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RELATION BETWEEN ASYMMETRIC INFORMATION, CORPORATE GOVERNANCE AND EARNING MANAGEMENT EVIDENCE FROM INDONESIA

Annisa Nurfitriana[1], Winwin Yadiati[2]

[1]Annisa Nurfitriana

STIE Ekuitas, Bandung, Indonesia

[2]WinwinYadiati

Padjadjaran University, Bandung, Indonesia,

Abstract

Purpose–This paper aims to examine the influence of asymmetric information and corporate governance on earnings management for a sample of banks listed on Indonesian stock exchange.

Design/methodology/approach–A regression analysis model is use to determine the impact of asymmetric information and corporate governance on earning management. Cash and securities ratio and capital ratio are use as proxy of asymmetric information. 37 banks out of the 41 listed at the Indonesian Stock Exchange were analyzed from 2013 to 2014.

Findings –Results confirm that cash and securities ratio has a significant and negative influence onearnings management while capital ratio has a significant and positive influence on earnings management.The independency of a board of commissioners doesn`t have a significant and negative influence on earnings management, the size of a board of commissioners doesn`t have a significant influence on earnings management, and finally audit committee doesn`t have a significant influence on earnings management as well. Simultaneous, results confirm that cash and securities ratio, capital ratio, independency of a board of commissioners, size of a board commissioners and audit committee have a significant and positive influence on earnings management.

Key Words: Cash and securities ratio, capital ratio, independence of a board of commissioners, size of a board of commissioners, audit committee, earnings management.

1. Introduction

Earnings management is practiced by almost all companies to achieve certain goals. His pattern under certain conditions allows managers to maximize, minimize or smooth the company`s income. Many case related to earnings management in banking sector occurred in Indonesian specially in the year 2003 when a local bank public report where different than the internal one, which proved that there is an imbalance of information obtained between management and stakeholders. Earning Management that occurs in the bank is due to the desire of the former shareholders to have full ownership of the bank by reducing his stock price, such practice is part of the concept earnings management.

The issues faced by banks are mostly regarding credit. Managers use credit account in a bank in order to conduct earnings management whether it is for personal interests or the interests of the bank itself, which are conflictual. One credit policy consists of determining the Provision for Impairment Losses (CKPN). In this CKPN research it is called loan loss provision. Loan loss provision is an allowance established if the carrying amount of a loan after impairment is less than the initial carrying value (Indonesia, 2008). A provisioned loss of provision will be charged to the income statement and will affect the profitability of a bank. When earnings decrease decline, managers can decrease LLP in order to increase profits, and vice versa. Therefore, it is not uncommonthat LLP accruals is misused by managers to fulfill personal interests. Bank managers can perform earnings management by using policies in determining the amount of LLP reported. Meanwhile, according to (Kanagaretnam, 2004) and (Ahmed, 1998) LLP is one of the largest accruals used in banking sector.

The different provisions regulated by the PBI and the Indonesian accounting standards PSAK provide the basis for bank managers in determining their policies and plans. (Haryono, 2008) has stated that there are differences in standards between the Indonesian Institute of Accountants and regulators. Not only differences of opinion in setting standards, but also the fact that stakeholders as share owners are not fully aware of the policies and actions taken by management which raises the information gap between managers and stakeholders. This information gap between managers and stakeholders is called Information asymmetry. According to (Richardson, 2000) and (Beatty & Harris, 1998) Information asymmetry can occur when stakeholders don`t have sufficient access to supervise actions taken by managers, managers then having more complete information than stakeholders. This condition places managers in a position where they can manipulate earnings. Information asymmetry triggers managers to perform earnings management to maximize their personal benefits.

