The Influence of Diversification and Corporate Social Responsibility to Earnings Management with Audit Committee Effectiveness as a Moderating Variable

Author’s Details:
(1) Titik Aryati (2) Eny Purwaningsih (1)(2) Faculty of Economics and Business Trisakti University
titikar@yahoo.com

Abstract:
The purpose of this research is to determine the influence of diversification and corporate social responsibility on earnings management with audit committee effectiveness as moderating variable. Discretionary accrual used as a proxy for earnings management. Data for this research were obtained secondary data. There are 299 manufacturing companies listed in IDX on 2011-2015 used as sample. This research uses multiple regression technique as method of analysis. This research results show that the business diversification has a positive influence to earnings management. Meanwhile, geographic diversification and corporate social responsibility does not have any influence to earnings management. The results on moderating variable show that the expertise of audit committee can moderate the relationship between the business diversification and earnings management.

Keywords: Earnings management, diversification, corporate social responsibility, audit committee effectiveness.

INTRODUCTION
Agency problem has become a challenge to be investigated by researchers in the field of financial accounting. Jensen and Meckling (1976) argued that the agency relationship as an agreement between the manager as the agent with the owner as a principal of the company. The information submitted by the management could be inconsistent with the real situation of the company since the management is more directed to convey information that can advance the utility. Such conditions can lead to asymmetry of information that can give managers an opportunity to commit acts of earnings management.

In essence that this earnings management results-oriented financial statements of the company. The demands of the company to achieve a predetermined profit target, plus the competition in current business world is progressing rapidly and selectively, so as to motivate the managers of the company to be able to think in a creative and innovative with a lot of do various business strategies. One strategies option that can be applied to establish enterprises business in order to obtain the maximum profit is through the diversification strategy (Fatmawati and Sabeni, 2013).

Diversifying the company that well implemented could have a positive impact for the company. However, in contrast to companies that can not manage with good business diversification, the diversification may cause some conflicts. Research Lupitasari and Marsono (2012) argues that companies that implement diversification be less than optimal, because the manager that implements the business diversification tend to do diversification process in accordance with the interests of managers. In addition, when companies implement geographic diversification occur barriers in supervise subsidiaries located in different regions, so that it can lead to reduced levels of transparency the presentation of business segments as well as the complexity of information for investors and financial analysts are becoming increasingly high (Mehdi and Seboui, 2011). Based on agency theory, this condition can create a situation that encourages managers to take action earnings management practices.

Earnings management not only have an influence to the owner of the company, but also to the stakeholders. Attempts form of protection against reaction and supervision of stakeholders that can damage the good name of the company, management has the urge to get compensation to stakeholders through corporate social responsibility activities (Wulandari, 2015). Corporate social responsibility is relevant with issues ethics and moral behavior of managers in decision making. Based on the paradigm that formed by the experts corporate social responsibility that companies that carry out activities of corporate social responsibility as a company that has image ethical, moral and have a caring responsibility toward society and the environment. However, its image as an that ethical company could not ensure that the company does not perform activities that are not ethical in preparing its financial reporting. Research Sari and Sidharta (2014) shows that the companies that carry out activities of corporate social responsibility have an incentive perform earnings management practices to hide some of the acts of the corporation that do not comply with regulations.

Manipulation action of financial statements that caused due to the diversification and corporate social responsibility activities can be minimized through control techniques with selective regulation to harmonize the various interests called corporate governance. National Committee on Governance (2006) states that one of the mechanisms of corporate governance that execute oversight conducted by the audit committee. Reason the effectiveness of the audit committee as a moderating variable used in this research is help the management be responsible on the presentation of entire segment information and corporate social responsibility activities, so that the audit committee may limit earnings management practices in order to improve the quality of the company's annual report.

Based on the description of earnings management practices there is a potential that the effectiveness of the audit committee as the supervisory function of earnings management practices that carried the management, so that it can be formulated research problem is: 1) whether business diversification, geographic diversification, and corporate social responsibility positive influence on earnings management, and 2) whether the influence of business diversification, geographic diversification and corporate social responsibility on earnings management can diminished with the effectiveness of audit committees that in proxied by the expertise of audit committee and the frequency of audit committee meetings.

The aim of this study was to obtain empirical evidence (1) the influence of business diversification, geographic diversification, and corporate social responsibility on earnings management, and (2) the effectiveness of the audit committee moderating influence of diversification and corporate social responsibility on earnings management.
This research is expected to contribute ideas to the (1) users of financial statements, regulators and corporate management in understanding the role of the audit committee effectiveness as a supervisory function to reduce earnings management practices in order to improve the quality of segment report and corporate social responsibility report. And (2) development of knowledge about positive accounting theory, especially agency theory, legitimacy theory, stakeholder theory, and the theory of audit committee, so can obtain the role of audit committee oversight function that is conceptually affect the presentation of segment reporting and corporate social responsibility report to minimize earnings management practices.

LITERATURE AND DEVELOPMENT HYPOTHESIS

Agency Theory

Agency theory is one of the main theories that can be used to understand diversification, earnings management, and corporate governance. Jensen and Meckling (1976) argued that the focus of the agency theory is the existence of efficient contract shaped symmetric information for underlie the relationship between principal and agent. In practice this symmetric information never happen, because principal can not observe the activity of the agent, on the contrary, the agent has a wider internal information data. This leads to efficient contract can not be implemented, so that communication the agent and the principal always is based on the asymmetry of information.

Condition information asymmetry between principal and agent can provide an opportunity for managers to behave opportunistic or maximize personal goals. Principal wants to increase the profits of the company, while the agent wants to get the compensation and commissions maximum, but compensation and commission it is a cost that can reduce corporate earnings. Therefore, the agent is expected can create the best decisions for the benefit of the principal (Belkaoui, 2007).

Legitimacy Theory

Theory of legitimacy is one theory that can be used to understand corporate social responsibility. Deegan (2002) explains that the conditions underlying the theory of legitimacy is the presence of a social contract with the community in order of the company do operational include norms in the community or the environment, as well as legitimacy can help management ensure operational activity can give a positive impact for stakeholders. Therefore, interpreted that the focus of this legitimacy theory is a way of interaction between companies with communities to prioritize public interest.

Theory of legitimacy applied when companies are required to fulfill activities related to the environment and society. One step that can be used by companies to ensure the activities and performance of the company in order to be accepted by society is companies present a statement of corporate social responsibility, so that it can be interpreted that the statements of corporate social responsibility can to provide function for companies shaped obtain legitimacy from the public and maximize the company's profit in the period coming (Kusuma and Syafruddin, 2014).

Stakeholder Theory

Theory of stakeholder is one theory that can be used to understand diversification, corporate social responsibility, and corporate governance. Chariri and Ghozali (2007) argue that the stakeholder theory is defined company's as a business groups that not only perform operational in order to obtain a purpose, but also can create benefits for stakeholders. Thus, stakeholder participation can affect the existence of the company to remain sustainable.

Stakeholders are parties that build relation positively to the company both internal and external relations that are directly or indirectly (Mey and Fidiana, 2015). Stakeholder theory this important applied to the company because in doing the implementation of social and environmental activities, the company requires broad participation of the stakeholders. Existence greater support from stakeholders can minimize fraudulent practices committed by the manager, because the company should demonstrate its moral commitment not to perform certain business activities that may hurt the stakeholders. Thus, companies that carry out social activities can create economic and social conditions fairer.

