence decisions made by stakeholders and the results of contractual agreements based on the amount of profit.

H1: *CEO tenure has a positive effect on Earnings Manipulation Practice.*

Managerial skills and earnings manipulation practices

The importance of earnings information encourages managers to manipulate earnings. Another thing that encourages management to manipulate earnings is the misalignment of interests between owners / shareholders and managers (agency problem). Both parties have a tendency to maximize their own interests. This agency problem has resulted in management efforts to maximize personal benefits by reporting profit in an opportunistic manner. This opportunistic behaviour is usually carried out by managers who have high skills and have more ability to process information, and also determine certain policies so that it is easier to manipulate earnings. In addition, opportunistic actions can also be carried out by managers who have high skills to maximize earnings for themselves (Scott, 2015).

H2: *Managerial skills have a positive effect on Earnings Manipulation Practice.*

Earning power and earnings manipulation practice

In general, one of the aspects used by market participants in assessing the prospects of a company is the company's ability to earn profits (earning power). The effectiveness of a company in generating profits through the operation of its assets becomes a benchmark for company performance. The greater the Return On Assets (ROA) as the profitability ratios owned by a company, the more efficient the use of assets will increase profits. Return On Assets (ROA) is an important measure to assess whether a company is healthy or not that affects investors to make decisions. Large profits will attract investors because the company has a higher rate of return. In other words, the higher this ratio, the better the productivity of assets in obtaining net profits. So that management does not need to practice earnings manipulation.

H3: *Earning Power negatively affects the earnings manipulation Practice.*

Corporate governance and earnings manipulation practice

Agency theory illustrates that earning manipulation problems can be eliminated by own supervision through corporate governance. Corporate governance is a system that is built to direct and control the company so as to create a good, fair and transparent relationship between various parties that are related and have an interest (Gandasari, 2015). Management is one of the parties related to the implementation of corporate governance. Therefore, with the implementation of management corporate governance will tend not to manipulate earnings, because of the obligation to submit financial statements in accordance with various rules and principles that apply.

The implementation of the principles of corporate governance has consistently been proven to improve the quality of financial reports and can also be a barrier to performance engineering activities that result in financial statements not reflecting the company's fundamental value(Herawaty,2008). Earnings manipulation practices have led to several cases of accounting accounting scandals that are so large. Detection is an initial action taken against the practice of earnings manipulation of financial statements. One of the causes of these cases is due to the weak implementation of corporate governance in Indonesia. (Hidayat, 2016).

H4: *Corporate governance has a negative effect on Earnings Manipulation Practices.*

Moderation of corporate governance on the relationship between CEO tenure and earnings manipulation practice

Watts (2003) states that one way in limiting opportunistic behavior of management and monitoring contracts is corporate governance can use. Through an effective system of supervision and control, the implementation of good corporate governance can reduce the actions of earnings manipulation practices by the CEO.

Corporate governance, especially the supervisory board, plays a role in holding management from manipulating earnings in various ways. In the implementation of corporate governance in Indonesia, the audit committee assists the task of the board of commissioners in conducting supervision or supervision. The effectiveness of the role of the board and audit committee is responsible for the quality of financial reporting. So that in monitoring management performance, the shareholders depend on the board of assisted commissioners by the audit committee.

H5: *Corporate governance weakens the positive influence of CEO tenure on earnings manipulation practices*

Moderation of corporate governance on the relationship between managerial skills and earnings manipulation practice

To limit earnings manipulation, company managers must have managerial skills. Managerial skills are personal characteristics based on the norms and ethics contained within a company. Management is the main decision maker in a company. Daily operational decisions and future strategic planning that have been formulated, will determine the direction of the company and will also determine the company's success in achieving its main objectives. In addition, management is also the people who are given trust by shareholders to manage and develop the company, which will add value to shareholders. If management has managerial skills that are in accordance with the company's code of ethics, then it is likely that managers do not manipulate earnings.

