EFFECT OF GOOD CORPORATE GOVERNANCE AND ORGANIZATION CULTURE ON INFLUENCE OF DIVIDEND POLICY ON EARNINGS MANAGEMENT

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ABSTRACT

The Study is motivated by the phenomenon of cases originated from the actions of opportunistic earnings management that harm stakeholders. In fact, regulators have advised the adoption of good corporate governance (GCG) to every company, but a satisfactorily result is not yet found. The issue of the study is the agency conflict due to dividend policy that might motivate management to take earnings management action, by considering the organizational culture and GCG that are considered to affect earnings management behavior. The purpose of this study is to examine and analyze the effect of dividend policy, GCG, and organizational culture on earnings management.

This study is a quantitative research approach using Partial Least Square (PLS) analysis. The population of the study is companies listed on the Indonesia Stocks Exchange in the period of 2007 to 2009. Sample selection is conducted using a purposive sampling technique, where the unit of analysis is the firm. The study uses secondary data source of company’s financial statements and the primary data sources of organizational culture data collected by distributing questionnaires. Test of the validity and reliability of research questionnaire is performed prior to hypothesis testing.

The results of the study conclude that agency theory can explain the phenomenon of agency conflict due to dividend policy. The results show that the agency conflict due to dividend policy has positive effect on earnings management. The main finding of the study is that agency conflict due to dividend policy can be minimized by the existence of GCG and organizational culture, so that opportunistic earnings management can be reduced. Other finding of the study is that GCG negatively affect earnings management, while the organizational culture has no direct effect on earnings management.

Keywords: dividend policy, good corporate governance, organizational culture, and earnings management.
INTRODUCTION

Cases preceded by earnings management has occurred abroad as well as in Indonesia. The cases of Enron, Worldcom, and Xerox took place around 2001 in the United States as well as cases of Kimia Farma and Lippo Bank in Indonesia. Furthermore, some cases that showing earnings management are still commonly practiced, such as these occurred in 2008 and 2009. It was that believed there were earning management actions which would mislead users of financial statements. The Cases involved cooperation between management and accountant. Such have been reported by Detik Finance on Saturday, July 17, 2008, in which the Minister of Finance of Indonesia froze two licensed Public Accounting Firms (KAP) and in 2009 eight public accounting firm licenses were suspended (Bisnis Indonesia, Saturday, 19 September 2009).

There is an important phenomenon to be observed related to earnings management behavior, such as dividend policy. This phenomenon could encourage earnings management actions. Indonesia's dividend policy is based on shareholders' general meeting. Thus, dividend distribution is not determined by management showed, the management still has opportunities to present the financial reports that will be used calculate dividend accordance with management interest. This could be done utilizing accrual accounting system and estimates. Management would conduct earnings management actions which will reduce earnings when corporate profits is high. On the other hand management would attempt to keep the excess profits to be used for own benefit in the future. Thus, managers will always get a bonus even the income though the real income is low. Savov (2006), Kasanen et al. (1996), and Kato et al. (2003) found that dividend policy affected earnings management. It is logic to say that dividend policy motivates earnings management. Because Indonesia's dividend policy is determined by the general meeting of shareholders and is not a decision of management so that the dividend policy could because the source of conflict of interest between management and shareholders.

Deloof et al. (2006) states that dividend plays a central role in the agency conflict between management and shareholders as dividend reduces profit in the company. Porta et al. (1999) states that dividend plays an important role in the agency problem between management and shareholders. Paying dividend means transferring funds from companies to shareholders and therefore these funds can no longer be utilized for the development of the company. The statement indicates that shareholders want a dividend, while the manager does
not. Thus, the phenomenon shows the occurrence of an adan conflict of interest between shareholders (principals) and managers (agents) through dividend policy to maximize managers personal benefit shows the motivate managers to conduct earnings management.

Since the development of accounting research, accounting earnings have become an important topic. This show of examite by the research of Ball and Brown (1968). Accounting earnings can be adjusted in accordance with management is interest as a result of accounting method flexibility record keeping with accruals and estimates. Management actions to manage earnings in accordance own interest is known as the earnings management behavior. According to Scott (2009:422-425) earnings management could be opportunistic or efficient.