Based on the literature review, then formulated the conceptual framework of this studies that shown in Figure 1.
Hypothesis

1. Influence Business Diversification to Earnings Management

Companies that do business diversification tends to be less transparent provides information inter-segment transactions, because owner does not supervise directly the activities efforts of product development. This led to the purpose to be achieved by the segment manager and shareholder difficult harmonized (Rodriguez and Van, 2010). Research conducted by Indraswari (2010) found evidence that a diversification operation positive influence on accrual earnings management that caused due to the happen complexity of the company's business, so managers have the opportunity to make decisions that can improve their self-interest.

Research conducted by Takhtaei, Amin, and Hamid (2013) found evidence that a diversified company has a level of information asymmetry caused due with increasing level of diversification of the company then the company's management increasingly having trouble getting the company's accounting information. Research Mehdi and Seboui (2011) also provides empirical evidence that a diversified company can impact earnings management level to be high because of the form of organization becomes more complex, so that the manager incentive to perform earnings management practices are becoming increasingly high. Based on the explanation, the research hypothesis that can be developed are:

Ha1 : Business diversification positive influence to earnings management.

2. Influence Geographic Diversification to Earnings Management

Geographic diversification can lead earnings management with garble the segment information. This is consistent with agency theory that the manager can provide information that is not appropriate because of the existence of geographical spread that can increase the complexity of the company, thus causing business owners difficulties supervise the behavior of management (Mehdi and Seboui, 2011).

Research conducted by Fatmawati and Sabeni (2013) found evidence that geographic diversification has a positive influence on accrual earnings management due to the location of its subsidiaries which residing abroad raises management can act according to personal needs because of the lack of oversight and controlling. The results of a similar study conducted by Lupitasari and Marsono (2012) find evidence that firms are composed of various industrial divisions in different geographical areas creates difficulties for interested parties to investigate the financial report from different departments and on different countries. Therefore, the information asymmetry occurs in companies that perform geographic diversification, thus impacting happen the earnings management practices. Based on the explanation, then the research hypothesis that can be developed are:

Ha2 : Geographic diversification positive influence to earnings management.

3. Influence Corporate Social Responsibility to Earnings Management

Costs incurred for corporate social responsibility activities can potentially window-dressing when used to hide some of the acts of the corporation that do not comply with regulations. For example, a company Enron that do manipulate profit is a company that has a capacity corporate social responsibility performance is high. Based on agency theory perspective shows that management provision to perform activities corporate social responsibility in a comprehensive allegedly only be used to cover up the practice of earnings manipulation, so that management can still have a good relationship with stakeholders.

Research conducted by Ratmono, Purwanto, and Nur (2014) argue that companies generate reports corporate social responsibility performance that good only to make the stakeholders mistaken in decision-making, so that stakeholders are willing to invest their capital in companies which have the performance of corporate social responsibility positive. A similar research conducted by Sari and Sidharta (2014) found evidence that corporate social responsibility activity has a positive influence on earnings management. This is consistent with agency theory that the management give corporate social responsibility report can be used as a tool to demonstrate the company's financial capabilities in an effort to provide a good social activities to stakeholders. Behavior imaging this carried by the company management that do earnings management. Thus, it can be interpreted that the company's management give information reporting results performance corporate social responsibility activities are good only to cover the actions of managers who perform earnings management. Based on the explanation, then the research hypothesis that can be developed are:

Ha3 : Corporate social responsibility positive influence to earnings management.

3. Audit Committee Effectiveness as Moderating Relationship Between Diversification and Corporate Social Responsibility to Earnings Management

Efforts resolve the manipulation of financial statements that caused due to the diversification and corporate social responsibility activities can be followed up through supervision technic conducted by the audit committee. Companies that have the audit committee with the background of expertise in accounting and finance to oversee the preparation of financial statements and the audit committee that regularly conduct meetings to supervise the performance of management. Therefore, it takes the role of the audit committee to produce an annual report company quality.

3.1 Expertise of Audit Committee Moderating Influence Business Diversification to Earnings Management

The existence of an audit committee within the company has an important role to control the activity the financial reporting process, especially the business segment reports. To be able to perform a supervisory function, one of the audit committee must have the educational background and expertise in the field of accounting and finance (BAPEPAM-LK, 2012). Research conducted by Alanezi and Albuloushi (2011) find evidence that the establishment of an audit committee can improve the quality of financial statements, especially the business segment reports. With the establishment of an audit committee structure that acts as a monitoring mechanism can limit the opportunistic behavior of managers, so the owner can control the activity of the management of the business segments.

Research conducted by Latif and Abdullah (2015) find evidence that the companies that have the audit committee can minimize the actions of managers who perform earnings management. The results of a similar study was also conducted by
Martinov, Soh and Dale (2015) find evidence that companies that have an audit committee of experts in the field of accounting and/or finance can more easily evaluate the quality of the presentation of the geographic segments report. According to the company's actual conditions, so auditing committee can minimize the actions of managers that do earnings management. Based on the explanation, then the research hypothesis that can be developed are:

Ha4: Expertise of audit committee weaken the influence of geographic diversification to earnings management.

3.2 Expertise of Audit Committee Moderating Influence Geographic Diversification to Earnings Management

Companies that carry out operational in the domestic market can lead to the agency conflict, because the company that diversified geographically tends to inflict conflicts agency and appear problems of information asymmetry that is considered can provide the conditions for the occurrence of earnings management practices (Hasanuddin, Andreas, and Rusli, 2015). Therefore, required the audit committee expertise that can oversee the behavior of the management in order not to act for their own interests (BAPEPAM-LK, 2012).

Research conducted by Kent and Stewart (2008) found evidence of research that audit committees who have experience in accounting and/or finance can improve the quality of the presentation of the geographic segments report. A similar research conducted by Wardhani and Herunata (2010) found evidence that companies which have audit committees educated and experienced in the field of accounting and/or finance can reduce the value of earnings management, because in general the function of the audit committee is more related to the process of preparation of financial statements and examination of financial statements. Based on the explanation, then the research hypothesis that can be developed are:

Ha5: Expertise of audit committee weaken the influence of geographic diversification to earnings management.

3.3 Expertise of Audit Committee Moderating Influence Corporate Social Responsibility to Earnings Management

Companies that implement corporate social responsibility activities properly, can create positive relationships with stakeholders. But in contrast to companies that can not manage the activities of corporate social responsibility, can be used by managers to maintain its position within the company. This is due to the high confidence level response from principal to the manager makes the manager has the opportunity to maximize their personal interests by technic manipulating the corporate social responsibility report. Therefore, required the audit committee expertise in accounting and/or finance as an instrument of control to limit the fraudulent practices that do manager (BAPEPAM-LK, 2012).

Research conducted by Ifada and Istiqomah (2012) found evidence of research that the audit committee has a positive influence to disclosure of corporate social responsibility activities. This matter proves audit committee involvement in the activities of the company's has the capacity to improve accountability and transparency in the implementation of corporate social responsibility activity information that presented in the annual report of the company, because corporate social responsibility report is useful for all stakeholders in making an investment decision. The results of a similar study conducted by Widiastuty (2016) find evidence that the membership of the audit committee in the field of accounting and/or finance has a negative influence to earnings management, because of the expertise of the audit committee in the field of accounting and/or finance can prevent the capability to evaluate the strategy and performance of managers, so the audit committee can find and repair the manager fraudulent practices. Based on the explanation, then the research hypothesis that can be developed are:

Ha6: Expertise of audit committee weaken the influence of corporate social responsibility to earnings management.

