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THE EFFECT OF POLITICAL CONNECTION, INDEPENDENT COMMISSIONERS AND SALES GROWTH ON EARNING MANAGEMENT WITH COMPANY SIZE AS A MODERATING VARIABLE

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Political Connection, Independent Commissioner, sales growth and earnings management

ABSTRACT
The purpose of this research is to analyze the effect of Political Connection, Independent Commissioner, sales growth on earnings management. The population of this research is all manufacturing companies in the consumer industry sector that are listed on the Indonesia Stock Exchange from 2018 to 2021. There are 31 companies that meet the criteria using the purposive sampling method. The results show that sales growth have a positive effect on earnings management. Political connections and independent commissioners have no effect on earnings management. The moderating variable of company size is able to strengthen the effect of sales growth on earnings management but is unable to strengthen the influence of political connections and independent commissioners on earnings management.

INTRODUCTION

The company's operations can run effectively with financial support from various parties such as banks, investors and other parties. At this point, the company must make financial statements as an accountability for the assistance it receives. Financial statements contain information about the status and results of the company in a certain period of time. The higher the quality of the company's financial statements submitted, the more convincing outsiders will be when they see the company's financial performance and decide to invest in the company. Profit is the main focus for users of financial statements, especially for investors, so the company will be motivated to manipulate profits so that the company's performance looks good and attracts investors to invest (Asitalia & Trisnawati, 2017).

Earning management is the result of misalignment of interests between managers and company owners due to the asymmetry of information between management and shareholders. Managers can manipulate financial statements by taking advantage of loopholes or flexibility of applicable accounting standards. So that each company can choose a different principle and there is no absolute truth for the basis of the assessment. The phenomenon of earning management that has occurred in Indonesia is based on reports on fact-based investigations conducted by PT. Ernst and Young Indonesia on March 19, 2019, namely there were findings related to double bookkeeping and differences in the 2017 Financial Statements (audited) data and company internal data conducted by PT. Ernst and Young Indonesia. Tiga Pilar Sejahtera Food Tbk (AISA).

In addition, other earning management cases occurred in property companies PT Hanson Internasional Tbk (MYRX), PT Garuda Indonesia (Persero) Tbk in 2018, PT. Sunprima Nusantara Financing and PT. Life Insurance. This study was conducted to determine the factors that affect earning management by testing whether there is an influence between political connections, independent commissioners and sales growth on earning management with company size as a moderation variable.

THEORETICAL FOUNDATIONS AND HYPOTHESIS DEVELOPMENT

Agency Theory

(Jensen & Meckling, 2019) explain the relationship between agent and principal in agency theory, where the principal is the owner of economic resources such as shareholders and the agent is the party who manages the use and control of resources, namely the manager. Agents are authorized to manage the use and control of company resources. But sometimes agents act not as expected by the principal, because they want to maximize personal benefits as the party who manages the company. Meanwhile, the principal wants to know information related to the company's operational activities and the use of funds in the company.

According to (Eisenhardt, 1989) states that the theory of agency is explained using three assumptions of human nature, the first, human beings are generally self-interested. Second, humans have limited thinking about the perception of the future. Third, humans tend to choose to avoid risks. Based on these assumptions of basic human nature, managers tend to act on their personal interests. Self-interest can lead the manager to commit actions that are detrimental to all parties who have a relationship with the company he manages. In overcoming agency problems, there are several costs that must be incurred called agency costs. According to (Jensen & Meckling, 2019) Agency costs are divided into 3, namely monitoring costs, bonding costs, and residual losses.

Earning management

Earning management according to (Scott, 2015) is a manager's decision to choose a certain accounting policy to achieve certain goals by increasing profits or reducing the level of reported losses. Accounting policies carried out by the management in controlling accrual transactions, where financial statements are made to look quality so that they are in demand by shareholders, creditors, and other parties to participate in the company, but can cause various related conflicts.

According to (Scott, 2015) there are several motivations that encourage management to do earning management, namely (1) bonus motivation, the manager will manage profits to maximize the bonuses that will be obtained by the manager; (2) other contracting motivation, relating to the requirements for the fulfillment of debt agreements, it is expected that high profits can minimize the occurrence of violations of debt agreements; (3) meet investors earnings expectations, The reported profit is greater than investors' expectations so that the company's stock price will increase due to predictions that the company has good prospects; (4) Stock Offerings, companies that plan to go public have the motivation to do earning management by reporting high profits so that the company's share price increases. Earning management has four archetypes, namely taking a bath, income minimization, income maximization, and income smoothing.

