

## ANALYSIS OF GOOD CORPORATE GOVERNANCE, LEVERAGE, AND COMPANY SIZE AGAINST PROFIT MANAGEMENT

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### ABSTRACT

The study aims to examine the effect of *Good Corporate Governance*, *Leverage* and company size on profit management in manufacturing sector companies listed on the Indonesia Stock Exchange in 2017 – 2021. This research is a quantitative study with a data collection method using *purposive sampling* to obtain results that match the criteria. Based on the predetermined criteria, a total sample of 23 companies with a research period of 5 years was obtained, so that 115 samples were obtained. However, there were 38 outlier data in this study, bringing the sample tested to 77 samples. This study used SPSS 25 in analyzing the data. The results of this study show that managerial ownership affects profit management, while institutional ownership and an independent board of commissioners have no effect on profit management. These three variables are variants used to test *Good Corporate Governance*. Furthermore, the variable leverage has a positive and significant effect on profit management and the size of the company has a negative and significant effect on profit management. Also obtained, managerial ownership, institutional ownership, independent board of commissioners, leverage and size. The company exerts an influence on profit management.

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### 1. INTRODUCTION

Every business activity carried out aims to get the highest profit in order to facilitate and develop the company. The profit figure will then be listed in the financial statements of the profit and loss section issued by the company each period. Profit is often used as a measuring tool in assessing the performance of a company, which is then used as a tool in analyzing and making decisions by internal and external parties of the company [1]. The high attention to the income statement encourages management to always try to display the best performance of the company it manages.

Earnings management is one way that management can do to set the profit figure to the desired level, so that the profit figure in the income statement looks stable in each period.

The falsification of profit figures certainly causes the information contained in the financial statements to be inaccurate and will be fatal to external and internal parties of the company. External parties will be fooled and make incorrect decisions because they do not know the real condition of the company. In addition, erroneous profit reporting in the long run can harm the company if it is not addressed immediately.

There are several companies involved in profit management cases, one of which is PT. Garuda Indonesia (Persero) Tbk. This company based in air transportation services claims to have generated a net profit of Rp 11.33 M in 2018. However, there are irregularities in the recording of cooperation transactions with PT. Mahata Aero Technology. This caused the company's 2 commissioners to refuse to report the financial statements. One of the subsidiaries of PT. Garuda Indonesia, PT. Citilink Indonesia collaborates with PT. Citilink Indonesia. Mahata Aero Technology. With the agreement that PT. Mahata Aero Teknologi will cover all operational costs. This cooperation brings a net profit of IDR 11.33 M. However, until the end of 2018 PT. Mahata Aero Teknologi has not paid a single cent of the previously agreed compensation. Although unpaid, PT. Garuda Indonesia continued to record the transaction as revenue, resulting in a high net profit. All directors were given a fine of IDR 100 million and the public accountant handling lpk PT Garuda (Persero) Tbk has been frozen for one year. In addition, this also harms the public with the high cost of air tickets.

An example of this case shows that profit management can have a bad impact on the company's internal and external parties. Another impact can also be felt by the public with the increase in ticket prices

to cover the company's debts and receivables. In addition, the company's image will look bad in the community and the level of investor confidence in the company will decrease or even disappear.

In its implementation, profit management practices can be caused by several factors, namely Good Corporate Governance, leverage and company size. Good Corporate Governance or corporate governance can be interpreted as a system or set of regulations that function to regulate the relationship of various interested parties thus controlling and encouraging the company's performance [2]. Good Corporate Governance can be measured through managerial ownership, institutional ownership, and an independent board of commissioners.

Managerial ownership is a situation where a manager or administrator in a company has ownership or shares in the company where he works. High share ownership by the managerial party, allows the management to monitor the company optimally and not do profit management because they have a share in the company .

