



The Fifth International Conference on
Entrepreneurship and Business Management

PROCEEDING

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“Entrepreneurship and Management in Turbulent Global Environment: From Start-Up to Global Business”

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Organized and hosted by:



PREFACE

The International Conference on Entrepreneurship and Business Management (ICEBM) is a conference that aims to facilitate the exchange of best practices information and knowledge dissemination in the field of entrepreneurship, business, and management. The ICEBM is organized by Tarumanagara University and collaborating universities as well as related institutions. The conference provides the forum for various groups of professionals including practitioners, researchers, academicians, practitioners, government officials, individuals in society, and graduate/ postgraduate students.

Following the success of the Fourth ICEBM that was held in Bangkok, this year the Fifth ICEBM is held in Tainan in collaboration with Kun Shan University, Ciputra University, Udayana University, Kristen Krida Wacana University and Trisakti School of Management. The main theme of the Fifth ICEBM is “Entrepreneurship and Management in Turbulent Global Environment: From Start-Up to Global Business”.

The turbulent global environmental forces are constantly presenting new opportunities and threats. Entrepreneurs and managers are increasingly taking a global view of the company's market opportunities and competitions. Mark Zuckerberg, Founder of Facebook, embraced change, created new solutions to unmet needs and managed to shape the incredible rocket growth from start-up to global giant. A primary feature of the conference is to consider the dynamics of entrepreneurship and management in the context of globalization. This posits challenges toward professionals and entrepreneurs in finding ways to vitalize the business development in the turbulent global environment.

In this Fifth ICEBM 2016, there were 126 abstracts received from the participants and 84 full papers were reviewed by ICEBM Scientific Committee. This committee comprises of 46 reviewers from 13 different institutions and 7 countries. The 84 full papers were received from 45 different institutions that came from 9 different countries: Brazil, China, Ethiopia, India, Indonesia, Malaysia, Philippines, Sweden, and Taiwan. A total of 75 out of 84 papers have been accepted. Reviewing process in this year is similar to last year where we applied a double blind peer-review process and scientific committee reviewed not just the abstracts received but also the full papers. These papers address diverse areas of application in entrepreneurship and business management. Starting from the field of accounting and finance, economics, marketing, and so forth through addressing a wide variety of theoretical and methodological approach.

This year papers that have been published to the book of proceedings will be further evaluated for possible submission to the special issue of Asia Pacific Management Review (APMR) and ASEAN Marketing Journal (AMJ). We hope that this book of proceedings could promote and stimulate further the discussion of practitioners and academics especially on business challenges and threats in turbulent global environment.

Finally, we would also like to thank all the contributing authors for their valuable work in supporting the success of the Fifth ICEBM. Thank you very much for your contribution.

Conference Chair

Dr Keni

Prof. Chin-Chiuan Lin

OPENING SPEECH FROM THE RECTOR OF TARUMANAGARA UNIVERSITY

Distinguished guests, ladies and gentlemen:

I am pleased to have the opportunity of addressing this important conference, widely known as the International Conference on Entrepreneurship and Business Management (ICEBM for short). After its first successful arrangement in Jakarta, followed by Bali, Penang, and Bangkok, this year's conference in Tainan, Taiwan, commemorates the fifth anniversary of the event, and I am immensely grateful for having found to date the Conference a continued success.

The purpose of the seminar actually is to provide a forum that facilitates the exchange of knowledge and experience of both practitioners and academics in entrepreneurship, business, and management. Here they can mutually share their findings. I would like to further remind all of us about the importance of the current Seminar, considering the chosen topic "Entrepreneurship and Management in Turbulent Global Environment: from Start-Up to Global Business." Basically the term start-up is still quite debated. The US Small Business Administration describes start-up as a "business that is typically technology oriented and has high growth potential." It is considered that the only essential aspect of start-up is growth! Because of this "growth potential," a start-up is able to provide its goods and services to a wider or larger market. As this happens, a start-up has no other choice but explores an unknown area or uses an innovative business model, trying to disrupt existing markets. This enables a start-up to enter a global business. From start-up to global business; one can imagine how difficult or turbulent is when a start-up involves globally or cross-border transactions of resources between two or many nations. For this reason, this Seminar actually is not just important but is even necessary in particular for those who try to understand and anticipate any possible threats and opportunities, which come along with the rapid change in the global environment.