Political Connection

Political connection is one of the components that influence the action of earning management, political connection is the condition of the existence of a certain party affiliation relationship with other parties who have political interests or links to reach an agreement that benefits both parties (Ghonji Feshki, Khanmohammadi, & Yazdani, 2020). One of the advantages of companies with political connections is that there is protection from politicians for the company as a place to invest so that managers do not have to pay too much attention to the quality of financial reporting.

(Supatmi & Putri, 2022) stated that there are findings that support the agency theory, where when the company's board is connected politically, it will encourage earning management, one of the forms of earning management actions carried out is to maximize profits in order to get greater bonuses and these actions can protect the company from debt agreements.

Independent Commissioner

Independent commissioners are members of the board of commissioners who are not affiliated with the board of directors, other commissioners, and controlling shareholders. In addition, they are free from business relationships or other relationships because it can affect their ability to act independently or act solely for the benefit of the company (Mardjono & Chen, 2020). Monitoring by independent commissioners can limit opportunistic managers because effective corporate governance can reduce agency costs as management prioritizes the best interests of shareholders by maximizing company resources so as to suppress earning management.

(Wimelda & Chandra, 2018) stated that the independent board of commissioners has no effect on earning management, meaning that the large number of members of the independent board of commissioners does not affect the occurrence of earning management, because they only supervise and are appointed by the majority shareholder in the GMS so that if it is not in line with the decision of the owner, they can replace the independent commissioner.

Sales Growth

Revenue growth shows the success rate of the company's operations so that it can trigger a company to modify the company's revenue to maintain revenue with an uptrend and generate increased profit trend. So the company tends to modify profits when there are fluctuations in sales. When a company's revenue growth declines, management tends to do earning management because investors like stable or increasing revenue growth (Mardjono & Chen, 2020).

Company Size

Company size is one of the scales used to determine the size classification of a company. Company sizes can be classified into three types, namely large, medium, and small. People tend to be more familiar with large-sized companies than small-sized companies. So, every decision made by a large company will affect the community. Therefore, companies must be careful in submitting financial statements and the presentation of these financial statements must be accurate (Yunietha & Palupi, 2017).

According to (Arthawan & Wirasedana, 2018), the larger the size of the company, the larger it is, the higher the demand for company information by the public, so companies tend to be careful in determining policies that will affect the company's financial reporting.

The Age of Company

The age of the company is the time the company operates since the company's inception. Investors tend to trust companies that have been established for a long time more than those that have just been established. Investors assume that a long-established company has a larger profit margin compared to a newly established company. Companies that have been established for a long time have experience that makes them learn better so that they get bigger margins (Kalbuana, Suryati, & Pertiwi, 2022).

Leverage

Leverage is the ability of a company to use funds that have a fixed load or debt effectively so that it can obtain an optimal level of operating income. The use of leverage will reduce shareholder profits if the company's fixed costs are less profitable. Usually the company will report a higher profit to maintain the company's reputation in the eyes of the public. This is done because high leverage ratios generally find it difficult to obtain additional funds from external parties, because external parties will assess that the company will be threatened with debt default.

Return on Asset

Return on Asset is a tool used to measure a company's ability to manage company profits and is an indicator of the company's efficiency in its business. Return on investment measures a company's efficiency in making a profit through the use of the company's assets. Therefore, Return on Asset is an excellent measure of calculating the rate of return for shareholders. If the company debt free, then the return on assets and return on equity will be the same (Bintara, 2021).

Hypothesis Development

The effect of political connection on earning management

Companies that have political relationships will be more aggressive in manipulating corporate profits. This shows that the existence of political relations in developing countries such as Indonesia is still needed to provide various facilities in achieving corporate goals. Political relationships are believed to significantly help company managers achieve company growth, and serve as a valuable resource for the company (Wati, 2022). Research conducted by (Supatmi & Putri, 2022) states that Political Connection has a positive effect on Earning management. The results of the study are in line with the research conducted by (Alhmood, Shaari, & Al-dhamari, 2020) and (Ghonji Feshki et al., 2020). Based on the above, the hypothesis can be formulated as follows:

H1: political connection has a positive effect on earning management.