H6: *Corporate governance weakens the positive influence of Managerial Skills on Earnings manipulation Practice.*

Moderation of corporate governance on the relationshipbetween earning power and earnings manipulation practice

Previous research by Gandasari (2015) concluded that companies that have low rates of return on assets have a greater tendency to manipulate earnings. Low ROA indicates that the utilization of the company's assets in generating profits is also low. The greater the change in ROA shows the greater fluctuations in management's ability to generate profits. This affects investors in predicting profit and risk for invested capital, while also affecting investor confidence in investing. To avoid small ROA, management manipulates earnings. The smaller ROA, the greater the motivation of management to manipulate earnings.

Rahmawati (2013) explained that the existence of manipulation behavior by managers that originated from these conflicts of interest can be minimized through a mechanism to monitor these interests. Meanwhile, according to Agustia (2013) the implementation of good corporate governance and the role of auditors should also be an element in minimizing and detecting earnings manipulation. Earnings manipulation can be one of the factors that can reduce the credibility of financial statements because the numbers reported do not reflect the actual conditions. The behavior of managers who did earnings management could be minimized by implementing good corporate governance.

H7: *Corporate governance strengthens the negative influence of Earning Power on Earnings manipulation Practice.*

RESEARCH METHOD

Samples and Data

The population and sample are manufacturing companies listed on the Indonesia Stock Exchange (IDX) within a period of five years during 2012 to 2016. Researcher used secondary data in this study which is called a panel data. The data used in this study are annual financial statement or audited financial statements on December 31 and annual reports for 2012 - 2016.

The researcher obtained the data from the Indonesian Capital Market Directory (ICMD) and the Indonesia Stock Exchange website (www.idx.co.id). The sampling technique used was purposive sampling where the samples to be used in this study were only samples that met certain criteria in accordance with the research objectives.

The sample criteria in this study are:

1. A manufacturing company that publishes audited financial statements and annual reports in a row from 2012-2016.
2. A manufacturing company that publishes audited financial statements in rupiah.
3. Manufacturing companies in the audited financial statements do not report losses from 2012-2016.

Variables and Measurements

CEO tenure

The tenure of the president director is the period of office of the company's president director. Tenure is the period of time a president director holds office. Based on Aryati's research (2014) the term of office of a CEO in a company can be calculated by the number of years the CEO served in his position.

Managerial skills

The measurement of managerial skills variables introduced by Charnes, et al., (1978) in (Ardila, 2016) is as follows:

Items - items that are inputted are grouped into two factors, namely resource factors (total assets and number of workers) and operational factors (Days Cost of Good Sold in Inventory and Outstanding Days Sales)

1. The amount of labor is a resource factor that plays a role in generating sales. In general, for a certain sales value, the smaller the number of workers to produce these sales, the more efficient the company will be.
2. Total assets are a very important resource factor in generating sales. A capable manager will be able to manage the amount of assets needed to generate maximum sales.
3. Days Cost of Good Sold in Inventory (DCI). DCI measures the amount of velocity of the company's stock turnover in days. The smaller the time (days) needed for inventory turnover, the more efficient the company is. A competent manager is expected to be able to take the necessary steps to minimize the amount of this DCI. (DCI = 365 / (COGS/*Inventory*))
4. Days Sales Outstanding (DSO). DSO measures the time it takes for a company to get cash after making a sale. The faster the company makes cash the better.DSO = *Receivables* / (*Sales*/365)

Factor analysis method

Confirmatory factor analysis (CFA) is a factor analysis technique in which a priori is based on theories and concepts that are known to be understood or predetermined, then made a number of factors that will be formed, and what variables are included in each of the factors that are formed and certainly the purpose . CFA is intentionally based on theory and concept, in an effort to get new variables or factors that represent several items or sub-variables, which are observable variables or observerb variables..

By using this factor analysis it can be concluded that the greater the number of coefficients means the lower the managerial skills. The low managerial skills are due to inefficient managers in managing inputs or inputs such as factors of company resources and operations, namely total assets, number of workers, days COGS in inventory, and outstanding days sales, to achieve the target of sales. The more efficient use of a company's resources, the more capable managers are in the company.