Institutional ownership is the ownership of company shares by other parties or institutions. There are 2 types of institutional investors, namely transient investors who only focus on current earnings and sophisticated investors who control and monitor the performance of a company and have a view to the future. So that they will not be easily deceived by profit manipulation carried out by the management [3] . The independent board of commissioners is a member who has no relationship with the board of commissioners. Whether it is in financial relations, management, share ownership or family relationships [4]. Independent commissioners as neutral parties have an important role in a company as supervisors and direct the company to run in accordance with applicable regulations. Therefore , the supervision carried out by the independent board of commissioners is expected to reduce the number of profit management.

The leverage ratio can be interpreted as a ratio that shows the ability of a company to make a profit from the debt it has. From this ratio, it can be seen that the high leverage ratio indicates that the company has difficulty in agreements or repayment of its debts. So investors choose not to invest in companies with a high level of leverage. Therefore, leverage is related to profit management, companies with a high level of leverage will trigger management to carry out profit management practices.

The last factor that can affect profit management is the size of the company. The bigger the company, the greater the attention that is received and viewed critically by investors because large companies have a high percentage of capital from external parties. Therefore, usually large companies are more careful in reporting their finances.

Based on the description above, this study aims to find the influence of the variables of Good Corporate Governance, leverage and company size on profit management. Good Corporate Governance in this study is proxied with managerial ownership, institutional ownership and an independent board of commissioners. Variable leverage is measured using Debt to Asset Ratio (DAR) and company size is measured using total company assets.

## 2. METHOD

This research is a quantitative research because it uses numbers in financial statements obtained from the official website of the Indonesia Stock Exchange (www.idx.co.id). The population in this study is all manufacturing companies listed on the IDX in 2017 – 2021. This research was conducted to analyze the influence of *Good Corporate Governance* (managerial ownership, institutional ownership and independent board of commissioners), leverage and company size on profit management in manufacturing companies, so this research is causality research.

This study used 3 independent variables consisting of Good Corporate Governance which is proxied by managerial ownership, institutional ownership, and an independent board of commissioners. The second independent variable is leverage and the last is the size of the company. Furthermore, the dependent variable in this study is profit management. The following is a measuring instrument on each variable

Table 1 of variable measuring instruments

No	Variable	Operational
1	Possession Managerial (X1)	$KM = \frac{\text{Number of Management Shares}}{\text{Number of Shares Outstanding}} \times 100\%$
2	Possession Institutional	$KI = \frac{\text{Number of Institutional Shares}}{\text{Number of Shares Outstanding}} \times 100\%$

	(X2)			
3	Board of Commissioners Independent	DKI =	$\frac{\text{Number of Independent Commissioners}}{\text{Number of Members of the Commissioners}} \times 100\%$	
	(X3)			
4	Leverage		$\frac{\text{Total Liabilities}}{\text{Total Equity}} \times 100\%$	
	(X4)	DAR =		
5	Company Size		$\text{Ln (Total Assets)}$	
	(X5)			
6	Management Profit (Y)		$\text{DAit} = \text{TAit}/\text{Ait}-1 - \text{NDAit}$	

This study used SPSS version 26 in processing data. The researcher will analyze the data with descriptive analysis, a classical assumption test consisting of a normality test, a multicollinearity test, an autocorrelation test and a heteroskedasticity test. Furthermore, researchers will use multiple linear analysis to determine the level of free variables in influencing bound variables. The latter the researcher will use a hypothesis test consisting of a determinant coefficient test, a t test and an f test

### 3. RESULTS & DISCUSSION

#### Descriptive Analysis

Descriptive statistics provide information about the data owned for research [5]. In this study there were 38 outlier data so that the total sample used for this study became 77 samples

Table 2. Descriptive Analysis

	Descriptive Statistics				
	N	Minimum	Maximum	Mean	Std. Deviation
X1_KM	77	0,0002	0,1432	0,05581	0,03797
X2_KI	77	0,5007	0,8998	0,734714	0,102791
X3_DKI	77	0,25	0,5	0,387318	0,081591
X4_DAR	77	0,0925	0,783	0,4012	0,174245
X5_UP	77	26,1509	32,1974	28,23103	0,975782
Y_DA	77	-0,8792	1,1088	0,052217	0,450247
Valid N (listwise)	77				

Based on the table above, there are 77 data in this study. You can see the minimum, maximum, average and standard deviation values of each variable.

