
The Impact of Corporate Governance on Profit Management and Its Impact on the Value of the Company

Reza Santikasari¹, Hanif Mauludin², Bunyamin³

¹STIE Malangkucecwara, School of Business and Economics,
Jl. Candi Kalasan, Blimbing, Malang, Indonesia

²STIE Malangkucecwara, School of Business and Economics,
Jl. Candi Kalasan, Blimbing, Malang, Indonesia

³STIE Malangkucecwara, School of Business and Economics,
Jl. Candi Kalasan, Blimbing, Malang, Indonesia

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Abstract

This study aims to analyze the effect of corporate governance on earnings management and its impact on firm value. The population in this study is LQ45 companies that are listed on the Indonesia Stock Exchange for the period 2016 – 2019. The sampling technique used in this study is the purposive sampling method. The number of samples is 40 companies in a period of 4 years. The result of this research is managerial ownership has a significant positive effect on firm value, the audit committee has no significant negative effect on firm value, managerial ownership has no significant positive effect on earnings management, the audit committee has a significant negative effect on earnings management, and earnings management has a significant positive effect on firm value

Keywords: Audit Committee, Corporate Governance, Earnings Management, Firm Value, Managerial Ownership

1. Introduction

A company is an enterprise that carries out economic activities in order to produce goods or services, is located in a physical building in a particular location, and has its own administrative records on production and cost structure, and there is one or more responsible for business risk. The value of the company plays a very important role in the survival of a company. The value of the company can be reviewed from the price of the shares held by the associated company. When the value of the company is high then the level of investor confidence is also higher to invest in the company. Cooperation between management and good stakeholders and shareholders can optimize the value of the company through good corporate governance.

In managing a company management makes an effort to intervene or influence information in the financial statements with the aim of influencing stakeholders who want to know the performance and conditions of the company called profit management. According to Gumanti (2000), profit

management can increase shareholder confidence in managers. Profit management is closely related to the rate of profit or business performance of an organization, and profit management becomes interesting because of the importance of the meaning of profits or profits in assessing the performance of a unit of operation or the company as a whole. The origin of profit management can be explained by the theory of the agency. According to Ridho et al (2017) Profit management actions are difficult to classify as illegal in financial reporting because profit management practices do not violate the rules of accounting principles.

Simply put, in the processing of financial statements with profit management practices can not reflect the actual financial condition of a company. This can reduce confidence in the management of the company and affect the company's image and can raise questions about the credibility of the financial information presented by the management. Minimizing profit management practices requires a management system within a company. The management system of the company as the controller and balancer of interests between the principal and the agent so that the company's objective in producing a quality financial report can be achieved. The corporate management system is the structure and mechanism that regulates the management of the Company so as to produce long-term economic value that continues for the shareholders and stakeholders. A good corporate management system is applied to oversee the company's operations. If a company can implement corporate governance properly and correctly, it can build investor confidence and maximize its value.

According to Kusmayadi et al (2015:21) "Good Corporate Governance is a company management system designed to improve the company's performance, protect the interests of stakeholders and improve compliance with legal regulations – invitations and generally applicable ethical values. Therefore, good corporate governance can protect the interests of stakeholders and maintain and enhance the value of the company as a form of corporate management objectives by monitoring management performance. In addition, the company is also oriented to earn high profits at low costs. Therefore, some companies usually do profit management. Profit management is an attempt by an enterprise manager to intervene or influence information in the financial statements with the aim of investigating the performance and condition of the enterprise from stakeholders. The relationship that exists between the management of the company and the owner will not be independent of the existence of the agency theory which discusses the Agency Relationship is a contract in which one or more persons (principal) command another person (agent) to perform a service on behalf of the principle and authorize the agent to make the best decision for the Principal. This agency theory was later re-developed into a theory of signals. The signalling theory provides an explanation of the reasons behind the initiative of the management of the company in presenting and reporting all information about the company to the capital markets voluntarily without the existence of a clause stating that the provider of such information is an obligation for the company.

2. Method

The design in this study refers to the impact of corporate governance measured through management ownership and audit committees as independent variables on the value of the company as dependent variables with the mediation variable of profit management. Approach in this research with quantitative research methods. In this study, data collection techniques are

used. This technique is a way of collecting data by browsing the annual report of the company LQ45.

2.1 Population and Samples

Sugiyono (2015) stated that the population has a number of generalized areas to be used in research. The sample is a portion of the population taken by various methods. In this study, a sample sampling technique is used, which is a technique for setting samples by making a list of sample criteria first. In this study used companies registered on the BEI during 2016-2019 as the research population. The sample consists of 45 companies listed in the LQ 45.