Distinguished guests, ladies, and gentlemen:

I would like to conclude with the following notes. Firstly, while we organize the event co-hosting with Kun Shan University, this year's conference becomes special for the support of 4 other universities: Universitas Udayana, Universitas Kristen Krida Wacana, Ciputra University, and Trisakti School of Management (TSM). They provide assistance in the preparation and execution, leading this event to a success. I am thankful for their kind contribution. Secondly, our thanks also go to Kun Shan University for its utmost support and wonderful cooperation. I sincerely thank the Faculty of Economics of Tarumanagara University, in particular the organizing committee for their hard-work and dedication, making this important conference successfully possible. Finally, I would like to express my gratitude for the presence of distinguished speakers and a number of active participants from several countries. I wish you all a productive and fruitful seminar. Thank you.

Prof. Dr. Agustinus Purna Irawan

OPENING SPEECH FROM THE PRESIDENT OF KUN SHAN UNIVERSITY

First of all, it is an honor and a pleasure to hold the International Conference on Entrepreneurship and Business Management (The Fifth ICEBM 2016). I and staff of Kun Shan University to interact with all of you distinguished scholars and business elites at this marvelous conference.

In 2016, the government of R.O.C. (Taiwan) proposed a "new southward policy" not only to revive the foundation of the "go south" policy, but also to build new social and educational ties. Specifically, the policy focusing on strengthening relations between Taiwan and South and Southeast Asian nations would be set up. The policy would not be confined to trade and investment but would also include people-to-people, cultural, educational, research and other types of exchanges. This policy shows commitment to make Taiwan more ASEAN-oriented. Clearly, more business knowledge and understanding of South and Southeast Asian countries is necessary to Taiwanese researchers and business men/women. Therefore, it is an honor to host the Conference working together with the excellent partners of Universities in ASEAN. I look forward the Conference would become the best forum to share ASEAN-related knowledge. After the Conference, I sincerely hope that KSU will build a best academic and Business partners with the Tarumanagara University (UNTAR).

Finally, I highly recommend that please take the break to explore this amazing city of Tainan. Enjoy the Conference and take advantage of the opportunities it offers.

Prof. Yan-Kuin Su

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**THE EFFECT OF AUDIT COMMITTEE AND QUALITY OF AUDITORS
ON EARNINGS MANAGEMENT (STUDIES ON SOME MANUFACTURING
COMPANIES OF CONSUMER GOODS, LISTED IN THE INDONESIA STOCK
EXCHANGE 2012-2014)**

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Abstract

The objective of this research is to examine the effect of Audit Committee and Auditor Quality on earnings management. Auditor quality was also measured by dummy variable and earnings management was measured by discretionary accruals with modified Jones model.

The samples in this study are 14 manufacturing companies of consumer goods that were listed in the Indonesia Stock Exchange for the year 2012-2014. The samples in this study were determined based on purposive sampling. Data used in this study were secondary data such as annual reports from the Indonesia Stock Exchange.

The results from this study are (1) Audit Committee has negative effect on earnings management (2) auditor quality has positive effect on earnings management (3) audit committee and auditor have positive effect on earnings management.

Keywords: Audit Committee, Auditor Quality, Earnings Management

Earnings management is an activity to increase or to lower the earnings reported by the management without resulting in an increase or decrease in the long-term probability. According to Iguna and Herath (2010) earnings management is one way to do management in the process of preparing financial statements that may affect the level of profit that is presented in the audit report. To prevent any harm, the Company's Management must have good managerial skills.

Managerial process is a characteristic that is in accordance with the norms and ethics in a company. Managerial skills can help a company if they are applied properly by all employees in the company, especially by the manager. According to Purwanti (2010), an expert manager has intelligence, experience, and high education. These are factors in determining the skills of a manager. Capable Managers are capable of managing the company's performance very well and can appropriately make decisions on the company's operations to optimize profits without violating corporate ethics, so as to minimize the possibility of earning management. Every decision will affect the condition of the company and will reflect the manager's level of skills.

Beside applying managerial skills, managers also need to have good corporate governance mechanism, so as to reduce the likelihood of earnings management. One of the steps in the mechanism of good corporate governance is having an Audit Committee. The audit committee is an independent committee formed by the board of commissioners to conduct supervision over the company's improved performance. The task of the audit committee is examining the accounting policies adopted by the company, assessing internal control, and examining the system of external reporting and regulatory compliance (Kusumaningtyas, 2012). The existence of audit committee is helpful in improving the quality of the reports, increasing the effectiveness of internal and external audits, providing justice for stakeholders, and disclosing information by the Management (Effendi and Daljono, 2013). By this, the occurrence of earnings management within the company can be prevented.

Agency theory is used to understand the relationships between agents and principals. The agent represents the principal in a particular business transaction and is expected to represent the best interests of the principal without regard for self-interest. Agency theory is part of the bigger topic of corporate governance. It involves the problem of directors in controlling a company whilst shareholders own the company. In the past, a problem was identified whereby the directors might not act in the shareholders (or other stakeholders) best interests.