Agency theory states that humans are assumed to prioritize to personal interests or opportunistic behavior (Jensen and Meckling, 1976; Eisenhardt, 1989). Agency theory explains that there is of a conflict of interest between shareholders and management, each wants to get maximum utility from the relationship. Profit is contested by management and shareholders. Management holds the most information about the company. As such, there are indications of opportunistic earnings management.

Several studies have shown that management has conducted earnings management, such as Healy (1985), DeFond and Jiambalvo (1994), Sweeney (1994), Sutrisno (2005), Hartono and Na'im (1998), Siregar and Utama (2008), Geiger at al. (2006), Ahn and Choi (2009) on Watts and Zimmerman (1986: 257-262) states in the positive accounting theory that there are three things that motivate earnings management, namely on bonus plan hypothesis, on debt covenant hypothesis, and on political cost hypothesis (size hypothesis). However, according to Scott (2009:411-415) there are various motivations for earnings management, namely: other contractual motivation, political, tax, CEO turnover, IPO, and information communication to investors.

Shareholders want dividends distributed in high amounts (in accordance with the bird in the hand theory), while management does not want this to happen (in accordance with the cash dividend recidual theory). Management would try to adjust earnings by decreasing income to reduce profits distributed as dividends. In this case, the dividend policy will be the motivation for earning management.

This Opportunistic nature of this management can be minimized by applying the mechanisms of good corporate governance (GCG). Research on GCG influence and earnings
management have been carried out but results are not consistent, such as: the study of Tarjo (2008), Mediastuty and Machfoedz (2003), Bushee (1998a), and Rajgopal et al. (1999). They found that the mechanism GCG provide negative effect on earnings management. GCG serves as the monitoring tool of all activities so that good GCG company would be able to weaken the influence of dividend policy on opportunistic earnings management is. Thus, GCG can moderate the influence of agency conflict distimulated by dividend policy on earnings management behavior.

Regulators and shareholders Efforts to reduce earnings management is not enough only by forcing management to implement a considered good system (such as GCG), but also by paying attention to the organizational culture that is embraced and believed by every individual in the organization. This is true because the culture inherent in the individual can influence human behavior. Moeljono (2002) states that organizational culture is a value system that is believed by all members of the organization, continuously learned, and developed and can be used as the basis of organization members behavior of each member. Organizational culture acts as the values share by human resources in performing obligations and behavior in organizations (Susanto et al., 2008). The statement can be interpreted that culture that serve as guidelines for members of the organization can be reflected through their behavior patterns. Behaviors reflect the culture of earnings management that guide the manager. If the referenced culture doest not emphasize self interest only, them., opportunistic earnings management can be minimized. Nabar and Boonlert (2007) examined the influence of investor protection and culture on earnings management. Culture intended in this research is to adopt the four dimensions of national culture by Hofstede (1991) as reflected in organizational culture, namely: (1) power distance, (2) individualism, (3) masculinity, and (4) uncertainty avoidance. The study found that cultural dimension of power distance, masculinity, and uncertainty avoidance give positive effect on earnings management.

Based on the above description, the subject matter of this research is whether GCG and organizational culture affect the influence of dividend policy on earnings management.

**THEORY AND HYPOTHESIS DEVELOPMENT**

Agency theory (Jensen and Meckling, 1976) states that between management as the agent and shareholders as the principals are always trying to maximize their respective interests. Profit is the result of a company that will always be contested by the agent and
principal. Management expects maximum bonuses and shareholder expects maximum dividends. The amount of dividend to be paid can be a source of conflict in agency relationships.

Bird in the hand theory (Bhattacarya, 1979) explains that dividends shareholders prefer greater profits distributed as dividends. Instead, management tends to prefer the other side. This was explained by residuary theory of cash dividends (Kaen, 2003). This means that, there is a conflict between management and shareholders due to dividend policy.

Although amount of dividend to be distributed by the company is not decided by the management (the phenomenon in Indonesia, dividends distributed by RUPS (general meeting of shareholders), still management can control as the basis of deciding dividend payments. One of the efforts that can be done by management to reduce dividends to be distributed is through the earnings management that decreases the profit. The presence of conflict (conflict of interest) of this agency relationship is the reason for management to manage earnings.