As a consequence of such conditions, there are several triggers that occur in the banking industry. First, banks managers expect their institutions to obtain external funding from investors. To attract investors to invest in the bank, the bank manager to increase profits for potential investors interested in investing in their institution, the higher the profit the better the bank performance and vice versa. Bank managers seek to publish high earnings in their reports so that the bank`s stock will look more appealing. The reason of such action is that, it will make investors to be more willing to buy the bank's shares so the bank obtains external funding that supports its operations, bank managers perform earnings management to maximize stock prices (Richadson: 2000). Secondly, there are incentives and bonuses that the bank managers want to acquire from their performance in managing. Managers who have access to information more than stakeholders can manipulate those information for their own interest, when their institution experiencea decreased in earnings, managers can lower the LLP so that profits can be increased. Conversely, when banks experience an increase of profit, managers can lower the LLP so that the profit will decreased. The increase and decrease in reporting earnings can be manipulated by managers. In addition, bank managers manipulate earnings by lowering the LLP so that the reported earnings are high, therefor managers can gain incentives from their performance, profit variability can be manipulated to suit bank manager's will. (Kanagaretnam, 2004).

Information asymmetry in banking sector is also a result of credit risk (Tarsidin & Warjiyo, 2006). The issue of information asymmetry can also occur when a borrower applies for a loan to the bank. In this case information asymmetry occur when the bank is not fully aware of the intent and purpose of a loan appliance, frequently creditors use their borrowings not in accordance with the contract terms under which they get the loan for. When this happens then it will cause what we call bad debts, which will affect the function of the bank, the possibility of credit default being always present. But on the other hand, regulators doesn`t have complete access of accounting information of each transaction, this ease managers to freely perform earnings management by choosing accounting methods that can suite the most to practice welfare management (Haryono, 2008).

Corporate governance deals with the transparency of information generated and needed, so that in the implementation of their activities managers can well manage their institutions. Moreover, banking is an industry that is supervised by the Indonesian central bank BI as the regulator, banks are required to report and present their financial statements in accordance with a predetermined standard. Baridwan (2006), Setiawati and Na'im (2001) in (Rahmawati, 2006) have stated that in order to meet the criteria determined by BI the bank managers perform earnings management. This explanation is reinforced by the statement of Guna and Herawaty (Guna & Arleen, 2010) that GCG can minimize earnings management.

2. Literature Review

Agency Theory

(Jensen & Meckling, 1976)define agency theory as" An agency relationship as a contractor which one or more persons (the principal (s)) engage another person (the agent) to perform some service on their behalf which involves delegating some decision-making authority to the agent".

Information Asymmetry

The condition of a company can be known from the financial statements reported in each period. Financial statements are used by external and external parties, one external party is shareholders. The financial statements presented become the basis for managers and stakeholders in making decisions.

The existence of different parties that have interest in the company, is the beginning of a gap that may occur between managers and stakeholders. The gap is due to the limited access to information by stakeholders and dominant control of information by managers. (Richardson, 2000) has stated that with the difference in information between managers and shareholders is a model of information asymmetry. Added by (Rahmawati, 2006) said that information asymmetry is a condition in which managers have more complete information compared to stakeholders. The information acquisition gap between managers and stakeholders leads to information asymmetry. The greater the information asymmetry the larger the information gap and the less disclosure made by managers.

The information gap in the banking industry also occurs between managers and regulators. To supervise and regulate the banking sector performance, regulators make standardized rules including in the accounting report system of banks.

Standards are determined by regulators because banks have characteristics that are different from other industries (Macey & O'Hara, 2003),Difference in characteristics cause differences in information asymmetry. Managers will try to report good performance and prepare financial statements in accordance with regulations and standards determined by regulators. Regulator can only obtain outlined information and cannot get information per transaction due to limited access and the number of transactions that occur in the banking system.

Cash and Security Ratios

The cash and securities ratios are a measure that describes the amount of cash held by banks in financing its operations (Lucas & McDonald, 1992). The ability of banks in performing their functions as collectors and distributors of funds is describe by the ratio of cash and securities of the bank. Banks should be able to provide funds for creditors who need funds, while at the same time banks also have to provide funds if their customers with draw funds.

Capital Ratio

Capital ratio is a measure that describes the amount of capital to anticipate any possible risk from a banking asset (Lucas & McDonald, 1992). The banking industry is inseparable from risks such as credit risk, market risk, operational risk and so on. These risks are always faced by bank institutions. Therefore, a bank's capital ratio determines the bank's ability to anticipate and manage his function when a risk occurs.