According to the Indonesia Financial Services Authority namely OJK (Otoritas Jasa Keuangan) (on KEP-643 / BL / 2012), Audit Committee has the following duties:

- a. Accessing documents, data, and information about the Issuer's or the Public Company's employees, funds, assets and resources.
- b. Communicating directly with employees, including directors and parties that perform the function of internal audit, risk management, and accounting related tasks and responsibilities.
- c. Involving independent outside members of the Audit Committee to help the performance of its duties (if required).

d. Performing other powers granted by the Board of Commissioners.

Reporting by the audit committee (OJK on KEP-643 / BL / 2012):

- a. The Audit Committee shall make a report to the Board of Commissioners on each given assignment.
- b. The Audit Committee shall make an annual report of the activities of the Audit Committee disclosed in the Annual Report of the Public Company.
- c. The Issuer or the Public Company must submit to the OJK the information on the appointment and dismissal of the Audit Committee in the maximum period of 2 (two) business days after the appointment or dismissal.
- d. Information on the appointment and dismissal referred at part c shall be published in the page (website) exchanges and / or page (website) of the Issuer or the Public Company

Moreover, improving the quality of financial statements also requires good quality auditors to examine the financial statements issued by the management. The auditor's independence can result in good audit and can detect the presence or absence of earnings management behavior of the company's financial statements. Especially if such financial statements are audited by an auditor from the big four accounting firms. The advantage derived from the big four KAP auditors compared to the non-big four is a quality auditor. This is because the big four accounting firms provide training, procedures and audit programs more effectively and efficiently which can assist the auditors in improving the quality of work to become maximum and qualified.

Based on the problem that has been disclosed above, the formulation of the research problems are as follows:

1. Does the audit committee have positive or negative effect on earnings management?
2. Does the quality of the auditor's have positive or negative effect on earnings management?
3. Do the audit committee and auditor quality simultaneously have positive or negative effect on earnings management?

According to IAS 1 (2013) the objectives of financial statements are:

1. to provide information about the financial position, financial performance, and cash flows of an entity that is useful for the majority of reports' users in making economic decisions.
2. to show the results of management accountability in using the resources entrusted to them.

Earnings Management

According to Utami and Syafruddin (2013), the definition of earnings management contains several aspects:

1. Intervention earnings management on financial reporting can be done with the use of judgment.
2. Interest earnings management can mislead the stakeholders about the economic performance of companies.

The Audit Committee

The audit committee, according to the OJK on KEP-643/BL/2012, is a committee established by and responsible to the Board of Commissioners in helping carry out the duties and functions of the Board of Commissioners. The Audit Committee consists of at least three (3) members led by an Independent Commissioner and two other members from parties outside the issuer or the public company.

The purpose of the existence of an audit committee, as stated by Guna and Herath (2010), is to provide assurance that the financial statements issued by the company management are in accordance with accounting principles, that the company's internal controls are adequate, to monitor and follow up possible material deviations in the fields of finance, to provide recommendations in deciding an external auditor to audit the company.

The audit committee of a company is likely to prevent the occurrence of earnings management. According to the study by Joseph (2010), the background in accounting and finance owned by The Audit Committee has significant effect on earnings management. From the research by Padmujdi and Trihartati (2010), the background of accounting and Finance of the audit committees does not have significant effect on the level of earnings management. According to research results by Herath (2012), the audit committee has no effect on earnings management. According to the research by Kusumaningtyas (2012), the audit committee has a significant effect on earnings management. The hypothesis in this study is:

Ha1: The audit committee has positive effect on earnings management.

Quality Auditor

Quality auditor is an auditor's ability to detect and report material errors in the financial statements. Therefore, the quality of auditors is an important thing to be considered by the company in the process of auditing. The purpose of an audit is to examine and gain the confidence of the company's financial statements that are audited if the data in the

company's operations are in accordance with the criteria of the company or its audit findings contained therein. (Adrian, 2014):

An auditor has an important role in determining the quality of the financial statements to determine whether the performance of the Company is good or poor. High quality audits can be seen from the large size of the KAP. Earnings management that occurs in companies audited by auditors from the big four KAPs are lower than those from non-big four KAPs (Meutia, 2004) in (Wiryadi and Sebrina, 2013). According to Effendi and Daljono (2013) auditors working in Big Four KAPs are considered of higher quality because the auditors are supplied with a series of training and procedures and have the audit program that is considered to be more accurate and effective. Quality auditor has a significant negative effect on earnings management. The hypothesis in this study is:

Ha2: Quality auditor has positive effect on earnings management.

The Audit Committee and Quality Auditor have simultaneous effect on earnings management.