4 Frequency of Audit Committee Meeting Moderating Influence Business Diversification to Earnings Management

In order maintain the smoothness of operational activities, the company requires the establishment of an audit committee to oversee the process of preparing financial statements, especially the business segment reports. One way to invent an effective audit committee performance is by existence the liveliness of the audit committee in a meeting at least four times or more in a year (BAPEPAM-LK, 2012). Ibrahim and Jaafar (2013) argue that the number of audit committee meetings have an influence to the process of preparing the company's financial reports quality, including the operating segments report. When audit committee member conduct meetings to discuss the activities of the business segment process, this matter can indicate that the audit committee is committed to improving the quality of the financial statements are useful for stakeholders.

Research made by Zgarni, Hlioui, and Fatma (2016) found evidence of research that the company has an audit committee that regularly conduct meeting can more easily carry out earnings management practices surveillance, because the meeting held to discuss improvement efforts the performance of management so the management does not seek to maximize his personal interests. Thus, the company requires a diligent audit committee held a meeting to improve the monitoring of the management of the business development and business segment report is presented in accordance with the company's actual conditions, so audit committee can minimize the actions of managers that do earnings management. Based on the explanation, then the research hypothesis that can be developed are:

Ha7: Frequency of audit committee meeting weaken the influence of business diversification to earnings management.

5 Frequency of Audit Committee Meeting Moderating Influence Geographic Diversification to Earnings Management

In order execute the monitoring mechanism can be more effective by role of audit committees that have perseverance to conduct meetings discuss the findings of which can be evaluated. This meeting is held at least four times a year to improve the quality of the supervision function which is do by the audit committee in reporting the results of the company's performance to the board of commissioners (BAPEPAM-LK, 2012). Research conducted by Kent and Stewart (2008) found evidence that the frequency of audit committee meetings positive influence on the presentation of financial statements, especially the geographic segment information. When companies apply geographic diversification likely to lead happen agency conflict, because the subsidiaries are located in different regions of the country tend irregular to conduct meetings. This makes the company require audit committee that has perseverance to conduct meeting to minimize the agency conflict between management with owners of the company.
Frequency of Audit Committee Meeting Moderating Influence Corporate Social Responsibility to Earnings Management

One of the duties and responsibilities of the audit committee is to review and do examination of financial information and non-financial that have been prepared by the manager of the company. By duties and responsibilities that, the audit committee should be can to analyze and examine corporate social responsibility activities. In carrying out function as supervisory and control, audit committee requiring the implementation of the meeting at least four times a year to discuss the activities of corporate social responsibility (BAPEPAM-LK, 2012). Research conducted by Schaupp (2016) find evidence that the audit committee has positive influence on corporate social responsibility activities. This matter proves the existence of an audit committee that doing examination and supervision can independently generate corporate social responsibility activities report in accordance with the actual condition of the company.

Research is also conducted by Mutmainnah and Wardhani (2013) found evidence of research that the frequency of audit committee meetings positive influence on the quality of the presentation of the financial statements. It is show frequency of meetings held by the company's audit committee makes management more open convey information corporate social responsibility activities. A similar research conducted by Cinthya and Indriani (2015) found evidence that the frequency of audit committee meetings negatively affect earnings management. This matter demonstrates the effectiveness of audit committees that conduct meetings can reduce the intensity of corporate managers that do earnings management. Based on the explanation, then the research hypothesis that can be developed are:

Ha8: Frequency of audit committee meeting weaken the influence of geographic diversification to earnings management.

RESEARCH METHODS

1. Data Collection Methods

The population used in this research is the manufacturing sector companies listed on the Indonesia Stock Exchange. Selection of sample carried by purposive sampling method with the following criteria: 1) Companies included in the category of manufacturing industry which has been listed on the Indonesia Stock Exchange from 2011 until December 31, 2015; 2) Manufacturing sector companies listed on the Indonesia Stock Exchange that publish the audited annual report and the audited financial statements as of December 31 during the observation period from 2011 until December 31, 2015; 3) Companies that provide data about business diversification, geographic diversification, the cost of corporate social responsibility, expertise of the audit committee, and the frequency of audit committee meetings.

This study uses secondary data shaped audited annual financial statements obtained from the Reference Center of the Indonesia Stock Exchange Capital Market. Audited annual financial statements issued by companies listed on the Indonesia Stock Exchange and Indonesian Capital Market Directory.

2. Operational Definition and Variable Measurement

2.1 Dependent Variables

The dependent variable of this study is earnings management that measured proxy discretionary accruals. Discretionary accruals using the Kasznik model (1999) is a refinement of the modified Jones models taking into account the cash flow from operating activities. The formula for discretionary accruals as follows:

\[ DAC_i = \frac{TAC_i}{TA_{i,t}} - NDAC_i \]  

\[ DAC_i = \text{discretionary accruals of the company } i \text{ in period } t; \ TAC_i = \text{total accruals of the company } i \text{ in period } t; \ TA_{i,t} = \text{total assets of the company } i \text{ in period } t-1; \ \text{and} \ NDAC_i = \text{non-discretionary accruals of the company } i \text{ in period } t. \ \text{The formula for the value of accruals that estimated with regression equation Ordinary Least Squares (OLS) as follows:} \]

\[ TAC_i/TA_{i,t-1} = a_0[1/TA_{i-1}]+a_1[ΔREV_i/TA_{i-1}]+a_2[PPE_i/TA_{i-1}]+a_3[ΔCFO_i/TA_{i-1}]+e \]  

\[ a_0, a_1, a_2 = \text{regression coefficients;} \ ΔREV_i = \text{changes in the value of net sales of the company } i \text{ from period } t-1 \text{ to period } t; \ PPE_i = \text{fixed assets of the company } i \text{ in period } t; \ \text{and} \ e = \text{error coefficient. The formula for the value of non-discretionary accruals using regression coefficients in equation (2) as follows:} \]

\[ NDAC_i = a_0[1/TA_{i-1}]+a_1[ΔREV_i/TA_{i-1}]+a_2[PPE_i/TA_{i-1}]+a_3[ΔCFO_i/TA_{i-1}] \]

\[ a_0, a_1, a_2, a_3 = \text{regression coefficients;} \ ΔREV_i = \text{changes in the value of net receivables of the company } i \text{ from period } t-1 \text{ to period } t; \ \text{and} \ ΔCFO_i = \text{changes in cash flow from operations of the company } i \text{ from period } t-1 \text{ to period } t. \ \text{The formula for total accruals as follows:} \]

\[ TAC_i = NI_i - CFO_i \]  

\[ NI_i = \text{net income after tax of the company } i \text{ in period } t; \ \text{and} \ CFO_i = \text{cash flow from operation of the company } i \text{ in period } t. \]
Models discretionary accruals that used by Kasznik (1999) insert changes in cash flows from operating activities to inside the models Jones modified function as to control the performance of the company's operational cash. In addition, the model Kasznik (1999) shows the correlation between the estimate discretionary accruals with the earnings performance of the company, meaning that companies with high earnings is positively related with discretionary accruals. This is due because companies with abnormally elevated high profit has a positive relationship with the profit that include components accrual, making it easier for researchers to detect an increase of earnings management in companies with high profits and to detect an decrease of earnings management in companies with low profit (Kasznik, 1999).