Earning power

ROA is used as a proxy indicator as a calculation of earning power.

$$ROA = \frac{Net\ Income}{Total\ Assets} X\ 100$$

Corporate governance

Corporate Governancethe moderating variable in this study that is measured using The Asean Corporate Governance Scorecard (ACGS) instrument.

The ACGS disclosure index calculation phase is:

a. Prepare a check list of ACGS disclosure items.

The list of ACGS disclosure check lists in this study uses a scorecard table developed by the ASEAN Capital Market Forum (ACMF) which began in 2011 consisting of 5 themes divided into 185 items of disclosure and used to find out how far the company discloses information about Corporate Governance, the weight of each theme as follows:

A.	Rights of Shareholders	10% (26 question items)
B.	Shareholder Approval Approach	15% (17 question items)
C.	Role of Stakeholders	10% (21 question items)
D.	Disclosure and Transparency	25% (42 question items)
E.	Board responsibility	40% (79 question items)

The reference only uses 121 items from the theme D (Disclosure and Transactions) and the theme E (Board Responsibility) is based on Gandasari's research (2015) because these themes have the biggest weight of the existing theme, has a weight above 50% which is considered as a representative of all questions on ACGS.

b. Determine the Index of Corporate Governance Disclosure

The disclosure of CG in the check list uses a score of 1 for the company that discloses and 0 if it does not disclose. Then the score is summed to find out the total CG disclosure of the company.

Earnings manipulation

The dependent variable in this study is earnings manipulation. This earningsmanipulation is measured by the Beneish M-Score. Earnings manipulation is a dummy variable, if it is less than -2.22 which is classified as a non-manipulator company then given a number 0, if greater than -2.22 which is classified as a manipulator company then given a number 1.

The control variables in this study are Firm size and leverage which are re proxied by the following formula:

$$Firm\ Size = Ln\ Total\ Assets$$

$$Leverage\ = \frac{Total\ Hutang}{Total\ Assets}$$

Hypothesis Testing and Research Model

Methods

The analysis of the research uses panel data. Panel (data) analysis is a statistical method, to analyze two-dimensional (typically cross sectional and longitudinal) panel data. The data are usually collected over time and over the same individuals and then a regression is run over these two dimensions.This research uses Probit Model approach to developing a model that explains binary response regression models.Models with dependent and qualitative variables that are qualitative and discrete cannot be estimated using liner regression because of no longer BLUE estimator(Best Linier Unbiased Estimator). This is because the error variant is not normally distributed, the estimator is inefficient due to heteroscedasticity, and R^2 cannot be used as a measure of Goodness of Fit. Therefore, to produce the BLUE equation estimator, this study uses a qualitative response regression model in the form of a binary response. A probit model is a popular specification for an ordinal [or a binary response model]. As such it treats the same set of problems as does logistic regression using similar techniques. The probit model, which employs a probitlink function, is most often estimated using the standard maximum likelihood procedure, such an estimation being called a probit regression

The analysis used in this study is probit model regression analysis, as follows:

$$EM_{it}= \alpha + \beta_1 CT_{it} + \beta_2 KM_{it} + \beta_3 EP_{it} + \beta_4 CG_{it} + \beta_5 CT{*}CG_{it} + \beta_6 KM{*}CG_{it} + \beta_7 EP{*}CG_{it} + \beta_8 UP_{it} + \beta_9 LEV_{it} + \varepsilon_{it}$$

EM: Dummy variable (non-manipulator = 0, manipulator= 1). for the particular choiceEarnings Manipulation Practices according to the model in company i in year t, **α** =constant, $CT_{it=}$CEO *tenure* in company i in year t, $KM_{it=}$ Managerial skills of company i in year t,$EP_{it=}$Earning Power of the company i in year t, UP_{it}=Firn size of company i in year t. LEV_{it}=*Leverage*of company i in year t. CG_{it}=*Corporate GovernanceAsean Scorecard*of company i in year t, ε_{it} =*error term*

RESULTS AND DISCUSSION

This study uses samples of manufacturing companies listed on the Indonesia Stock Exchange and consistently follow during the observation period of 2012-2016. From 149 samples, there are 48 samples that consistently follow during the observation period of 2012, issue audited financial statements in rupiah , do not report losses dan were not outlier data during the that period resulted in the study, Therefore, during period, only 240 companies meet the sample criteria for five years (Table 1).