Earnings management behavior is based by on positive accounting theory (Watts and Zimmerman, 1986) which states that positive accounting theory / PAT is concerned with predicting such actions as the choices of accounting policies by firms and how firms respond to proposed new will of accounting standards (Scott, 2009:433). Earnings management is accounting policy choices by manager to achieve a certain goal. PAT does not state that a company must specifically determine its accounting policy, but provide flexibility in accounting policy choices to quickly adapt to changing conditions. Researches by Schelenger et al. (1989), Porta et al. (1999), and Dewenter et al. (2000) described the dividend policy as an agency conflict. Ahmad et al. (2007) found that dividend policy affects or may motivate managers to manage earnings. Other empirical findings include the study of Widanaputra (2007), Kasanen et al. (1996), and Kato et al. (2003) who found that dividend policy has positive influence on earnings management.

The existence of conflict between management and shareholders in the concept of good corporate governance (GCG) should be able to by applying good corporate governance. Thus, the behavior of opportunistic earnings management can be avoided so as attain a harmony of interests between management and stakeholders. GCG concept is based on two main theories, namely: the agency theory and stewardship theory (which assumes that humans are basically trustworthy). GCG principles applied by the company will be the basis
Implementation of GCG could moderate the effect of dividend policy on opportunist earnings management behavior.

According to Hawkins (1974) traditional approach to define generally acceptable accounting principles focuses primarily on technical considerations. Furthermore, Hawkins (1974) argues that it is a challenge to create Generally Accepted Accounting Principles and to develop a set of principles that are behaviorally and technically strong because it would preclude managers from taking undesirable action.

In addition to applying the concept of GCG to reduce opportunistic behavior, building an organizational culture that can develop ethical behavior for all individuals in the company will have an impact on improving the performance / value of the firm. Theoretically, the concept of organizational culture is a value system that is believed by all members of the organization and continuously, and developed, and can be used as the basis of organization members behavior (Moeljono, 2002). Company's goal is to achieve an increase companies value and to meet stakeholders needs (Weston and Copeland 1995:244). Thus, organizational culture can strengthen or weaken relationships between dividend policy and earnings management. That is, interaction between dividend policy and organizational culture may weaken or strengthen the effect of dividend policy on earnings management.

GCG is a formal strategy to be implemented by the company to achieve maximal performance. Organizational culture is a factor that also may play a role in the achievement of corporate performance. Both GCG and organizational culture would have impact to decrease opportunistic earnings management actions, and consequences will be to enhance shareholder value. The suitability of a strategy such as GCG and organizational culture would increase the company's value. This model is based on the theory of fit or organizational of fit theory (Galbraith and Nathanson, in Badera, 2008). Theory of fit was the theory of organizational alignment of internal relations (Sobirin, 2007:268).

Previous research about to GCG, namely: Xie at al. (2003) examined the role of the board of commissioners with a background in finance in preventing earnings management. The study found that the more often the board of commissioners meet, the smaller the company’s accruals another finding, showed that the proportion of independent board of commissioners has negative effect on accrual management. Yu (2006) found that the size of the board of commissioners negatively affect on earnings management. Chtourou et al. (2001) also stated the same finding with Yu (2006). Chtourou et al. (2001) found that having an
independent and experienced board of commissioners are able to reduce earnings management or even lower income decreasing earnings management.

Midiastudt and Machfoedz (2003) states that the size of the board of commissioners negatively affect the indication of earnings management performed by management. Wilopo (2004) analyzed the influence of independent commissioners, audit committees, and corporate performance on earnings management (the proxy was discretionary accruals). Research of Wilopo (2004) found that the presence of audit committees and independent commissioners negatively affect on corporate earnings management practices. Furthermore, previous researches related to culture are Verma and Gray (1997), Sudarwan (1995), Indriantoro (2000a), Indriantoro (2000b), and Badera (2008). Moeljono (2002) argues that corporate culture is a value system that is believed by all members of the organization and continuosly and developed and can be used as the basis of organization members’ to achieve company goals. Organizational culture acts as the values that guide of human resources in performing obligations and behavior in organizations (Susanto et al., 2008). The expression can be interpreted that the culture referred by members of the organization can be reflected through their behavior patterns. Earnings management behavior reflects the culture referred by managers. If the referenced culture does not only emphassive self interest, opportunistic earnings management can be minimized. Nabar and Boonlert (2007) examined the influence of investor protection and culture on earnings management. Culture intended in this study is the culture adopted from the four dimensions of national culture by Hofstede (1983), namely: (1) power distance, (2) individualism, (3) masculinity, and (4) uncertainty avoidance.