2.2 Independents Variables
Independent variables used in this study consisted of:

2.2.1 Business Diversification
Variable of business diversification (DIVBIS) were scored according to the number of business segments are managed by companies and presented in the information the segment report on the notes to the financial statements of the company. If the company do operation on one business, so it is given a value of 1. While, if the company do operational on multiple businesses, so it is given value according to the amount of the business (Fatmawati and Sabeni, 2013).

2.2.2 Geographic Diversification
Variable of geographic diversification (DIVGEO) were scored according to the number of geographical segments operational company and presented in the information the segment report on the notes to the financial statements of the company. If the company do operational in one region or country, so it is given a value of 1. While, if the company do operational in several regions or countries, so it is given value according to the region or country amount (Fatmawati and Sabeni, 2013).

2.2.3 Corporate Social Responsibility
Implementation of corporate social responsibility activities require a fee. The costs incurred for corporate social responsibility program activity is not particularly restricted. Costs used for corporate social responsibility activities are reflected in the annual report. In this research, corporate social responsibility (CSR) is measured using the cost allocation of corporate social responsibility (Hermawan and Afiyah, 2014):

\[
CSR = \frac{\text{Cost Corporate Social Responsibility in Period } t}{\text{Net Income in Period } (t-1)} \times 100\%
\]

3. Moderating Variables
Moderating variables used in this study is the effectiveness of the audit committee. Indicator of audit committee effectiveness used in this research as follows:

3.1 Expertise of Audit Committee
Expertise of audit committee in accounting and/or finance when it fulfill one of the following conditions: a) The audit committee has an educational background in accounting and/or finance; and b) The audit committee has work experience in accounting and/or finance. In this research, the expertise of audit committee (AHLIKA) was measured using (Mutmainnah and Wardhani, 2013):

\[
AHLIKA = \frac{\text{Amount Audit Committee Expertise in Accounting & Finance}}{\text{The Amount All of Audit Committee}} \times 100\%
\]

3.2 Frequency of Audit Committee Meeting
Regulation BAPEPAM-LK KEP-643/BL/2012 argue that the audit committee can conduct meetings with company management at least four times in a year in order to reduce earnings management practices and useful for the accuracy of decision-making. In this research, the frequency of audit committee meetings (JRKA) was measured using (Cinthya and Indriani, 2015):

\[
JRKA = \frac{\text{Amount of Audit Committee Meetings Held in Year}}{\text{Amount of Meetings Audit Committee Minimum Accordance BAPEPAM}} \times 100\%
\]

4. Control Variables
Control variables used in this study consisted of:

4.1 Sales Growth
Sales growth was used as a control variable because companies sampled in this study had a sales growth varied to represent exist the difference the increase in sales that can motivate manager for doing earnings management. Sales growth (GROWTH) using the formula (Yurfita, Kirmizi, dan Rusli, 2015):

\[
GROWTH = \frac{\text{Net Sales in Period } t - \text{Net Sales in Period } t - 1}{\text{Net Sales in Period } t - 1} \times 100\%
\]

4.2 Leverage
Leverage is used as a control variable to measure a company's ability can pay its debt repayment by using assets that owned that can influence the manager for doing earnings management. Leverage (LEV) using the formula (Yurfita, Kirmizi, dan Rusli, 2015):

\[
LEV = \frac{\text{Total Liabilities of the Company i in Period } t}{\text{Total Assets of the Company i in Period } t} \times 100\%
\]

4.3 Public Accounting Firm Reputation
Public accounting firm reputation used as a control variable to know the quality of the audited annual reports in order to reduce earnings management practices. Public accounting firm reputation (RKAP) was measured using a dummy variable score 0-1. Score 1 is used to represent annual reports company's that audited by the public accounting firm big four and a score of 0 is
used to represent annual reports company’s that audited by the public accounting firm non-big four (Hasanuddin, Andreas, and Rusli, 2015).

7 Data Analysis Method

Data analysis method used is the classic assumption test and hypothesis test. In this research, classic assumption test used is normality test, outlier test, multicollinearity test, autocorrelation test, and heteroscedasticity test. Testing the hypothesis in this research using multiple linear regression analysis with the following equation:

1) Regression Model Before Moderation

\[
EM = \alpha_0 + \beta_1 \cdot \text{DIVBIS} + \beta_2 \cdot \text{DIVGEO} + \beta_3 \cdot \text{CSR} + \beta_4 \cdot \text{GROWTH} + \beta_5 \cdot \text{LEV} + \beta_6 \cdot \text{RKAP} + \epsilon
\]

2) Regression Model After Moderation

\[
EM = \alpha_0 + \beta_1 \cdot \text{DIVBIS} + \beta_2 \cdot \text{DIVGEO} + \beta_3 \cdot \text{CSR} + \beta_4 \cdot \text{AHLIKA} + \beta_5 \cdot \text{JRKA} + \beta_6 \cdot \text{DIVBIS} \times \text{AHLIKA} + \beta_7 \cdot \text{DIVGEO} \times \text{AHLIKA} + \beta_8 \cdot \text{CSR} \times \text{AHLIKA} + \beta_9 \cdot \text{DIVBIS} \times \text{JRKA} + \beta_{10} \cdot \text{DIVGEO} \times \text{JRKA} + \beta_{11} \cdot \text{CSR} \times \text{JRKA} + \beta_{12} \cdot \text{GROWTH} + \beta_{13} \cdot \text{LEV} + \beta_{14} \cdot \text{RKAP} + \epsilon
\]

Explanation:

EM = Earnings Management
DIVBIS = Business Diversification
DIVGEO = Geographic Diversification
CSR = Corporate Social Responsibility
AHLIKA = Expertise of Audit Committee
JRKA = Frequency of Audit Committee Meeting
GROWTH = Sales Growth
LEV = Leverage
RKAP = Public Accounting Firm Reputation
\( \epsilon \) = Error Coefficient

EMPIRICAL RESULTS

Research Sample Description

Table 1. Sample Selection Results

<table>
<thead>
<tr>
<th>Criteria</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Manufacture company listed in Indonesia Stock Exchange during the period 2011-2015</td>
<td>730</td>
</tr>
<tr>
<td>(-) Manufacture company that do not publish audited financial statements for the period 2011-2015</td>
<td>(195)</td>
</tr>
<tr>
<td>(-) Manufacture company that use currencies other than IDR during the period 2011-2015</td>
<td>(135)</td>
</tr>
<tr>
<td>(-) Manufacture company that do not have complete data for the research variables in the financial statements the period 2011-2015</td>
<td>(55)</td>
</tr>
<tr>
<td>(-) Manufacture company that have negative earnings (net loss) for the period 2011-2015</td>
<td>(25)</td>
</tr>
<tr>
<td>Total sample of manufacture firm during the period 2011-2015</td>
<td>320</td>
</tr>
<tr>
<td>(+) Sample of manufacture company with a large outlier</td>
<td>(21)</td>
</tr>
<tr>
<td>The amount of manufacture company that categorized sampled during 5 years</td>
<td>299</td>
</tr>
</tbody>
</table>

Source: Data that have been processed.

Based on table 1, note that once the process of data collection is done, obtained 320 company of sample that in accordance with the criteria purposive sampling method. After going through the stages of data processing, there are 21 data that can not be used in data processing (outliers), so that the final sample that can be used this study amounted to 299 manufacturing companies.