Corporate Governance

Banking activities can function well if a bank implement a good corporate governance. In Indonesia, corporate governance is regulated based on the Indonesian Central Bank BI Regulation Number 8/14 / PBI / 2006 (Indonesia, 2006).

Good corporate governance is a principle of an entity governance that applies the principles of transparency, accountability, responsibility, independence and fairness (PBI No. 8/14 / PBI / 2006). According to Prowson (1998) in Hastuti (2005) corporate governance is a mechanism applied by managers to implement what is the best for both the interests of their institutions and investors.

Independence of a Board of Commissioners

Independent commissioners are required in an organizational structure. The absence of relationships between the management board and the board of commissioners will minimize mismanagement issues. Independent commissioners in banking are regulated based on the Indonesian central bank Regulation no. 8/14 / PBI / 2006 which stated that independent commissioners should not have any relationship with the banking management board.

Independent commissioners serve to oversee all actions taken by managers in decision making and organizational management. Therefore, independent commissioners have the authority to gain access to information more freely. The existence of an independent commissioner within an organization improves the quality of information and may prevent the practice of earnings management (Fama and Jensen: 1983 in (Ujiyantho & Agus, 2007). But there are some researchers who argue that the existence of independent board of commissioners is not too influential because of the still low implementation of corporate governance applied in many companies ((Nasution & Doddy, 2007), (Guna & Arleen, 2010)).

Audit Committee

An audit committee is an independent commissioner with a certain expertise in finance and accounting as well as law (Indoneisa, 2006). When viewed from this definition point, an audit committee is needed in every bank, because banks are financial institutions that are bound by many regulations so an audit committee can bridge the liaison between the management board and stakeholders. The effectiveness of an audit committees is at least three members. The existence of an audit committee affects earnings management ((Nasution & Doddy, 2007) and (Nariastiti & Made, 2014)).

Definition of Earning Management

Earning Management is the process by which managers have the ability to use the discretion of their function to mislead stakeholders or overstates their results Healy and Wahlen (1999) in (Kanagaretnam, 2004). In addition,Schipper in (Richardson, 2000) had stated that earning management practice is a deliberate intervention by internal parties on external one in financial reporting for personal interests.

In contrast with Scott (2000) in (Rahmawati, 2006) who divides earnings management into two parts. First, earnings management is seen as opportunistic management behavior in terms of debt and compensation contracts and political costs. The reason why managers perform such practicesis that the company may obtain external funding from third parties such as other banks and investors. Funds obtained from external parties can be either credit or stock investment. Thus, earnings management is used mainly for funding purposes. Second, earnings management is seen from the perspective of efficient contracting. In this case managers can act and take decisions unilaterally if there is no control from stakeholders. managers can perform earnings management for the interests of a party involved in a given contract.

Research Design

In the relationship between managers and stakeholders often occurs information gaps. The existence of this information gap gives opportunity to managers to perform earnings management (Jensen & Meckling, 1976).

One method that can be used to evaluate information asymmetry in a bank is to use the ratio of cash and securities (Lucas & McDonald, 1992). Banks with high cash and securities ratio experience low earnings management practices, because NPLs in these banks are low (Lucas & McDonald, 1992). If the ratio of cash and securities is low then the NPL in the bank is high so the bank may try to perform earnings management by lowering reserve allowance for default credits.

In addition to the information asymmetry that led to the emergence of earnings management practices, the occurrence of case related to credit in some banks in Indonesia in 2014 is due to the lack of good management within the bank itself. Therefore, the low implementation of corporate governance played a role in triggering the occurrence of earnings management practices.

The board of commissioners constituteone part in the structure of a company that serves to oversee managers in their function. The existence of an independent board of commissioner in banking sector is also regulated by the Indonesian central bank PBI No. 8/14 / PBI / 2006 in which independent commissioners must have no relationship with anyone who may influence their independency. Supervision conducted by an independent board of commissioners is to produce quality information generated so that end users may obtain information’s that are accurate and transparent for their decision-making process.

(Nasution & Doddy, 2007) had stated that in a given banking system, an independent board of commissioners is required. This is necessary because in the supervision conducted by a board of commissioners there must be several independent commissioners. Where the board of commissioners is impartial to one of the stakeholders and cannot be influenced by anyone, so supervision by the independent board of commissioners better guarantees the quality of information because of the independency of an independent commissioners.