Based on the description above it can be put forward hypotheses as follows:

H1: dividend policy affects earnings management actions.

H2: Good Corporate Governance (GCG) affects on earnings management

H3: Organizational culture affects earnings management

H4: The better the implementation of GCG, the weak the policy relationship between dividend and earnings management.

H5: The higher the organizational culture, the stronger the relationship between policy dividend and earnings management

**RESEARCH METHOD**

**Population and Sample Research**
The population of this study is companies listed on the Indonesia Stock Exchange. The unit of analysis is the company. The sample used is selected using purposive sampling. The criteria established to obtain a representative sample are as follows.

2. Companies that have been surveyed by the Indonesian Institute for Corporate Directionship (IICD). IICD has published GCG Index for each company.
3. Companies that pay dividends in a row in the observation years because this research analyzes earnings management behavior motivated by dividend policy.

**Data Sources and Data Collection Techniques**

Sources of data in this study consist of secondary and primary data. Secondary data are in the form of quantitative data, namely the financial statements of the year 2007-2009 which are obtained from the reference center of capital market and the Indonesian capital market Capital Market Directory (ICMD); GCG Index which are gained from the Indonesian Institute for Corporate Directionship (IICD); and stock prices which are obtained from reference centre of Indonesia Stock Exchange (BEI).

The primary data are in the form of qualitative data, namely the perception of respondents about their organizations culture. Furthermore, the questionnaire answers are quantified into interval scale. Data are collection by distributing questionnaires to the respondents whose companies were selected as the study sample. Respondents include the chief executive and board of directors as the decision makers regarding the accountability of the company's financial statements as well as the recipient of authority from shareholders to manage the company.

**Identification and Measurement of Variables Research**

1) independent variables (exogenous) is the dividend policy, that is the decision about how much profit is to be paid out as dividends rather than retained for reinvestment in the company. Dividend payout ratio (DPR) is the ratio used to measure the amount of dividend payments from earnings per share.

2) Variable quasi-moderation, which acts as moderating variables and also has causal relationship to the dependent variable (earnings management). There are two quasi-moderating variable in this study, namely: organizational culture and GCG.
Organizational culture that is intended in this research is organizational culture that was adopted from Hofstede's research. The culture of the organization / corporation is the overall pattern of thoughts, feelings, and actions of a social group (Hofstede, 1991).

The proxy of organizational culture are the four cultural dimensions adopted from Hofstede's research. Hofstede's cultural dimensions distinguish in general the effect of values of an organization into 4 dimensions, namely: (1) power distance, that is a distance reveals the relationship between superiors and subordinates or between who has the power to the people who do not have the power; (2) individualism-collectivism, which deals with relationships between individuals. Individualism has a characteristic 0f not depending on others and are more concerned about self. The opposite is applied to collectivism; (3) masculinity-femininity, which is related to differences in gender roles. Cultures that tend to have masculine traits more concerned with property, competition, and performance, while the feminine is more concerned with equality, solidarity and quality of work life; and (4) uncertainty avoidance, which explains one's tolerance of the situation and his reaction to the situation. One characteristic of strong uncertainty avoidance is the uncertainty perceived as a threat and should be fought, while the weak uncertainty avoidance perceives that uncertainty is considered normal in life that should be taken literally.

Good Corporate Governance, which is refered to a set of rules that define the relationship between shareholders, managers, creditors, governments, employees, and other internal and external parties relating to their rights and obligations, or in other words a system that controls the company (FCGI, 2003). GCG is a process and structure set out in running the company, with the main objective to increase shareholder value in the long term perspective, while considering the interests of stakeholders (IICG, 2004). From both definitions, it can be concluded that GCG is the system of good corporate governance by taking into account stakeholders' interests and enhance shareholder value.