Descriptive Statistics Variable

Table 2. Descriptive Statistics Variable Results

<table>
<thead>
<tr>
<th>Variable</th>
<th>All Sample</th>
<th>Std. Deviation</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Min</td>
<td>Max</td>
</tr>
<tr>
<td>Earnings Management</td>
<td>-1.0642</td>
<td>0.6794</td>
</tr>
<tr>
<td>Business Diversification</td>
<td>1</td>
<td>7</td>
</tr>
<tr>
<td>Geographic Diversification</td>
<td>1</td>
<td>17</td>
</tr>
<tr>
<td>Corporate Social Responsibility</td>
<td>0.0001</td>
<td>0.9722</td>
</tr>
<tr>
<td>Expertise of Audit Committee</td>
<td>0.2500</td>
<td>1.0000</td>
</tr>
<tr>
<td>Frequency of Audit Committee Meeting</td>
<td>0.2500</td>
<td>5.0000</td>
</tr>
<tr>
<td>Sales Growth</td>
<td>-0.7341</td>
<td>0.9855</td>
</tr>
<tr>
<td>Leverage</td>
<td>0.0003</td>
<td>0.9672</td>
</tr>
</tbody>
</table>

Source: Data that have been processed.
Based on the results of descriptive statistics that are shown on table 2 that the average of earnings management is -0,3019 and standard of deviation is 0,3184 describe average of manufacture company in the research sample tends to be pursuing a strategy of income decrease. Value of business diversification by an average is 2,87 and a standard of deviation is 1,354 indicates spread data of business diversification that owned by manufacture company sector more homogeneous. Value of geographic diversification by an average is 4,29 and a standard of deviation is 3,904 indicates spread data of geographic diversification that owned by manufacture company sector more homogeneous. Value of corporate social responsibility by an average is 0,0852 and a standard of deviation is 0,1819 indicates manufacture company in the research sample have concern environmental and social activities. 

Expertise of audit committee by an average is 0,7125 and a standard of deviation is 0,2459 indicates audit committee that set up by the company has met the requirements independence. Frequency of audit committee meeting by an average is 1,6045 and a standard of deviation is 0,9922 indicates audit committee that conduct meetings have fulfill appropriate the regulations. Value of sales growth by an average is 0,1056 and a standard of deviation is 0,1942. Value of leverage by an average is 0,4378 and a standard of deviation is 0,2153.

Based on the results of frequency statistics reputation public accounting firm that are shown on table 3 that 128 observation or 42,8% include manufacture company category are audited by the public accounting firm big four, and there are 171 observations or 57,2% include category manufacture company are audited by public accounting firm non-big four. The results of this description illustrates that the average of manufacture company a few who use the services of the public accounting firm big four than public accounting firm of non-big four.

### Classic Assumption Test Results

#### Normality Test and Outlier Test Results

Data normality was tested using one sample kolmogorov-smirnov with a significant level of 0.05.

<table>
<thead>
<tr>
<th>Regression Model</th>
<th>Asymp. Sig. (2-tailed)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Residual Before Moderation</td>
<td>0.022</td>
</tr>
<tr>
<td>Residual After Moderation</td>
<td>0.420</td>
</tr>
</tbody>
</table>

Source: Data that have been processed.

Based on the results of tests of normality before outliers are shown in table 4 indicates be found a regression model that is not distribution normal is regression model before moderation. Therefore, the data must be tested again using outlier test. Treatment of the outliers can be done by determining the limit of values are categorized as outliers data by converting the data value into a standardized score or so-called z-score value. Hair et. al. (1998) suggested that for large samples above 80, then the standard score is declared an outlier if the value of the z-score above 3, so that researchers do to reduce research data by removing data that extreme (outlier) that is worth the z-score above 3 and below -3. Thus, there are 21 data that can not be used in data processing (outliers), so that the final sample results that can be used this study amounted to 299 manufacturing companies during the observation period 2011-2015.

<table>
<thead>
<tr>
<th>Regression Model</th>
<th>Asymp. Sig. (2-tailed)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Residual Before Moderation</td>
<td>0.080</td>
</tr>
<tr>
<td>Residual After Moderation</td>
<td>0.061</td>
</tr>
</tbody>
</table>

Source: Data that have been processed.

Based on the results of tests of normality after the outlier shown in table 5 indicates that the residuals of regression model before moderation and after moderation has a value asymp. sig. > α = 0.05. Thus, it is can interpreted that the residual value on the regression model before moderation and after moderation interpreted distribution of normal.

### Multicollinearity Test Results

Multicolinearity test is done to know there is a direct relationship (correlation) significant between each independent variable (Ghozali, 2013: 106). One test that can be used to detect the presence of multicollinearity can be seen from the Variance Inflation Factor (VIF).
Table 6. Multicollinearity Test Results

<table>
<thead>
<tr>
<th>Variable</th>
<th>VIF Before Moderation</th>
<th>VIF After Moderation</th>
</tr>
</thead>
<tbody>
<tr>
<td>Business Diversification</td>
<td>1.060</td>
<td>1.121</td>
</tr>
<tr>
<td>Geographic Diversification</td>
<td>1.021</td>
<td>1.583</td>
</tr>
<tr>
<td>Corporate Social Responsibility</td>
<td>1.061</td>
<td>1.509</td>
</tr>
<tr>
<td>Expertise of Audit Committee</td>
<td></td>
<td>1.115</td>
</tr>
<tr>
<td>Frequency of Audit Committee Meeting</td>
<td>2.356</td>
<td></td>
</tr>
<tr>
<td>DIVBISxAHLIKA</td>
<td></td>
<td>1.192</td>
</tr>
<tr>
<td>DIVGEOxAHLIKA</td>
<td></td>
<td>1.376</td>
</tr>
<tr>
<td>CSRxAHLIKA</td>
<td></td>
<td>1.256</td>
</tr>
<tr>
<td>DIVBISxJRKA</td>
<td></td>
<td>1.424</td>
</tr>
<tr>
<td>DIVGEOxJRKA</td>
<td></td>
<td>1.827</td>
</tr>
<tr>
<td>CSRxJRKA</td>
<td></td>
<td>2.589</td>
</tr>
<tr>
<td>Sales Growth</td>
<td>1.017</td>
<td>1.057</td>
</tr>
<tr>
<td>Leverage</td>
<td>1.061</td>
<td>1.133</td>
</tr>
<tr>
<td>Reputation Public Accounting Firm</td>
<td>1.004</td>
<td>1.043</td>
</tr>
</tbody>
</table>

Source: Data that have been processed.

Table 6 illustrates the results of the multicollinearity test for regression model before moderation and after moderation that not variables which has VIF more than 10. Thus, it is interpreted that the regression model before moderation and after moderation can be used because it does not happen multicollinearity.

Autocorrelation Test Results

One test to detect autocorrelation by measuring the level of correlation on the regression equation error can be seen from the Durbin-Watson.

Table 7. Autocorrelation Test Results ($\alpha=5\%$)

<table>
<thead>
<tr>
<th>Model</th>
<th>K</th>
<th>n</th>
<th>$d_L$</th>
<th>$d_U$</th>
<th>$4-d_L$</th>
<th>$4-d_U$</th>
<th>DW</th>
</tr>
</thead>
<tbody>
<tr>
<td>Before Moderation</td>
<td>6</td>
<td>299</td>
<td>1,707</td>
<td>1,830</td>
<td>2,169</td>
<td>2,292</td>
<td>2,032</td>
</tr>
<tr>
<td>After Moderation</td>
<td>14</td>
<td>299</td>
<td>1,621</td>
<td>1,919</td>
<td>2,081</td>
<td>2,379</td>
<td>2,045</td>
</tr>
</tbody>
</table>

Source: Data that have been processed.