Effect of Independent Commissioner on earning management

(Mardjono & Chen, 2020) stated that the existence of an independent commissioner can encourage managers to be opportunistic and motivate managers to have the right accounting policies. This is in line with research conducted by (Fitriana & Purwohandoko, 2022) and (Christina & Alexander, 2019) where independent commissioners have a significant effect on earning management because independent parties have no ties or interests with management so that they are free from managerial pressure and intervention. The greater the number of independent commissioners, the better the quality of oversight, along with the many demands from independents who want transparency. The existence of an independent commissioner will further strengthen the supervision of the board of commissioners because it is not affiliated with the company and will reduce earning management. The results of the research conducted by (Mardjono & Chen, 2020) and (Christina & Alexander, 2019) are in line with the research conducted by (Fitriana & Purwohandoko, 2022). Based on the above, then the hypothesis can be formulated as follows:

H2: Independent Commissioner does not affects earning management.

The Effect of *Sales Growth* on earning management

Sales growth has a negative influence on earning management because companies tend to modify profits when there are sales fluctuations. When a company's revenue growth declines, management tends to do earning management because investors favor steady or increased revenue growth. While (Edison & Nugroho, 2020) stated that sales growth has a positive effect on earning management, this shows that high sales growth has the motivation to do earning management to maintain profit trends and sales trends. Year-over-year sales increases accompanied by an annual increase in profits with unchanged financing and debt will increase shareholder income. The conditions that occur encourage management to carry out earning management. Based on the above, then the hypothesis can be formulated as follows:

H3: Sales Growth has a positive effect on earning management.

Company size can moderate the effect of political connection on earning management

The size of a company is closely related to the connections that the company has, the larger the size of the company, the more people involved in the company's operational activities and opens up the opportunity for greater political connections within the company. According to (Supatmi & Putri, 2022) stated that when the company's board is connected politically, it will encourage earning management, one of the forms of earning management actions carried out is to maximize profits in order to get greater bonuses and these actions can protect the company from debt agreements. Thus there is the possibility of the company's management maximizing profits by reducing discretionary expenses such as research and development costs, advertising costs, sales, administrative and general costs. In this study, company size acts as a moderation variable that is expected to moderate the influence of *Political connection* on earning management. Based on the above, then the hypothesis can be formulated as follows:

H4: Company Size Strongly Strengthens the Positive Influence of *Political Connection* on earning management.

Company size can moderate the Effect of Independent Commissioners on earning management

The size of the company will affect the number of commissioners in a company. Where the greater the number of commissioners, there is an opportunity for a greater number of independent commissioners. With the large number of independent commissioners, it is expected to further strengthen the supervision of the board of commissioners because it is not affiliated with the company and will reduce the earning management that will be carried out by the company's managers. In this study, the size of the company acts as a moderation variable that is expected to moderate the influence of independent commissioners on earning management. Based on the above, then the hypothesis can be formulated as follows:

H5: Company size strongly strengthens the negative influence of independent commissioners on earning management

Company size can moderate the effect of sales growth on earning management

The size of a company will affect the amount of sales that occur in the company. Large companies usually have a network that is already wide enough so that it will have a higher level of sales fluctuations compared to small-sized companies. So that large companies experience a tightening of revenue growth, company management tends to do earning management because investors like stable or increased revenue growth to maintain the company's image in community. In this study, company size acts as a moderation variable that is expected to moderate the influence of sales growth on earning management. Based on the above, then the hypothesis can be formulated as follows:
H6: Company size strengthens positive effect of sales growth on earning management.

RESEARCH METHOD

The sample selection technique in this study is the purposive sampling method, where the samples used in this study are based on certain criteria that are in accordance with the research objectives. There were 31 manufacturing companies that met the criteria set so that they were used as samples in this study.

Dependent Variables

Earning management measurement using real earnings management in the journal (Ghonji Feshki et al., 2020), to calculate the value of real earnings management is carried out by the following formula :

$$CFO\ t/Ass\ t\text{-}1 = \beta\ 1\ (1/Ass\ t\text{-}1) + {}_{\beta\ 2}\ (s\ t/Ass\ t\text{-}1) + \beta_3(\Delta\ s\ t\ /Ass\ _{T\text{-}1}) + \varepsilon t\ ({}_1)$$

$$PRC\ t/Ass\ t\text{-}1 = \beta\ 1\ (1\ /\ Ass\ t\text{-}1) + \beta\ 2\ (s\ _{it}\ /\ Ass\ t\text{-}1) + \beta\ 3(\Delta\ s\ t\ /\ Ass\ t\text{-}1) + {}_{\beta\ 3}(\Delta\ s\ T\text{-}1\ /Ass\ _{T\text{-}1}) + \varepsilon t\ ({}_2\ )$$