Utami and Syafruddin research results (2013) state that the auditor's managerial skills and qualities simultaneously affect the earnings management. Research results of Daljono Effendi (2013) show that good corporate governance and quality of auditors have a simultaneous effect on earnings management. According to the research by Wardhani and Joseph (2010) the audit committee has a positive effect on earnings management. Then the hypothesis in this study is:

Ha3: the audit committee and auditor quality simultaneously have positive effect on earnings management.

Data collection technique

The data used in this research are secondary data drawn from companies listed in the Indonesia Stock Exchange in 2012-2014. Data used in this research are financial statements and annual reports of some manufacturing companies of consumer goods in the year 2012-2014 which have been audited by an independent auditor. Secondary data in this study were obtained from www.idx.com.

Sampling technique

The criteria used for selecting the sample in this study are:

1. The manufacturing companies were listed in the Indonesia Stock Exchange during the period 2012-2014.
2. The manufacturing companies of consumer goods have published the complete financial reports.
3. The manufacturing companies have data audit committee.
4. The manufacturing companies enclose information about the audit firm size.

DISCUSSION AND ANALYSIS

Individual Parameter Significance Test (t test)

Individual Parameter Significance Test (t test)

Coefficients

Model	Unstandardized Coefficients		Beta	T	Sig.
	B	Std. Error			
1 (Constant)	.073	.070		1.051	.300
Audit Committee	-.039	.034	-.168	-1.154	.256
Quality of auditor	-.065	.024	-.431	-2.666	.011

a. Dependent Variable: Earning Management

$EMit = 0.073 - 0.039 \text{ Committe Audit} - 0.065 \text{ Quality of Audit}$

Based on the results of the above table it can be seen that the regression coefficient for the audit committee amounts to -0.039. The coefficient is negative, indicating a different relationship between the audit committee and the direction of earnings management so that every increase of 1 audit committee will reduce earnings management by 0.039. Any increase in audit committee shows good performance of the company, thus reducing the likelihood of earnings management in companies. Statistic t test is at -1.154 with a significance level of 0.256 or greater than 0.05. These results indicate that Ha1 is rejected, which means that the audit committee has no significant (negative) effect on earnings management. The results of this study support the research by Guna and Herath (2012) which states that the audit committee has no effect on earnings management. The results of this study contradict the research by Ward and Joseph (2010) which states that with a background in accounting and finance audit committee has a positive significant effect on earnings management.

Based on the results of the above table it can be seen the regression coefficient for the quality of auditors amounts to -0.065. The coefficient is negative, indicating a different relationship between the quality of auditors and the direction of earnings management so that every increase of 1 quality auditor will reduce earnings management by 0.065. Any increase in the quality of auditors shows there is a better audit quality, thus reducing the likelihood of earnings management in companies. Statsistic t test is at -2.666 with a significance level of 0.011 or less than 0.05. These results indicate that Ha2 is accepted, which means the quality of auditor has a positive significant effect on earnings management. The results of this study support the research by Daljono and Effendi (2013) which states that the quality of the auditor has a significant negative effect on earnings management.

ANOVA^a

Model	Sum of Square	df	Mean Square	F	Sig.
1					
Regression	.048	3	0.16	3.258	.032 ^b
Residual	.205	38	.005		
Total	.253	41			

a. Predictors: (Constant) Quality of auditor, Audit Committee

b. Dependent Variable: Earning Management

The results of the above table show that f is 3,258 with a significance level of 0.032 or less than 0.05. Significance values is below 0.05, indicating that regression model can be used to predict earnings management or it can be concluded that the audit committee and auditor quality simultaneously have a positive significant effect on earnings management.

CONCLUSIONS, LIMITATIONS, AND SUGGESTIONS

Conclusions:

1. Ha1 is rejected, which means that the audit committee as measured from their background in accounting and finance hasnegative significant effect on earnings management.
2. Ha2 is received, which means that the quality of auditors as measured by the firm size has a positive significant effect on earnings management.
3. Ha3 is received, which means that significant managerial skills of the audit committee and auditor quality simultaneously have positive significant effect on earnings management.

Limitations:

1. The value of adjusted R-square is only 0.125, which means that the variable of managerial skills of audit committee and auditor quality can explain the dependent variable of earnings management that amounts to 12.5% and the remaining 87.5% can be explained by other variables.
2. The number of samples is limited, consisting of only 14 companies (42 data) from the manufacturing part of the consumer sector.
3. The variable of audit committee uses a background in accounting and finance.

Suggestions:

1. Researchers can further investigate other variables that have a possible effect on earnings management such as financial leverage, company size, and good corporate governance.
2. Researchers can further use the other manufacturing sectors (as the research sample).
3. The variable of audit committee can use other measurements such as the length of stay at the firm and wheter they were once part of the company's management.

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