The existence of an independent board of commissioners minimizes earnings management practices. The independence of a board of commissioners indicates an independent nature that is neutral and prioritizes company’s goals. The ability of an independent board of commissioners is also required in supervising the implementation of management in order to avoid earnings management practices. Therefore, the existence of an independent board of commissioners can reduce the occurrence of earnings management practices. There are several researches on the relation between the independence of a board of commissioners and earnings management practices (Ujiyantho & Agus, 2007), (Nasution & Doddy, 2007), and (Guna & Arleen, 2010).

The size of a board of commissioners is also part of a corporate governance which is the total number of boards of commissioners including independent commissioners. Indonesian Central Bank as the regulator of the banking industry also issued rules related to the size of a board of commissioners that must be present in any bank. The regulation is stated in the Central Bank rule PBI no. 8/14 / PBI / 2006.

Jensen (1993) in (Nasution & Doddy, 2007) have stated that the more the number of board of commissioners in a company the more the decline in performance in the company. This happens because the number of personnel who conduct supervision on a company would be too high. As a result, it will often occur communication errors and the existence of conflict of interest which will affect the performance of the board of commissioners itself in carrying out its function.

The relationship between the size of a board of commissioners and earning management practices is examined by Midiastuty and Machfoedz (2003) in (Guna & Arleen, 2010) who stated that fewer board of commissioners can minimize the occurrence of earnings management practices. The fewer the number of boards of commissioners accompanied by adequate capability the fewer the number of conflict of interest and communication errors in performing its functions. The number of boards of commissioners can lead to the effectivenessin the execution of its responsibilities, and it can result in earnings management practices. Therefore, the size of a board of commissioners play a role in affecting earnings management.

Audit committees in every bank, are a decisive component of good governance in a banking system. The audit committee has responsibilities in monitoring and evaluating a predetermined banking plans,an internal audit committee report is the adequacy of a bank internal controls. Therefore, an audit committee must be set up by banks in its corporate governance scheme. The set-up of an audit committee by every bank is also regulated by the central bank in his regulation PBI no. 8/14 / PBI / 2006 stating that banks must have at least an audit committee composed of at least three members.

The existence of the audit committee can also affect the earnings management practices that occurs. Several researches were conducted on the relation between the presence of an audit committee and earnings management practices(Nasution & Doddy, 2007)and (Wilopo, 2004) with the results that an audit committee can affect earnings management practices. Earnings management practices can be minimized by the presence of an audit committees that have capabilities and competencies in banking finance, accounting and law.

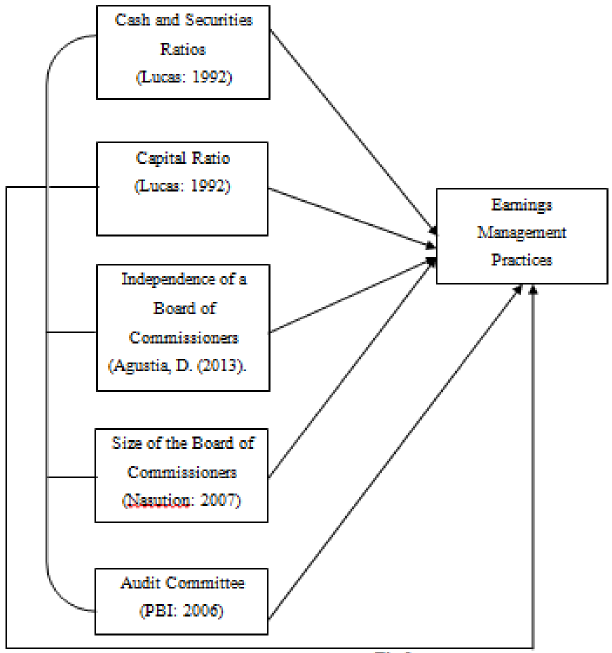

Fig 1

Research Framework

Hypothesis

1: Cash and securities ratios have a significant effect on earnings management practices.

2: Capital ratio has a significant effect on earnings management practices.

3: The independence of a board of commissioners has a significant effect on earnings management practices.