Table 1
DESCRIPTIVE STATISTICS

Variables	N	Minimum	Maximum	Mean	Std. Dev
CT	240	2.000	45.000	12.866	11.826
KM	240	-1.946	6.381	0.000	1.000
EP	240	0.000	13.470	0.308	1.424
CG	240	0.802	0.909	0.852	0.024
UP	240	5.109	8.418	6.324	0.755
LEV	240	0.074	6.615	0.469	0.626

CEO tenure variables in this study show the lowest value of 2 years owned by the company Semen Indonesia (Persero), Tbk and the highest value of 45 years owned by the company Ultra Jaya Milk Industry and Trading Company, Tbk. Tenure CEO's average value is 12.86667 with a standard deviation of 11.826453.

Managerial skills has the lowest value of -1.946 owned by Star Petrochem and the highest value of 6.381 owned by Astra Internasional Tbk.. The managerial skills average value is 0.00000, with a standard deviation of 1.000000.

The earning power variable (ROA) shows worst value (0,000)is owned by Delta Jakarta Tbkand the best value of 13,47%which is owned by Nippon Indosari Corpindo.. The average earning power is 0.308%, with a standard deviation of 1.42%.

Corporate governance variables in this study show the worst value owned by Star Petrochem Tbk with the value of 0.802 and the best CG was oened by Ultra Jaya Milk Industry and Trading Company Tbk with value of 0.909. The average corporate governance value is 0.85220, with a standard deviation of 0.0244436.

Company size as control variable show Duta Pertiwi Nusantara hasthe lowest assets with value of 5.109 and the highest value is owned by Indofood Sukses Makmur of 8.418. The average value in this study was 6.3242 with a standard deviation of 0.755273.

Sepatu Bata has the lowest Leverage with the value of 0.074 whileTrias Sentosa is the highest with the value of 6.615. The average value in this study is 0.46940 with a standard deviation of 0.626489.

Table 2
DUMMY VARIABLE COMPOSITION (EM)

Sample	N	%
Non Manipulator	68	28.34
Manipulator	172	71.66
Total	240	100.00

In this study there were 68 samples or 28.34% of companies that did not manipulate earnings and 172 samples or 71.67% of companies that did earnings manipulation

Table 2 shows the results of testing with probit regression at a 5% error level The test results on the probitregression coefficients model is as follows Table 3:

$$Pr\ EM = 6.216213 + 1.830823CT_{it} – 0.1926319KM_{it} – 0.2143686EP_{it} - 7.504029CG_{it} – 0.132563CT*CG_{it} – 0.0302345KM*CG_{it} - 0.2739064EP*CG_{it} + 0.0822346UP_{it} + 0.7872342\ LEV_{it}$$

Table 3
RESULTS OF PANEL PROBIT REGRESSION

Variables	Pred.	Coef	Sig	Decision
CT	+	1.830823	0.016	H1 accepted
KM	-	-0.192631	0.030	H2 accepted
EP	-	-0.214368	0.012	H3 accepted
CG	-	-7.504029	0.037	H4 accepted
CG_CT	-	– 0.132563	0.269	H5 rejected
CG_KM	-	– 0.030235	0.3905	H6 rejected
CG_EP	-	-0.273906	0.0165	H7 accepted
UP		0.082235	0.2785	
LEV		0.787234	0.0385	
Constant			0.037	

Table 3 RESULTS OF PANEL PROBIT REGRESSION				
Prob > chi2	0.0033			

The effect of CEO tenure on earnings manipulation practice

Based on the hypotesting tests that have been conducted, the results obtained that CEO tenure had a positive influence on earnings manipulation practice. CEO tenure as one of the characteristics of the company which also indicated to affect the practice of earnings manipulation, was successfully provenin this study. CEO tenure is related to the capacity of the manager to influence both firm's resources allocation and the financial reporting process (Fabrizio Di Meo, 2014). This is in line with research conducted by Muniroh (2016) which states that CEO tenure has a positive effect on earnings management.