$$DIE\ t/Ass\ t\text{-}1 = \beta\ 1\ (1/Ass\ t\text{-}1) + {}_{\beta\ 2}(s\ T\text{-}1\ /Ass\ _{T\text{-}1}) + \varepsilon t\ (3)$$

$$REM = ACFO\ (-1) + ADIE\ (-1) + APRC\ (4)$$

CFOt = Operations cash flow in period t
Asst-1 = The lagged total assets
St = The annual sales
Δ st = The change in sales relative to the prior period
Δ st-1 = The sales in year t-1 less sales in year t-2
PRCt = The sum of the cost of goods sold ðCOGStÞ and changes in inventory (ΔINV) during The Year
DIEt = The total of discretionary expenses in the period t (sum of advertising expenses, R and D expenses, and SG and A)
st-1 = The lagged total sales
REM = The aggregate value of the standardized ACFO (−1), standardized APRC, and standardized ADIE (−1), calculated by Equation (4) to measure overall REM.
ACFO = The abnormal cash flow from operations calculated as a residual from Equation (1)
ADIE = The abnormal production costs calculated as a residual from Equation (2)
APRC = the abnormal discretionary expenses calculated as a residual from Equation (3)
β1 – β4= Regression parameters

Variables	Measurement	References
Independent Variables		
Political Connection	A company is defined as politically connected if at least one of its major shareholders or one of its board members is a member of a government agency. 1=The company has a Political connection 0=Company does not have a Political connection	(Ghonji Feshki et al., 2020)
Independent Commissioner	Number of independent commissioners/Total Commissioners	(Mardjono & Chen, 2020)
Sales Growth	(Current year sales – Previous year's sales) / Previous year's sales	(Mardjono & Chen, 2020)
Moderation Variables		
Company Size	Natural Logarithm (Total Assets)	(Alhmood et al., 2020)
Control variables		
The Age of Company	Current Year - The year the Company was formed	(Alhmood et al., 2020)
Leverage	Total Liabilities/Total Assets	(Alhmood et al., 2020)
Return on Asset	Current year profit/Total Assets	(Choi, Chung, Kim, Kim, & Choi, 2020)

RESULT AND DISCUSSION

Data Description

The population in this study is all consumer goods industry companies listed on the Indonesia Stock Exchange for the 2018-2021 period. The data analysis method in this study is panel data regression analysis. The number of ampelous sin this study was 124 samples using the purposive sampling method during the observation period with panel data balance. The following are the results of the distribution of research samples:

Table 1
Distribution of Research Samples

Sample Criteria	Number of companies
1. Manufacturing companies listed on the Indonesia Stock Exchange from 2018 to 2021,	47
2. Inconsistent manufacturing companies use rupiah currency in the presentation of financial statements from 2018 to 2021.	(0)
3. Inconsistent manufacturing companies made profits from 2018 to 2021.	(16)
Samples used in the study	**31**

Research Period	**4 years**
Total Observations	**124**

Descriptive Statistical Analysis

Table 2
Descriptive Statistics

Variable	N	Minimum	Maximum	Mean	Std.Dev
EM	124	0,147410	2,654074	0,886318	0,442423
PC	124	0,000000	1,000000	0,225806	0,419809
KI	124	0,000000	0,833333	0,390649	0,149794
SG	124	-0,470921	1,273016	0,100810	0,214597
AGE	124	9,000000	92,00000	42,72581	19,29334
LEV	124	0,064120	0,792736	0,374190	0,166537
ROA	124	0,000526	0,920997	0,120415	0,125530

Source : Data Processing Eviews 12

Panel Data Model Analysis

Table 3
Chow Test

Effect Test	Statistics	d.f	Prob
Cross-section F	7,464913	(30,84)	0,0000
Cross-section Chi-square	161,089902	30	0,0000

Source : Data Processing Eviews 12

The results of the chow test in table 3 show that the probability value of cross section chi square is 0.0000 < 0.05 (alpha 5%) then Ha (fixed effect model) is accepted, so there are differences in characteristics both individually and between periods.

Table 4
Hausman Test

Test Summary	Chi-Sq. Statistics	Chi-Sq. d.f.	Prob
Cross-section random	12,797106	9	0,1720

Source : Data Processing Eviews 12

The results from table 4 above show the probability of Cross-section random 0.1720 > 0.05 (alpha 5%) then it means that Ha is rejected. It can be concluded that based on the results of the hausman test the right model is the Random effect model.