Table 7 shows the results of the autocorrelation test for regression model before moderation have the Durbin-Watson value is 2,032 and a regression model after moderation has the Durbin-Watson value is 2,045. It shows the value Durbin-Watson qualifies is $d_L < DW < 4-d_U$. Thus, it is interpreted that the regression model before moderation and after moderation can be used because it does not happen autocorrelation.

Heteroskedasticity Test Results

Heteroscedasticity test performed using Glejser Test by way of regression the absolute value residual to the independent variable.

Table 8. Heteroskedasticity Test Results

<table>
<thead>
<tr>
<th>Variable</th>
<th>Sig. Before Moderation</th>
<th>Sig. After Moderation</th>
</tr>
</thead>
<tbody>
<tr>
<td>Business Diversification</td>
<td>0.105</td>
<td>0.172</td>
</tr>
<tr>
<td>Geographic Diversification</td>
<td>0.317</td>
<td>0.547</td>
</tr>
<tr>
<td>Corporate Social Responsibility</td>
<td>0.252</td>
<td>0.262</td>
</tr>
<tr>
<td>Expertise of Audit Committee</td>
<td></td>
<td>0.178</td>
</tr>
<tr>
<td>Frequency of Audit Committee Meeting</td>
<td>0.420</td>
<td></td>
</tr>
<tr>
<td>DIVBISxAHLIKA</td>
<td>0.344</td>
<td>0.149</td>
</tr>
<tr>
<td>DIVGEOxAHLIKA</td>
<td></td>
<td>0.789</td>
</tr>
<tr>
<td>CSRxAHLIKA</td>
<td>0.207</td>
<td>0.473</td>
</tr>
<tr>
<td>DIVBISxJRKA</td>
<td>0.462</td>
<td></td>
</tr>
<tr>
<td>DIVGEOxJRKA</td>
<td></td>
<td>0.069</td>
</tr>
<tr>
<td>CSRxJRKA</td>
<td>0.392</td>
<td>0.490</td>
</tr>
<tr>
<td>Sales Growth</td>
<td>0.588</td>
<td>0.131</td>
</tr>
<tr>
<td>Leverage</td>
<td>0.690</td>
<td></td>
</tr>
<tr>
<td>Reputation Public Accounting Firm</td>
<td>0.490</td>
<td></td>
</tr>
</tbody>
</table>

Source: Data that have been processed.

Table 8 gives the results of the regression absolute values residual to the independent variables. The significance value of all independent variables indicate the value that is greater than the significance value of alpha ($\alpha = 0.05$), thus interpreted this research model does not occur heteroscedasticity.

Research Explanation Results
Table 9. Regression Test Results

<table>
<thead>
<tr>
<th>Independent Variables : EM</th>
<th>Regression Model Before Moderation</th>
<th>Regression Model After Moderation</th>
</tr>
</thead>
<tbody>
<tr>
<td>Hypothesis</td>
<td>Regression Coefficients</td>
<td>Sig. one-tailed</td>
</tr>
<tr>
<td>DIVBIS</td>
<td>Ha1 = +</td>
<td>0.035</td>
</tr>
<tr>
<td>DIVGEO</td>
<td>Ha2 = +</td>
<td>-0.002</td>
</tr>
<tr>
<td>CSR</td>
<td>Ha3 = +</td>
<td>-0.064</td>
</tr>
<tr>
<td>Moderating Variable:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>AHLIKA</td>
<td></td>
<td>-0.036</td>
</tr>
<tr>
<td>JRKA</td>
<td></td>
<td>-0.011</td>
</tr>
<tr>
<td>DIVBISxAHLIKA</td>
<td>Ha4 = –</td>
<td>-0.060</td>
</tr>
<tr>
<td>DIVGEOxAHLIKA</td>
<td>Ha5 = –</td>
<td>-0.004</td>
</tr>
<tr>
<td>CSRxAHLIKA</td>
<td>Ha6 = –</td>
<td>0.013</td>
</tr>
<tr>
<td>DIVBISxJRKA</td>
<td>Ha7 = –</td>
<td>0.026</td>
</tr>
<tr>
<td>DIVGEOxJRKA</td>
<td>Ha8 = –</td>
<td>0.028</td>
</tr>
<tr>
<td>CSRxJRKA</td>
<td>Ha9 = –</td>
<td>-0.032</td>
</tr>
<tr>
<td>Control Variable:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Growth</td>
<td></td>
<td>0.560</td>
</tr>
<tr>
<td>LEV</td>
<td></td>
<td>-0.144</td>
</tr>
<tr>
<td>RKAP</td>
<td></td>
<td>-0.057</td>
</tr>
<tr>
<td>Constant</td>
<td></td>
<td>-0.363</td>
</tr>
<tr>
<td>R-Squared</td>
<td></td>
<td>0.143</td>
</tr>
<tr>
<td>Adj R-Squared</td>
<td></td>
<td>0.125</td>
</tr>
<tr>
<td>F-statistic</td>
<td></td>
<td>8.095</td>
</tr>
<tr>
<td>Prob. (F-statistic)</td>
<td></td>
<td>**0.000</td>
</tr>
<tr>
<td>N (sample)</td>
<td></td>
<td>299</td>
</tr>
</tbody>
</table>

***Level of Significance 1%; **Level of Significance 5%; *Level of Significance 10%

Explanation:

EM = value of discretionary accruals model Kasznik (1999); DIVBIS = score 1 if company do operational one business, if company operational at several businesses value according to the number of business; DIVGEO = score 1 if company operational one region, if company operational at several region be given value according to the region amount; CSR = cost absolut corporate social responsibility to net income of previous period; AHLIKA = ratio the amount of audit committee of expertise in accounting and/or finance to amount all of audit committee; JRKA = ratio the amount of audit committee meetings held in a year to the amount of meetings audit committee minimum accordance BAPEPAM-I.K; GROWTH = sales growth; LEV = ratio of liabilities to assets; RKAP = score 1 if company that audited by public accounting firm big four, score 0 if company that audited by public accounting firm non-big four.

Determination Coefficient Test Results

Based on table 9 indicated the value adjusted R Square that the regression model before moderation is 0.125 interpreted that 12.5% dependent variable of earnings management measured by discretionary accrual affected by the variation of independent variables namely business diversification, geographic diversification, corporate social responsibility, sales growth, leverage, and the reputation of public accounting firm. Furthermore, the value adjusted R Square of 0.122 which reflects that 12.2% with using moderating variables can explain variation of earnings management of discretionary accrual.

F Statistic Test Results

Based on the ANOVA test or F that test shown in table 9 that the regression model before moderation generate F value is 8.095 with a probability of value F is 0.000 exist below the 5% significance level interpreted variable business diversification, geographic diversification, corporate social responsibility, sales growth, leverage and reputation of public accounting firm of jointly influence significant on discretionary accrual earnings management. Furthermore, F value is 3.958 with a probability of F value is 0.000 is below the 5% significance level interpreted regression model after moderation of jointly influence significant on discretionary accrual earnings management.