4: The size of a board of commissioners has a significant effect on earnings management practices.

5: Audit committee has a significant effect on earnings management practices.

3. Methods

The research aims to determine the characteristics and relation between the variable information asymmetry and the variable earnings management practices that occurredin the banking industry, the banks that are involve in this study are taken from the one listed on the Indonesian Stock Exchange BEI between 2013 and 2014. The method used in explaining the characteristics of the two variables is a descriptive one. We also use discretionary accrual to examine the effect of information asymmetry on earnings management practices. Finally, we use a verification method to evaluate and determine the effects that occur between information asymmetry and earnings management.

We use secondary data. The data were taken from the stock exchange website, where we downloaded banks financial statements of the year 2013-2014.

The number of banks listed on the BEI is 41 banks. In accordance with the results of the sample formula, the sample size needed to represent the banking industry listed on the BEI should be 37 banks, we therefore analyzed 37 banks in this study.

The independent variable in this research consists of five variables, namely

1- Cash and Securities Ratios

The ratio of cash and securities is a ratio that measures the amount of cash and securities on the total assets owned by a bank. The ratio of cash and securities in this research is as follow (Lucas & McDonald, 1992):

$$\frac{Cash + Securities}{Total\ Asset}$$

2- Capital Ratio

The capital ratio is the ratio of capital on total assets of a bank. The ratio of capital in this research is as follow (Lucas & McDonald, 1992):

$$\frac{Capital}{Total\ Asset}$$

3- Independence of the board of commissioners

The independence of a board of commissioners is represent by the number of independent board of commissioners. An independent board of commissioners exercises supervision over the management by having an impartial independent behavior toward any person inside a bank. In (Nasution & Doddy, 2007) the independence of the board of commissioners is calculated using the following formula:

$$\frac{Number\ of\ independent\ board\ of\ commissioners}{Total\ \text{Commissioners}}$$

4- The size of a board of commissioners

The size of the board of commissioners is the number of members of a board of commissioners that a bank possesses (Beiner et al: 2003 in (Ujiyantho & Agus, 2007)). The Board of Commissioners has the duty to exercise supervisory function on the implementation of the Company's activities. The size of the board of commissioners is measured by counting the total members of the board of commissioners in a bank ((Nasution & Doddy, 2007) and (Ujiyantho & Agus, 2007))

5- Audit Committee

Audit committees are formed to monitor the implementation of good governance and the banking activities, so that bank would not violate the rules that apply in the banking sectors. Audit committee is measured from the total audit committee that a bank possesses.

Based on the operationalization of these variables, the research model is as follows:

$$DA = \beta 0 + \beta 1\ RKS + \beta 2\ RM + \beta 3\ IDK + \beta 4\ UDK + \beta 5\ KA + \varepsilon.$$

With DA representing Discretionary accrual (DA). The information asymmetry is proxied by the cash and securities ratios RKS and the capital ratio. While corporate governance is proxied with the independence of a board of commissioners IDK, the size of a board of commissioners UDK and audit committees KA are measured by the number of audit committees registered, reported in the financial statement of banks.

Data

The sampling technique we use in this research is the systematic sampling method. In accordance with the results of the sampling formula used, the sample size needed to represent the banking industry listed on the stock exchange BEI is 37 banks. Those banks are listed in the table 1.

Table 1

Bank Sample

No	Bank Code	Bank Name
1	AGRO	Bank Rakyat Indoneisa Agro NiagaTbk.
2	AGRS	Bank AgrisTbk.
3	BABP	Bank MncInternasionalTbk.
4	BACA	Bank Capital Indonesia Tbk.
5	BAEK	Bank EkonomiRaharjaTbk.
6	BBCA	Bank Central Asia Tbk.
7	BBKP	Bank BukopinTbk.
8	BBMD	Bank Mestika Dharma Tbk.
9	BBNP	Bank Nusantara ParahyanganTbk.
10	BBRI	Bank Rakyat Indoneisa (Persero) Tbk.