Table 5
Test Lagrange Multiplier

	Test Hypothesis		
	Cross-Section	**Time**	**Both**
Breusch-Pagan	54,72139	1,870952	56,59234
	(0,00000)	(0,1714)	(0,00000)

Source : Data Processing Eviews 12

The result from table 5 above shows the probability of the Breusch-Pagan Cross-section 0.00000 < 0.05 (alpha 5%) then it means that Ha is accepted. It can be concluded that based on the results of the Lagrange Multiplier test, the right model is a Random effect model.

Hypothesis Testing

Table 6
Hypothesis Test

Variable	Coefficient	Sig	Conclusion
PC	2,348826	0,2665	H1 Declined
KI	-3,704757	0,2128	H2 Rejected
SG	8,432372	0,0154	H3 Accepted
PC*SIZE	-0,081764	0,2469	H4 Rejected
KI*SIZE	0,122077	0,2177	H5 Rejected
SG*SIZE	0,267805	0,0297	H6 Accepted
AGE	-0,000655	0,8375	
LEV	-0,221162	0,3599	
ROA	-0,430585	0,1331	
C	0,951560	0,0000	
Adjusted R-Squared	0.343867		
Prob (F-statistic)	0.000000		

Source : Data Processing Eviews 12

Based on Table 6, the regression model obtained is:

EM = 0.951560 + 2.348826PC - 3.704757KI + 8.432372SG - 0.081764PC*SIZE + 0.122077KI*SIZE - 0.267805SG*SIZE - 0.000655AGE - 0.221162LEV - 0.430585ROA.

DISCUSSION

The Effect of Political Connection on earning management

Table 6 shows that the sig. political connection value of 0.1333 > 0.05 indicates that political connection has no effect on earning management. This shows that H1 is not accepted, meaning that political connections do not affect the occurrence of earning management because politically connected companies tend to be more supervised by the public. This condition causes companies to be riskier to be more careful in carrying out earning management practices because the actions taken by the company will be highlighted by public.

Effect of Independent Commissioner on earning management

Table 6 shows that the sig value. Independent commissioners of 0.1064 > 0.05 indicate that independent commissioners have no effect on earning management. This shows that H2 is not accepted, meaning that political connections do not affect the occurrence of earning management because the large number of independent board of commissioners does not affect the occurrence of earning management, because they only supervise and are appointed by the majority shareholders in the GMS so that if it is not in line with the owner's decision, they can replace the independent commissioners (Wimelda

& Chandra, 2018)

Effect of Sales Growth on earning management

Table 6 shows that the sig. sales growth of 0.0077 < 0.05 shows that sales growth has a positive effect on earning management. This indicates that H3 is accepted, meaning that high sales growth has the motivation to carry out earning management to maintain profit trends and sales trends. The year-over-year increase in sales is accompanied by an annual increase in profits with unchanged financing and debt will increase shareholder income. The conditions that occur encourage management to carry out earning management.

Effect of Company Size in moderating Political Connection on earning management

Table 6 shows that the role of company size in moderating the political connection to earning management has a sig value. 0.1235 > 0.05 indicates the size of the company cannot strengthen the influence of political connection on earning management. This shows that H4 is not accepted, meaning that the size of the company is not able to strengthen or weaken the influence of political connection on earning management because large companies that have political relationships tend to be highlighted by the public.

Effect of Company Size in moderating Independent commissioners on earning management

Table 6 shows that the role of company size in moderating independent Commissioners towards earning management has a sig value. 0.1089 > 0.05 indicates the size of the company cannot strengthen the influence of the independent Commissioner on earning management. This shows that H5 is not accepted, meaning that the size of the company is not able to strengthen or weaken the influence of independent commissioners on earning management because independent commissioners can be replaced if they are not in line with the owner's decision without considering the size of the company.

Effect of Company Size in moderating Sales Growth on earning management

Table 6 shows that the role of company size in moderating sales growth to earning management has a sig value. 0.0149 < 0.05 indicates that the size of the company can strengthen the effect of sales growth on earning management. This shows that H6 is accepted, meaning that large companies are dealing with sales growth, so company management tends to do earning management because investors like stable or increased sales growth to maintain the company's image in society (Edison and Nugroho, 2020). This shows that the size of a company will strengthen the possibility of company management doing earning management.

CONCLUSION

Based on the results of the analysis and discussion that has been carried out, it can be concluded that sales growth has a positive effect on earning management. Political connections and independent commissioners have no effect on earning management. The moderation variable of company size can strengthen the influence of sales growth on earning management but is not able to strengthen the influence of political connections and independent commissioners on earning management.

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