3). The dependent variable (endogenous) is earnings management. That is a manager behavior which intervenes in the of accounting information for a particular purpose. Earnings management in conducted because they have the authority to select methods and establish accounting policies. Earnings management behavior can be detected by examining the
amount of discretionary accruals. In this research earnings management is proxied by
discretionary accruals using modified Jones model (Dechow et al., 1995).

**Test of Validity and Reliability**

In initial research phase, instrument testing is conducted to measure the constructs of
organizational culture, namely validity and reliability testing. If the is correlation coefficient
positive and greater than 0.3, the relevant indicator is considered valid. Reliability of a
measurement can be shown from cronbach alpha coefficient and was considered reliable if
the value of is greats cronbach alpha than 0.6 (Hartono, 2008: 50).

**Method of Data Analysis**

This study uses inferential statistical methods in analyzing the data, ie model
structural analysis with variance based or component based approach with Partial Least
Square (PLS). PLS can be used as a of the theory (hypothesis testing) confirmation as well as
to build relationships that do not have a strong foundation of theory yet or to test a
proposition. Data do not haveto be multivariate normal distribution (an indicator category to
ratio can be used on the same model). The model is as follows

\[
EM = \gamma_1 DPR + \gamma_2 GCG + \gamma_3 OC + \gamma_4 DPR \times GCG + \gamma_5 DPR \times OC + e
\]

**Description:**

EM = Earnings Management
DPR = Dividend Policy Ratio
GCG = Good Corporate Governance
OC = Organizational Culture
DPR \times GCG = Interaction of DPR with the GCG
DPR \times OC = Interaction of DPR with OC
\( \gamma \) (gamma) is a coefficient that describes the influence of exogenous variables
to endogenous
\( \beta \) (beta) is the coefficient that describes pengaruruendogenous variables to
other endogenous variables.
e (error) error

**RESULTS AND DISCUSSION**

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Data reflect of organizational culture reflected the culture conditions in 2007-2009 with the assumption refers to the opinion of Robbins (2003:83) that the values (culture) tend to be relatively stable and sturdy. Thus, organizational culture conditions in the three-year of observation relatively unchanged. Thus, the unit of analysis is the firm. From the results of sample selection and the number of returned questionnaires, there are 52 companies to be analyzed.

Results of validity and reliability test used to measure latent variables (organizational culture) are valid and reliable. Validity test results show the correlation coefficients are all above 0.3. Similarly to the results of reliability test cronbach alpha coefficient is above 0.6. Furthermore, the measurement of organizational culture is appropriate to analyze.

General description of organizational culture that views the condition of the 4 cultural dimensions formulated by Hofstede is that sampled companies tend to have the characteristics of wide power distance, individualist, weak uncertainty avoidance, and feminine. The test results using the PLS can be seen at appendix 1 Results Testing Hypothesis.

Discussion of Research Results

Based on the results of hypothesis testing, hypothesis 1 (H1) is accepted. The results of this study found that dividend policy has positive influence on earnings management. This study supports previous researches, namely Kasanen et al. (1996), Savov (2006), and Kato et al. (2003) which stated that dividend policy affects earnings management. The results of this study the view that conflict between management and shareholders related to dividend does exist. There is a conflict of interest In the agency relationship between management and shareholders (Jensen and Meckling, 1976). This condition is in accordance with the theory of residual cash dividend (Kaen, 2003). The conflict triggered by the dividend policy will motivate the management to do something to lower dividend. One way is by conducting income decreasing earnings management Thus, dividend policy has a central role in the agency relationship because it can affect the behavior of earnings management by managers.

These findings support and strengthen agency theory, which is not separated from the must fulfill three important assumptions underlying agency theory (Eisenhardt, 1989), namely: human assumptions, organizational assumption, and information assumption. The first assumption means human can not be separated from human nature, that is (1) self-interest, (2) bounded-rationality, and (3) risk aversion. The second assumption is that
organization will face (1) conflict as a destination among the participants, (2) efficiency as a criterion of effectiveness, and (3) information asymmetry between owners and agents. The third assumption is that information is a commodity that can be purchased.