#### Test Classical Assumptions

Based on the test results of classical assumptions namely normality, multicollinearity, heteroskedasticity, and autocorrelation, it shows that all data meet this classical assumption test.

#### Multiple Regression

The results of the multiple linear regression test on Managerial Ownership (X1), Institutional Ownership (X2), Independent Board of Commissioners (X3), Leverage (X4), and Company Size (X5) in Profit Management (Y) are shown in the table following:

Table 3. Multiple Regression Analysis  
Coefficients<sup>a</sup>

Type	Unstandardized Coefficients		Standardized Coefficients	t	Sig.
	B	Std. Error	Beta		
(Constant)	4,189	1,469		2,852	0,006
1 X1_KM	-5,18	1,389	-0,437	-3,73	0
X2_KI	-0,705	0,5	-0,161	-1,41	0,163
X3_DKI	0,397	0,603	0,072	0,657	0,513
X4_DAR	0,799	0,298	0,309	2,68	0,009
X5_UP	-0,135	0,049	-0,292	-2,732	0,008

a. Dependent Variable: Y\_DA

Based on the results of the multiple linear test shown in table 3, the regression equation in this study can be written as follows

$$EM = 4,189 - 5,180 X_1 - 7,05 X_2 + 0,397 X_3 + 0,799 X_4 - 0,135 X_5 + e$$

#### Determinant Coefficient Test

The determinant coefficient test ( $R^2$ ) is used to describe the ability of free variables to describe bound variables. The following is a table of determinant coefficient test results.

Table 4. Multiple Regression Analysis  
Model Summary<sup>b</sup>

Type	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	,490 <sup>a</sup>	0,24	0,187	0,405982

a. Predictors: (Constant), X5\_UP, X1\_KM, X3\_DKI, X2\_KI, X4\_DAR

b. Dependent Variable: Y\_DA

From the table of determinant coefficient test results above, it can be seen that the *adjusted value of R Square* is 0.187. So it can be said that the variables of managerial ownership, institutional ownership, independent board of commissioners, leverage and company size are able to influence profit management by 18.7%, then the remaining 81.3% is the influence exerted by factors others that are outside of this study.

#### t-test

The following is a table of t test results in this study

Table 5. t-test

Coefficients<sup>a</sup>

Type	Unstandardized Coefficients		Standardized Coefficients	t	Sig.
	B	Std. Error	Beta		
(Constant)	4,189	1,469		2,852	0,006
1 X1_KM	-5,18	1,389	-0,437	-3,73	0
X2_KI	-0,705	0,5	-0,161	-1,41	0,163
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X4_DAR	0,799	0,298	0,309	2,68	0,009
X5_UP	-0,135	0,049	-0,292	-2,732	0,008

a. Dependent Variable: Y\_DA

Before determining the value of t using the table must first be searched for the value of its free degree (df) i.e. by the formula  $df = n - k$  (77-6) of 71. So the table T value with a free degree of 71 and a two-way signification test with a probability of 0.05 is 1.99394, so the following conclusions can be drawn

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### 1. The Effect of Managerial Ownership on Profit Management

From the table of t test results above, the managerial ownership variable produces a calculated T - 3.730 > -1.99394 and a signification rate of 0.00 < 0.05 which means that the managerial ownership variable has a negative and significant effect on profit management, so Ho is rejected and Ha is accepted.

### 2. The Effect of Institutional Ownership on Profit Management

From the table of t test results above, the institutional ownership variable yields a calculated T - 1.410 < -1.99394 and a significant rate of 0.163 > 0.05 which means that the variable of institutional ownership has a negative and insignificant effect on profit management, so Ho is accepted and Ha is rejected.