The effect of managerial skills on earnings manipulation practices

Based on the results of the tests that have been conducted, the results show that managerial skills have a negative coefficient that means managerial skills have a positive effect on earnings manipulation practices. A capable manager is a manager who has a high level of intelligence and high education and experience who is able to make the right decisions that can provide a value added to the company. The more experienced a manager is usually directly proportional to the manager's understanding of the company's business conditions. As a company manager, managers have the responsibility to deliver their performance to parties with an interest in periodic financial statements. Therefore, experienced managers maybe doing earnings management to achieve the targets set by the company, because qualified managers will continue to improve the quality of their performance by utilizing the quality of existing company resources appropriately and efficiently so it make the management more opportunistic (Mukhtar, 2016). However this is contradiction with research conducted by Herlina (2015) which states that managerial skills have a negative effect on earnings management

The efffect of earning power on earnings manipulation practice

Based on the results of the tests that have been conducted, the results show that earnings power has a negative effect on earnings manipulation practices. Earning power as one of the characteristics of the company which is also indicated to affect the practice of earnings manipulation was successfully provenin this study. The effectiveness of a company in generating profits through the operation of its assets becomes a benchmark for company performance. Large profits will attract investors because the company has a higher rate of return. In other words, the higher this ratio, the better the productivity of assets in obtaining net profits. In other words, the higher this ratio, the better the productivity of assets in obtaining net profits so that management does not need to practice earnings manipulation. The higher the level of profitability, the company will tend not to manipulate earnings because the company will become the public spotlight, so the company is likely to try not to take actions that endanger the company's credibility. This is in line with research conducted by Pratiwi and Handayani (2015) which states earning power has a negative effect on earnings management

The effect of corporate governance on earnings manipulation practices

The test results showed that corporate governance had a negative effect on earnings manipulation practice. Corporate Governance is a series of mechanisms to direct and control a company so that the company's operations run in accordance with the expectations of stakeholders. Corporate governance is a system used by the "Board" to direct and control and supervise the management of organizational resources in an efficient, effective, economic and productive manner with the principles of transparency, accountable, responsible, independent, and fairness in order to achieve organizational goals.Corporate governance is a trustworthy and prudential corporate management practice that considers the balance of meeting the interests of all stakeholders. This is in line with research conducted by Ratnaningsih and Cholis (2012) which states that corporate governance has a negative effect on earnings management

Corporate governance in moderating the relation between CEO tenure and Earnings manipulation practice

The test results showed that corporate governance did not moderate the influence of CEO tenure on earnings manipulation practice. This study did not succeed in proving that corporate governance weakens the positive influence of CEO tenure on earnings manipulation practices. The CEO must be responsible if within a period of company profits or the results obtained are not in accordance with the objectives of the principal. Corporate governance, especially the supervisory board, did not play a role in holding management from manipulating profits in various ways.

Corporate governance in moderating the relation between managerial skills and earnings manipulation practice

Based on the test results, it was found that corporate governance did not moderate the influence of managerial skills on earnings manipulation practices. This means that the hypothesis that corporate governance weakens the influence of managerial skills on the practice of earnings manipulation is not acceptable. To reduce the occurrence of earnings manipulation, companies need to implement good corporate governance to harmonize differences in interests between company owners and management. The implementation of Corporate Governance management failed to weaken the tendency of management not to manipulate earnings, because of the obligation to submit financial statements in accordance with various applicable rules and principles.