11	BBTN	Bank Tabungan Negara (Persero) Tbk.
12	BBYB	Bank Yudha Bhakti Tbk.
13	BCIC	Bank MutiaraTbk.
14	BDMN	Bank Danamon Indonesia Tbk.
15	BEKS	Bank Pundi Indonesia Tbk.
16	BINA	Bank Ina PerdanaTbk.
17	BJTM	Bank Pembangunan Daerah JawaTimurTbk.
18	BKSW	Bank KesawanTbk.
19	BMAS	Bank Maspion Indonesia Tbk.
20	BMRI	Bank Mandiri (Persero) Tbk.
21	BNBA	Bank Bumi Arta Tbk.
22	BNGA	Bank CimbNiagaTbk.
23	BNII	Bank Internasional Indonesia Tbk.
24	BNLI	Bank PermataTbk.
25	BSWD	Bank SwadesiTbk.
26	BTPN	Bank Tabungan Pensiunan
27	BVIC	Bank Victoria InternasionalTbk.
28	DNAR	Bank Dinar Indonesia Tbk.
29	INPC	Bank ArthaGrahaInternasionalTbk.
30	MAYA	Bank MayapadaInternasionalTbk.
31	MCOR	Bank WinduKentjanaInternasionalTbk.
32	MEGA	Bank Mega Tbk.
33	NISP	Bank NispOcbcTbk.

34	NOBU	Bank NationalnobuTbk.
35	PNBM	Bank Pan Indonesia Tbk.
36	PNBS	Bank Pan Indonesia SyariahTbk.
37	SDRA	Bank HimpunanSaudara 1906 Tbk.

The financial statement of these 37 banks were then analyzed.

4. Results and Discussions

The results show that cash and securities ratio has a significant and negative effect on earnings management practices. This means that the lower the cash and securities ratio the higher the earning Management practices. This is because when the cash and securities of a bank are low, the bank manager will try to report a better position, then a high cash and securities for his bank to be saidto have good asset quality, this could be what trigger managers to perform earnings management practices.

The ratio of cash and securities to total assets affects earnings management practices. When the cash and the securities of a bank are low, banks cannot fully perform their function as financial institutions such as channeling funds. The inhibition of the banking function as a fund channeling institution is caused by the stalled credit funds. Therefore, when a bank has a low cash and securities ratio, it can trigger managers to perform earnings management practices in order to reporta higher cash and securities ratio. These results are in line with the one of the research conducted by (Agustia, 2013) which stated that companies with high cash will not do profit manipulation practices.

Results also show that the capital ratio has a significant and positive effect on earnings management practices. The higher the capital ratio the higher the earning Management practices.

Banks will practice earnings management significantly when its profit is low. High earnings may be attributable to the LLP charges reported in the income statement. To generate a high earning managers can lower LLP doing so, the reported NPLs will be low. The low LLP that is charged generates a high profit and will increase the capital ratio. These findings are in line with the one of (Lucas & McDonald, 1992) who stated that ahigh capital ratio when the a has a low credit quality may reflect high earnings management practices.

The independence of a board of commissioner have a negative but not significant effect on earnings management practices. This shows that the lower the independence of a board of commissioners the higher the earnings management practices. This finding may also reflect the lack of implementation of GCG by banks. The Indonesian Central Bank Regulation Number 8/14 / PBI / 2006 regarding the Implementation of Good Corporate Governance stipulated that the number of independent commissioner shall be at least 50% of the total members of the board of commissioners. In fact, there are still some banks that have an independent board of commissioners of less than 50% of the total members of the board of commissioners, they are still some banks that has not yet fully implemented the central bank regulation regarding the GCG.

This finding is in line with the one of (Agustia, 2013) which states that the independence of a board of commissioners has no significant effect on earnings management practices. This may be because the independent board of commissioners are not doing their role normally, and due to the lack of responsibility regarding their duties carried out, it will not affect the practice of earnings management that occurs inside the bank. (Guna & Arleen, 2010) also stated that the independence of the board of commissioners does not significantly affect earnings management practices due to the lack of capability that boards of commissioner spossessed, moreover, some banks tend to have an independent board of commissioners only in order to meet the standards required by central banks (Farida, 2010).