Individual Statistic Test Results (t-test)

Hypothesis 1 : Business diversification positive influence to earnings management

Based on the results of the regression testing before moderation that shown in table 9 shows that the variable diversify the business has a value of regression coefficient is 0.035 and generate significant value one-tailed is 0.003 in below the significance level α = 1%, meaning that business diversification has a positive influence to earnings management with 99% confidence level. These results are describe business diversification has a positive influence to earnings management, so that the research can not refuse Ha1.
The results are consistent with agency theory that companies doing business diversification tends to be less transparent provides information inter-segment transactions, because the owner does not supervise directly business development activities of products or services. This led to the goals to will be achieved by the segment manager and shareholder difficult aligned (Rodriguez and Van, 2010). The results of this study are consistent with previous studies conducted by Indraswari (2010) found exist a positive influence diversifying operations to the earnings management. The greater the diversification of the business, then the greater the complexity of the business going on in the company, so managers have the opportunity! to decide that improve their self-interest. The results of this study are also consistent with research conducted by Takhtaei, Amin, and Hamid (2013) gives the results of empirical evidence that the company diversified business has a rate of information asymmetry, because the higher the level of diversification of business, then the company management increasingly difficult to obtain accounting information company, so the imbalance of information obtained by the management related information business diversification may lead to management companies maximize personal interests.

**Hypothesis 2 : Geographic diversification positive influence to earnings management**

Based on the results of the regression testing before moderation that shown in table 9 shows that the geographic diversification variable has a value of regression coefficient is -0.002 and generate not significant value one-tailed is 0.359 in the level top of significance \( \alpha = 5\% \). These results are describe geographic diversification does not positive influence to earnings management, so that the research can refuse Ha2.

In practice that company do diversified geographic have of subsidiaries located in different regions or countries confront reputational risk. One of the asset of company that reflect high-value is reputation. Company that do geographic diversification should have a good reputation in the area (geographical). This matter shows that the company that conduct the geographic diversification does not encourage managers to do action the earnings management practice because subsidiaries company must maintain a good reputation to enhance company value. The results is support previous research conducted by Jiraporn, Kim, and Mathur (2008) found evidence of research that is geographic diversification does not give influence to the earnings management because that the company that do the geographic diversification confront the risk of exchange rate fluctuations that resulted in segment manager is not easy do earnings management practice, due to the exist uncertainty of the exchange rate of the geographic segment profit raises geographic segment profit of fluctuating to exchange rates. The results is support the research conducted by Utami and Veronica (2012) gives the empirical evidence that companies are diversified geographically confront regulatory risks in each region or country location of segments. This raises the geographic segment transactions obtain the intensive supervision of each regulator, so that managers segment have difficulty for to do earnings management.

**Hypothesis 3 : Corporate social responsibility positive influence to earnings management.**

Based on the results of the regression testing before moderation that shown in table 9 shows that the corporate social responsibility variable has a value of regression coefficient is -0.064 and generate not significant value one-tailed is 0.255 in the level top of significance \( \alpha = 5\% \). These results are describe corporate social responsibility does not positive influence to earnings management, so that the research can refuse Ha3.

These research results indicate that corporate social responsibility does not give influence to earnings management due to many companies go public in Indonesia are categorized economical company (Haryudanto and Nur, 2010). Category economical company can be interpreted as company that have high profit but low budget for corporate social responsibility activities. This shows that the management of the company allegedly did not perform earnings management practices through corporate social responsibility report, since the company went public in Indonesia not yet utilize corporate social responsibility activities maximally for the purpose of empowerment and as promotion media.

**Hypothesis 4 : Expertise of audit committee weaken the influence of business diversification to earnings management**

Based on the results of the regression testing after moderation that shown in table 9 that this variable has a value of regression coefficient is -0.060 and generate significant value one-tailed is 0.011 in below the significance level \( \alpha = 5\% \), meaning expertise of audit committee weaken the influence of business diversification to the earnings management with 95% confidence level. These results are describe variable of expertise of audit committee weaken the influence of business diversification to the earnings management, so that the research can not refuse Ha4.

These research results support previous research conducted by Martynov, Soh and Dale (2015) found evidence of research that companies that have an audit committee of the educational background and knowledge in the field of accounting and/or finance can be more maximal in examine financial statements annual. Increasingly of audit committee expert in matters cases of accounting and/or finance, then can the more effective the monitoring to the financial reporting process. This matter makes managers more cautious and transparent in carrying out operational activities of the company, so that can reducing earnings management practices. The results of this research are also consistent with research conducted by Alanezi and Albuloushi (2011) gives the empirical evidence that the establishment of an audit committee member that the have knowledge and experience in accounting and/or finance can improve the quality of financial statements, especially the business segments report. The results of this study are also consistent with research conducted by Latif and Abdullah (2015) found evidence of research that companies that make up the expertise of the audit committee can minimize the actions of managers who perform earnings management.

**Hypothesis 5 : Expertise of audit committee weaken the influence of geographic diversification to earnings management**

Based on the results of the regression testing after moderation that shown in table 9 shows that this variable has a value of regression coefficient is -0.004 and generate not significant value one-tailed is 0.441 in top the significance level \( \alpha = 5\% \). These results are describe variable of expertise of audit committee not weaken the influence of business diversification to the earnings management, so that this research can refuse Ha5.

These research results can be due to that the establishment of an audit committee that has an educational background in accounting and/or finance is based solely in order to meet the provisions of BAPEPAM-LK, so that the audit committee who have education and knowledge in the field of accounting and/or finance has not reached success of in do supervision role and control of
the condition of subsidiaries located in different regions or countries to restrict earnings management action. These research results support previous studies conducted by Rahmi and Veronica (2012) gives the empirical evidence that the expertise of the audit committee has not influence to the geographic diversification due to the number of manufacturing companies as the samples that have audit committee members an educational background accounting and/or finance more than one has not reached 50% of the total sample.

Hypothesis 6 : Expertise of audit committee weaken the influence of corporate social responsibility to earnings management

Based on the results of the regression testing after moderation that shown in table 9 shows that this variable has a value of regression coefficient is 0.013 and generate not significant value one-tailed is 0,300 in top the significance level α = 5%. These results are describe variable of expertise of audit committee not weaken the influence of corporate social responsibility to the earnings management, so that this research can refuse Ha6.

These research results could be due to the existence of members of the audit committee with expertise in accounting and/or finance do not apply the principle of high integrity as enforcement of good corporate governance, so that the audit committee of work is not independent in manage the activity of corporate social responsibility to minimize earnings management actions. These research results support previous research conducted by Natalia and Widiyati (2013) found evidence of research that of the audit committee expertise has not influence to the earnings management. These research results due to lack of detailed definition of the audit committee financial expertise that is causing happen differences in perception of the definition of audit committee members who have financial expertise. There are several companies manufacturing defines an audit committee members that has financial skills if this member is working in the world of auditing. However, there is also a manufacturing company that describes the audit committee members who have financial expertise if this member has a degree in Economics. Limitations of detail on the definition of the terms of financial expertise caused the audit committee members have not been effective in carrying out a supervisory role on the performance of corporate social responsibility to limit earnings management practices.

Hypothesis 7 : Frequency of audit committee meeting weaken the influence of business diversification to earnings management

Based on the results of the regression testing after moderation that shown in table 9 shows that this variable has a value of regression coefficient is 0.026 and generate not significant value one-tailed is 0,168 in top the significance level α = 5%. These results are describe variable of frequency of audit committee meeting not weaken the influence of business diversification to the earnings management, so that this research can refuse Ha7.