The second hypothesis of this research is that GCG negatively affect on earnings management. Companies that have implemented GCG will have a good control to protect every interest of the stakeholders, in accordance with GCG 5 principles, namely transparency, accountability, responsibility, independency, and fairness (TARIF). If TARIF is actually implemented, it can be guaranteed that the company will be trusted by the stakeholders and the firm value can increase. The results are consistent with the findings of Chtourou et al. (2001) and Xie et al., (2002).

The study also supports the findings of Liu and Lu (2007) and Ahn and Choi (2009), which found that corporate governance is negatively affect earnings management. Furthermore, the research Ahn and Choi (2009) described the mechanisms and structures of GCG to monitor opportunistic earnings management.

The third hypothesis of this study was rejected. This finding is not consistent with the findings and Boonlert Nabar (2007). Differences in the findings of this research with the research and Boonlert Nabar (2007) are (1) a different sample (in foreign countries and in Indonesia) and (2) difference analysis tool that is used to test the hypothesis. Cultural conditions overseas may vary with the conditions attached to the culture in Indonesia. Basically there is no such good and bad culture but depending on the conditions or the environment. Thus, the culture adopted by a nation have different values compared other nations depending on the environment. As explained by Robbins (2006:724) culture can also become barriers within an organization. This barrier occurs when the common values do not match with the values that improve organizational effectiveness. When an organization experiencing rapid change, while the culture has been rooted probably no longer appropriate.

To achieve good performance for a company in Indonesia, it is not necessarily fit with applying the western culture and vice versa. The most important thing to increasing performance of the company is to adjust internal variables (eg a case of the implementation of GCG) with the existing organizational culture in the company. This view is consistent with research findings from Badera (2008) which supports organizational of fit theory, stated that the strategy should have compatibility with other factors. For instance, GCG applied by a company is considered as a strategy, then it must be compliance with the organizational
culture so that company performance can be improved. Organizational culture are also factors that are contingency, which means the need for conformity.

Culture can also be abstract because the culture inherent in a person does not seem real yet to be reflected in behavior. Culture in question has a broad understanding that can not be measured simply by looking at the four dimensions of culture as used in this study but there are many factors that can interact with the organizational culture so as to affect the behavior of earnings management. Means, it is not enough can be said, "if a company has an individualist culture characteristics, managers would conduct earnings management but there is still other factors that contributes in the interaction so that managers tend to tolked conduct earnings management. Conclusion to this finding that the culture of an organization that viewed from four dimensions of Hofstede has no effect on earnings management actions. This finding is reinforced by the findings of Geiger et al. (2006) which states that the perception of participants in manipulating or managing earnings will vary in different countries.

This research finds that GCG is able to moderate the influence of dividend policy (the proxy of DPR) against earnings management measures, namely a negative effect. It means that GCG weaken the relationship of dividend policy and earnings management. The higher the score GCG (the better GCG implementation), the more pressing is placed on opportunistic earnings management. The GCG implementation in a company will be able to suppress the possibility of opportunistic behavior of management.

On agency relationship, dividend policy is one of the main drivers of agency conflict between management and shareholders. Dividend policy is important in the agency conflict between management and shareholders (Delooof et al, 2006). The implementation of GCG will be able to reduce the conflict between management and shareholders. This is because the GCG is viewed as a strategy, a structure and a system, which basically protects the interests of all parties (stakeholders).

Concept of GCG was originally proposed due to the needs of the shareholders to monitor funds entrusted to management. In the agency relationship there is an indication of asymmetry of information that led management more information control than the shareholders, so there is indication management can manipulate earnings for personal purposes. This view is supported by Eisenhardt (1989) which states that the agency relationship assumes that people are self-interest.
The findings of this research prove that GCG act as quasi moderating variables, in the relationship between dividend policy and earning management. Variable GCG also has a causal relationship to earnings management.

The results shows that organizational culture is a variable that moderates the effect of dividend policy on earnings management. The interaction between DPR the organizational culture characterized by high power distance, individualism, low uncertainty avoidance, and masculine will affect earnings management. Culture inherent in a person would potentially affect a specific action, such as earnings management actions. People will act on the basis that there is encouragement in itself. The results of this study concur with the views of Dayakisni and Yuniardi (2008) which states that culture is affecting the lives of individuals is more than mere behavior. It seems that there very close relationship between culture and the basic concepts of physiology particularly on personality and self concept. Furthermore, explained that personality could be flexible to adjust to the culture where the individual lives. There is a tendency to the adjust to the context and situation.