The size of a board of commissioners has a negative but not significant effect on earnings management practices. The size of a board of commissioners can affect earnings management practices,the smaller the size of a board of commissioners the higher the occurrence of earnings management practices, the higher the board of commissioners the lower the earnings management practices. When the size of a board of commissioners is large then the task of the board in supervision, banking control can minimize earnings management practices, but the size of a board of commissioners has no significant effect on earning management practices. One of the causes may be the lack of skills and expertise possessed by the board of commissioner. This result is in line with the one of Djuitaningsih and Marsyah (Djuitaningsih & W, 2012) which states that the size of a board of commissioners has no significant effect on earning management practices, simply because the size of a board of commissioners does not guarantee good supervision of a company. The important thing in the existence of a board of commissioners is the ability and integrity that must be possessed by the board in order to be able to perform their task well. According to Jennings (2005) in (Farida, 2010) the main factor in supervision is the effectiveness of control performed in a company, saying so, the size of the board of commissioners has a negative but insignificant effect on earnings management practices.

Audit committee has a positive but not significant impact on earnings management practices. A number of audit committees exceeding the standards may lead to the ineffectiveness of the function of audit. If seen from the non-significant influence of an audit committee on earnings management practices, we can notify several factors. One of them is, the lack of application of the central bank regulation No. 8/14 / PBI / 2006 on the Implementation of Good Corporate Governance. The Central bank stipulate that from the total number of an audit committee, at least 51% must be made of an independent auditor, and chaired by an independent commissioner. Another factor is the number of audit committee in a bank, one committee is sufficient. The phenomena that we see these days is that, some audit committees that exist in the banking system are just there to meet the rules regardless of the capabilities possessed by the audit committee itself. These results support the research conducted by Djuitaningsih and Marsyah (2012), (Farida, 2010) and (Agustia, 2013) who found out that the existence of an audit committee is not for the effectiveness of the control of acompany'spractices, but only to meet the rules and regulations that are set. This maybe the reason why an audit committee in the banking sector is influential but does not have a significant effecton earnings management practices.

Cash and securities ratio, capital ratio, independence board of commissioner, board size of commissioner, and audit committee, as a whole have significant influence on earnings management practices. The lower the cash and securities ratio, the higher the capital ratio, the lower the independence of the board of commissioners, the lower the board size and the higher the audit committee will result of an increase of earnings management practices.

Information gap that occurs between managers and stakeholders occur when managers are more informed than stakeholders. The crucial problem faced in the banking industry is about credit. This is because credit is the largest accrual in the banking industry (Kanagaretnam, 2004). If not accompanied by proper CG implementation, then managers will arbitrarily manipulate credit positions. When managers are more informed than stakeholders and at the same time there is no corporate governance implementation, there is a high possibility of earnings management practices.

Investors will be disadvantaged with information related to the quality of the bank in providing large dividends. If investors do not get the correct information about the condition of a bank especially related to dividends and shares then investors will be deceived by information that has been manipulated by managers. This may result in investors not receiving or receiving less dividends than the approved agreements.

In addition to investors, debtors who do not know and understand correctly the rules that apply at the bank will be harmed as well. When debtors apply for credit, the terms of the agreement are almost entirely with regard to banking, finance and law. For the lay debtor, it can be a big issue if the bank's management board can perform earnings management related to credit agreement.

Bank customers also become part of the stakeholders who are entitled to obtain quality information. The largest source of bank funds comes from customers who keep their funds in the bank. If misused by the bank without the knowledge of the customer, it will certainly harm the customer. Not a few banks are misusing customer funds for the benefit of certain parties.

Several cases indicate the existence of information asymmetry between managers and stakeholders that harm the other side. In addition to the information asymmetry, the implementation of CG is not good enough to be the cause of earnings management practices in the banking industry. The role of a board of commissioners, the independency of a board of commissioners in supervising and monitoring the implementation of the banking rules and regulations is not respected properly, causing the distribution of fictitious credit. To reduce the occurrence of earnings management practices in the banking industry,Information asymmetry should be eradicated and the implementation of GCG should be apply strictly.

The results of this study are supported by research conducted by (Nariastiti & Made, 2014) and Cormier et.al. (2010) in (Handayani & Rachadi, 2009) which states that information asymmetry and CG influence earnings management practices.

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