These research results can be due exist the sample companies that conduct meetings under the regulations namely less than four times in a year and are shown on the test results descriptive statistic in table 7 obtained by frequency average of the audit committee meetings only is 1,6045, so the frequency of audit committee meeting has not been can to prove their effectiveness to discuss the expansion of the segment (business diversification) to reduce earnings management practices. These research results support previous research conducted by Arvin (2014) found evidence of research that the frequency of the audit committee meeting has not influence to the earnings management caused the audit committee does not active to have a meeting with the management of the company, because there are some companies that have not execute BAPEPAM-LK regulations to held meeting at least once in three months or four times in a year, so the frequency of the audit committee meetings can not provide the results of the business segments report quality to support the oversight function minimizes earnings management practices.

Hypothesis 8 : Frequency of audit committee meeting weaken the influence of geographic diversification to earnings management

Based on the results of the regression testing after moderation that shown in table 9 shows that this variable has a value of regression coefficient is 0,028 and generate not significant value one-tailed is 0,168 in top the significance level α = 5%. These results are describe variable of frequency of audit committee meeting not weaken the influence of geographic diversification to the earnings management, so that this research can refuse Ha8.

These research results can be due the geographical position of subsidiaries located in different regions or countries pose audit committee not regularly the held meetings, so that the audit committee has not carried out its duties and responsibilities to the fullest to restrict earnings management practices. The research results support previous research conducted by Priskayani and Wirawan (2015) provides empirical evidence that the results the frequency of the audit committee meeting has not influence to the earnings management. It can be caused the existence of meetings held by the audit committee questionable of effectiveness because of the geographical position of subsidiaries located in various regions inflict the meeting has not effectively support the monitoring function of the audit committee to prevent the occurrence of acts of earnings management.

Hypothesis 9 : Frequency of audit committee meeting weaken the influence of corporate social responsibility to earnings management

Based on the results of the regression testing after moderation that shown in table 9 shows that this variable has a value of regression coefficient is -0,032 and generate not significant value one-tailed is 0,300 in top the significance level α = 5%. These results are describe variable of frequency of audit committee meeting not weaken the influence of corporate social responsibility to the earnings management, so that this research can refuse Ha9.

These research results can be due meetings conducted by the audit committee did not focus in discussing the problems that occur related to corporate social responsibility activities in order to establish good corporate governance. Audit committee that diligent do meeting can not yet ascertained in the meeting resulted in the decision corporate social responsibility activities that can minimize earnings management. The research results support previous research conducted by Sari and Sidharta (2014) provides empirical evidence that the frequency of the audit committee meetings does not moderate the relationship between corporate social responsibility with earnings management. These research results can be due because a manufacturing company in Indonesia has tried comply with BAPEPAM-LK regulation regarding the frequency of the audit committee meeting, but the result
of the frequency of the audit committee meetings can not disclose the difference between the audit committee effective and not effective in weakening the relationship between corporate social responsibility with earnings management. In addition, these research can also be due because frequency of the audit committee meeting not carry out detailed study the activity of company's corporate social responsibility program.

**Control Variables Test Results**

1. **Sales Growth**

   Based on the results of the regression testing before moderation that shown in table 9 shows that variable of sales growth generate significant value one-tailed is 0.000 in below the significance level $\alpha = 1\%$ with value of regression coefficient is 0.560. While, the results of the regression testing after moderation also shows that variable of sales growth generate significant value one-tailed is 0.000 in below the significance level $\alpha = 1\%$ with value of regression coefficient is 0.532. It can be concluded that the test results of the regression model before moderation and after moderation indicates that sales growth as control variables positive significant influence to the earnings management.

   These research results support previous studies conducted by Yurfita, Kirmizi, and Rusli (2015) find empirical evidence that sales growth has a positive influence to the earnings management due increasingly high of growth in sales of the company, then the financing using debt with fixed load certain can increase revenue for shareholder, so prompting managers to do the earnings management.

2. **Leverage**

   Based on the results of the regression testing before moderation that shown in table 9 shows that variable of leverage generate significant value one-tailed is 0.040 in below the significance level $\alpha = 5\%$ with value of regression coefficient is -0.144. While, the results of the regression testing after moderation also shows that variable of leverage generate significant value one-tailed is 0.062 in below the significance level $\alpha = 10\%$ with value of regression coefficient is -0.131. It can be concluded that the test results of the regression model before moderation and after moderation indicates that leverage as control variables negative significant influence to the earnings management.

   These research results support previous studies conducted by Natalia and Widayati (2013) find empirical evidence that leverage a significant negative influence on earnings management, caused by the the company that confront increase leverage can minimize opportunistic behavior of management, due when companies use fund from the loan, there are restrictions expenditure that must be considered by the company before the use of funds and this is always under the supervision of the lender. Thus, the larger the loan the company, then the supervision and controls of more selective carried out by the creditor, so that the opportunistic behavior of management do earnings management can decreased.

3. **Public Accounting Firm Reputation**

   Based on the results of the regression testing before moderation that shown in table 9 shows that variable of public accounting firm reputation generate significant value one-tailed is 0.051 in below the significance level $\alpha = 10\%$ with value of regression coefficient is -0.057. While, the results of the regression testing after moderation also shows that variable of public accounting firm reputation generate significant value one-tailed is 0.038 in below the significance level $\alpha = 5\%$ with value of regression coefficient is -0.063. It can be concluded that the test results of the regression model before moderation and after moderation indicates that public accounting firm reputation as control variables negative significant influence to the earnings management.

   These research results support previous studies conducted by Hasanuddin, Andreas, and Rusli (2015) find empirical evidence that the reputation of public accounting firms negatively affect earnings management indicates that the greater is public accounting firm that conduct an audit of financial statements of companies and exist auditor that have expertise of accounting and/or financial can prevent the management of earnings management, so that the financial statements may be presented fairly and increase the confidence of users of financial statements.

8. **CONCLUSIONS, LIMITATIONS AND IMPLICATIONS**

   Based on test results with two regression models were found: 1) business diversification has a positive influence to the earnings management; 2) geographic diversification and corporate social responsibility does not influence to the earnings management; 3) These research also prove that the expertise of the audit committee of is moderating variables between business diversification and earnings management; 4) The frequency of the audit committee meeting is not a moderating variable between geographic diversification and earnings management; 5) The expertise of the audit committee of is not a moderating variable between corporate social responsibility and earnings management; 6) the frequency of audit committee meetings is not a moderating variables.

   This research was not apart of limitations. First, in the corporate social responsibility variables using the cost data absolute of corporate social responsibility and data earnings management accrual, not the data changes in the cost of corporate social responsibility and profit changes. Then, after carrying out research, there are obstacles still exist some manufacture company not yet provide information cost of corporate social responsibility in the annual report, so it must be carried out observations or interviews in depth to find out the information. Secondly, based on the data processing results that has been done to of normality test was found a regression model that is not distribution normal is a regression model before moderation, thereby reducing research data by eliminating the extreme data (outlier).

   The existence of these limitations, be given some the implications that can be used for further research, namely 1) in research upcoming to determine the measurement of corporate social responsibility can use other proxies such as data changes in the cost of corporate social responsibility and changes earnings; 2) Further research is expected can to add other variables such as the use of real earnings management estimation model; 3) Further research is expected to add the sample to the company in various country other than the existing company in Indonesia, so that research test results can be generalized and more representative.
REFERENCES