### 3. Effect of Independent Board of Commissioners on Profit Management

From the table of t test results above, the independent board of commissioners variable produced a calculated T of 0.657 < 1.99394 and a significant level of 0.513 > 0.05 which means that the independent board of commissioners variable has a positive and insignificant effect on profit management, so Ho is accepted and Ha was rejected.

### 4. Effect of Leverage on Profit Management

From the table of t test results above, the leverage variable yields a calculated T of 2.680 > 1.99394 and a significant level of 0.009 < 0.05 which means the leverage variable positively and significantly affected profit management, so Ho was rejected and Ha accepted.

### 5. Effect of Company Size on Profit Management

From the table of t test results above, the company size variable yields a calculated T (-2,732) < 1.99394 and a significant rate of 0.008 < 0.05 which means that the variable size of the company has a negative and significant effect on profit management, so Ho is rejected and Ha is accepted.

#### Test f

The following are the results of the f test in this study

Table 6. F-Test

ANOVA <sup>a</sup>					
Type	Sum of Squares	Df	Mean Square	F	Sig.
Regression	3,705	5	0,741	4,495	,001 <sup>b</sup>
1 Residual	11,702	71	0,165		
Total	15,407	76			

a. Dependent Variable: Y\_DA

b. Predictors: (Constant), X5\_UP, X1\_KM, X3\_DKI, X2\_KI, X4\_DAR

Before determining the value of F using F the table should be searched first before the values of the numerator-free degree (df N1) and the denominator-free degree (df N2), that is, the formula for df N1 = k-1 (6-1) by 5 and df N2 = n-k (77-6) by 71. So the Ftable value with df N1 of 5 and df N2 of 71 with a profitability value of 0.05 is 2.34. So that it can be concluded that from the table of F test results above, the signification rate is 0.001 < 0.005 and the Fhitung value is 4.495 > 2.34 so that Ho is rejected and Ha is accepted, meaning managerial ownership, institutional ownership, board Independent commissioners, leverage and company size affect profit management.

#### 4. CONCLUSION

Managerial ownership has a negative and significant effect on profit management This is in line with the research conducted by This is in line with the research conducted by [6] Saraswati & Mahfud (2020) which explains that managerial ownership exerts a negative and significant influence on profit management. They explained that the high number of managerial holdings will make the level of profit management low because the management has the same interests as other shareholders. Other studies that are in line with this are research conducted by [1] Asyati & Farida (2020), [7] Lestari & Murtanto (2017), and [8] Purwanti et al. (2021) Institutional ownership negatively and insignificantly affects profit management This is in line with research conducted by [10]Purnama (2017) that the high and low of stocks owned by institutional parties is not so heavy as a tool in supervising profit management actions. Other studies that are in line with this are [7] Lestari & Murtanto (2017), [9] Purwati. Dkk (2021) and [11]

Aorora (2018). Independent board of commissioners has a positive and insignificant effect on profit management. This is in line with the research of Febriana & Andayani (2022) [12] which resulted in the same research that the independent board of commissioners has no effect on profit management. Other studies that are in line with these results are [7] Lestari & Murtanto (2017), [11] Aorora (2018). Leverage has a positive and significant effect on profit management. This is in line with the research of Saraswati & Mahfud (2020), which states that the leverage variable affects profit management. They stated that the higher the level of debt owned by the company, the stricter the supervision carried out by creditors on the company. Other studies that are in line with these results are those conducted by [6] Saraswati & Mahfud (2020), [13] Nalarreason.dkk (2019). The size of the company has a negative and significant effect on profit management This is in line with the research conducted by Saraswati & Mahfud (2020) they stated the company large ones get less impetus to do profit management than small companies. Because large companies are more concerned by investors. Managerial ownership, institutional ownership, independent board of commissioners, leverage and company size affect profit management.

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