Corporate governance in moderating the relation between earning power and earnings manipulation practice

Based on the results of the tests that have been carried out, the results show that corporate governance strengthened the effect of earning power on earnings manipulation practices. This means that the hypothesis that corporate governance moderates the negative effects of earnings on the practice of earnings manipulation is acceptable. Earnings manipulation and earning power are considered indicators that can influence the behavior of participants in the capital market. To please the market, management will make investors' expectations as profit targets to meet investor expectations about profits,. Investors assume that high earnings power guarantees return on investment and will provide a reasonable profit, therefore the company must display good management performance so that the company's earning power can be seen maximally. The implementation of better corporate governance will enable companies to reduce earnings manipulation eventhough management is often tempted to manipulate earnings.

Effect of Company Size on earnings manipulation practices

The results of this study found that the size of the company did not affect the practice of earnings manipulation. It is probably due to the fact that company managers in terms of earnings manipulation practices have different personal interests regardless of whether their company is large or small, which means large and small companies have the opportunity to practice earnings manipulation depending on the manager's personal the company itself.

The influence of corporate leverage on the practice of earnings manipulation

The results of this study state that leverage has a positive significant effect on earnings manipulation practices. This explains that companies that have high leverage ratios practice earnings manipulation practices to give the impression that the company is in good condition and to avoid failure to pay debts in time, so that it can provide information to creditors and various other stakeholders involved in that company in fact it is not in actual condition.

CONCLUSION

This study concludes that (1) CEO tenure is proven to have a positive effect on Earnings manipulation Practices, because CEO tenure is considered to be performing well and has a good reputation as well. When reputation is established, the benefits of earnings manipulation will increase (2) Managerial skills positively affect the Earnings manipulation Practice, an increase in the level of managerial skills measured through the level of efficiency in managing company resources, will lead to earnings manipulation. (3) Earning Power proved to have a negative effect on Earnings manipulation Practices, the higher the level of profitability, the company will tend not to manipulate earnings because the company will become the public spotlight, so the company is likely to try not to take actions that endanger the company's credibility. (4) Corporate governance has proven to have a negative effect on Earnings manipulation Practices. To avoid the practice of earnings manipulation within the company, corporate governance is needed. Corporate governance is a trustworthy and prudential corporate management practice that considers the balance of meeting the interests of all stakeholders. (5) Corporate governance does not weaken the influence of CEO Tenure on Earnings manipulation Practices, this is presumably because the implementation of CG has not been fully used in corporate activities (6) Corporate governance does not weaken the influence of Managerial Skills on Earnings manipulation Practices. It shows that the CG implementation function does not able to improve the application of managerial skills and lack of contribution in controlling earnings manipulation practices. (7) Corporate governance is proven to strengthen the negative influence of Earning Power on Earnings manipulation Practices, this is presumably because the full implementation of CG is used in company activities which have an impact on the higher ROA, the better the productivity of assets in obtaining net profits so that no earnings manipulation practices are necessary.

Limitations

The limitimation of this research are difficulties in determining the sample becauseof incomplete financial statements, subjectivity in the assessment corporate governance measurement using the Asean Scorecard and difficulties in managerial skills measurement with different variables to become a form of factors.

Implications

The results of this study can be used by several interested parties: for investors, the results of this study are expected to be used as a material consideration in making investment decisions, using information about the benefits of the model for assessing companies that manipulate earnings. For government and other parties, it drive to make rules that are applied to reduce earnings manipulation that occurs in companies as in reality there are still many companies that manipulate earnings. In its efforts to reduce earnings manipulation there are other things that need attention, such as each individual's understanding of the code of ethics. For management, this study gives notice to management to reduce fraudulent actions in financial reporting and to become Good Corporate Governance (GCG), companies can create anti-fraud programs and controls. Further research,number of samples can be developed to better represent the company's population in Indonesia by expanding the company sector, not only to manufacturing companies listed on the IDX but can also be added to other corporate sectors such as banking, service and industry companies, variety of measurement tools that describe the characteristics of the company can be added to find out more company characteristics that can affect the practice of earnings manipulation, not only quantitative data taken from financial statements but data that can be taken from the company's qualitative data and addition of moderating variables can be added not only to use Corporate Governance, but by adding Corporate Social Responsibility (CSR).

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