This finding is consistent with the research of Fidrmuc and Jacob (2010) who concluded that high individualism, low power distance, and low uncertainty positively affect dividend policy. The results also explain that the most powerful indicators to measure organizational culture variables as latent variables is the dimension of individualism.

**Conclusion and recommendation**

1. This research shows that dividend policy has positive influence on earnings management. These findings support the agency theory which states that there is a conflict between shareholders and management resulting from differences in interests. Shareholders want high dividends, while management wants profits are not distributed in the form of dividends so that the funds managed by managers becomes greater, means supporting the bird in the hand theory.

2. This study finds that GCG negatively affect earnings management. This negative direction in line with the implementation of GCG expectation, that is the implementation of GCG principles improves governance and can reduce opportunistic earnings management actions.

3. The study finds that organizational culture has no effect on earnings management. These findings differ from of Boonlert and Nabar (2006) this is caused by counting differences of the study samples, limitation of supporting data, and differences of analysis tools.
Culture can not be used as a factor that directly affects earnings management because culture would be conditional.

(4) It is empirically proven that the GCG affects dividend policy influence on earnings management or it can be said that interactions between GCG and dividend policy affect earnings management actions. On these findings it can be explained that the better the implementation of GCG (high GCG index) the larger amount of earnings management is reduced. GCG has a function as strategy, structure, and systems that can protect all the interests of stakeholders so that the company's goal to enhance shareholder value can be achieved.

(5) It is proved empirically proven that organizational culture moderates the relationship between dividend policy and the actions of earnings management. This finding explains that if the culture inherent in the management tens to be higher power distance, more individualistic, higher the deviation of tolerance (low uncertainty avoidance), and masculine, then earnings management behavior will increase. The role of organizational culture is very important in anticipating opportunistic behavior of managers in companies that need to be developed towards the organizational culture of good corporate culture (GCC) because it would affect both the value of the company.

**Research Limitations and Suggestions**

(1) This study emphasizes the influence of conflicts of interest between management and shareholders that are motivated by dividend policy effect earnings management. Differences of interest between management and shareholders are not only due to dividend policy, but still there are other things that potentially cause conflicts, such as investment policy or policies of debt.

(2) The weaknesses of this study is that not all respondents returned questionnaires sent by mail, and there a possibility that questionnaires are not answered by the target respondent. To increase the response rate questionnaires can be brought directly to the respondent.

(3) The weakness in predicting the level of earnings management using accruals discretionary. The result is in terms of prediction. For further research an instrument could be developed to measure the indication of earnings management behavior.
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## Appendix 1 | Results Testing Hypothesis.

<table>
<thead>
<tr>
<th>Hypothesis (H)</th>
<th>Independent Variable and Moderation</th>
<th>Dependent Variable</th>
<th>Path Koeffition</th>
<th>Statistic T</th>
<th>Remark</th>
</tr>
</thead>
<tbody>
<tr>
<td>H1</td>
<td>Dividend pay out ratio (DPR)</td>
<td>Earnings Management (EM)</td>
<td>0.629</td>
<td>3.105</td>
<td>Significant**</td>
</tr>
<tr>
<td>H2</td>
<td>Good Corporate Governance (GCG)</td>
<td>Earnings Management (EM)</td>
<td>-0.204</td>
<td>2.065</td>
<td>Significant**</td>
</tr>
<tr>
<td>H3</td>
<td>Organizational Culture</td>
<td>Earnings Management (EM)</td>
<td>0.118</td>
<td>1.071</td>
<td>Non-Significant</td>
</tr>
<tr>
<td>H4</td>
<td>DPR x GCG</td>
<td>Earnings Management (EM)</td>
<td>-0.342</td>
<td>3.358</td>
<td>Significant**</td>
</tr>
<tr>
<td>H5</td>
<td>DPR X OC</td>
<td>Earnings Management (EM)</td>
<td>0.578</td>
<td>3.227</td>
<td>Significant**</td>
</tr>
</tbody>
</table>

** Significant on α 5%