2.2 Technical analysis

Quality testing of data

An analysis method is used with the classic assumption test consisting of the normality, multicollinearity, heteroskedastity, and autocorrelation tests. While mediation in this study uses Path Analysis, with the following model

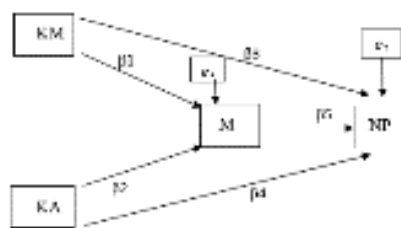


Figure 1 Model of Analysis

2.3 Testing the hypothesis

The determination coefficient test is used to measure how far the model is able to explain variation of dependent variables. The determination coefficient value is between zero and one. Then a partial test was used to determine the influence of each independent variable on individual or partially dependent variables (Ghozali, _2018). The level of significance used is 5% or $(\alpha) = 0,05$. If $\text{sign } t < 0,05$ then the hypothesis is accepted, but if $\text{sign } t > 0,05$, then it is rejected.

3. Result

This study uses secondary data from the annual report published on the Indonesian Stock Exchange. Then, selected by purposive sampling and processed using SPSS Software. Based on the criteria that have been determined, there are as many as 40 companies with the LQ45 index.

3.1 Description of research variables Based on the test results obtained the following descriptive data:

Table 1. Descriptive data

Variabel	N	Minimum	Maximum	Mean	Std. Deviation
KM (kepemilikan manajerial)	40	0.00	0.12	0.0088	0.02836
KA (komite audit)	40	2.00	6.00	3.7500	1.10361
ML (manajemen laba)	40	-0.01	0.01	-0.0016	0.00316
NP (nilai perusahaan)	40	0.00	0.001	0.0003	0.00030

Based on the results of descriptive analysis of 40 data, the KM variable average (managerial ownership) of 0.01 ± 0.03 , with the lowest number of 0.00 and the highest of 0.12. Average variable KA (audit committee) is 3.75 ± 1.10 , with the lowest number 2.00 and the highest number 6.00. Average variable ML (profit management) is -0.002 ± 0.003 , with the lowest number -0.01 and the highest 0.01. And the average variable NP (company value) is 0.0003 ± 0.0003 , with the lowest number 0.00 and the highest 0.001

3.2 The classical assumption

Testing assumptions underlying path analysis is the assumption of residual normality, multicollinearity, and heteroscedasticity. The test is done before the path analysis.

3.3 Assumption of Residual Normality

The regression model can be said to meet the normality assumption if the residual (e_i) obtained from the regression models is distributed normally. The hypotheses used in the test are:

H0: Residual Distribution of Normal Distribution

H1: Residual non-normal distribution

To test this assumption, the following histogram charts and Normal P-P plot

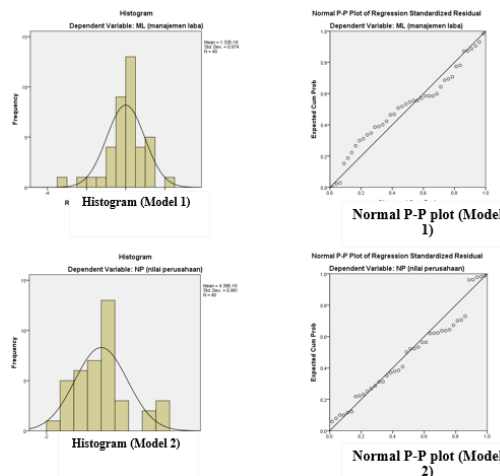


Figure 2 Histogram and Normal P-Plot Model 1 & 2

Table 2 Uji one sample Kolmogorov-Smirnov

Residual	Signifikans i
Model 1	0.152
Model 2	0.057

Based on the histogram in the image shows that the trunk diagram follows the normal curve formed and from the P-P diagram of the plot in Figure 2 and 4 it is obtained that the observation data is around the diagonal line, and from Table 2 above, the significance values of model 1 and 2 of the Kolmogorov-Smirnov test one sample respectively is greater than α . (0.05). This means that it can be concluded that the receiver H_0 which means the residual distribution is normally distributed for model 1 and model 2.

3.4 Multicollinearity Test

The multicollinearity test is a test shown to test whether there is a correlation between free variables in a regression model. (variable independent). A good regression model does not require multicollinearity. The Variance Inflation Factor (VIF). If the VIF value is > 10 , then it indicates multicollinearity and vice versa.

Table 3 Multicollinearity testing with VIF

Variabel	Model 1		Model 2	
	Tolerance	VIF	Tolerance	VIF
KM (kepemilikan manajerial)	0.954	1.048	0.953	1.049
KA (komite audit)	0.954	1.048	0.822	1.217
ML (manajemen laba)			0.849	1.177

Based on the results of Table 3, all VIF values of each free variable in both Model 1 and Model 2 are less than 10 with a tolerance value greater than 0.1, meaning that there is no strong enough correlation or no multicollinearity between the free variables.

3.5 Tests of heterocadasthesis

This test aims to test whether the regression model has a relatively similar residual variance. A good regression model is a model that has a relatively similar residual range. (bersifat homogen). The hypothesis is as follows:

H_0 = homogeneous residual variety

H_1 = non-homogeneous residual range

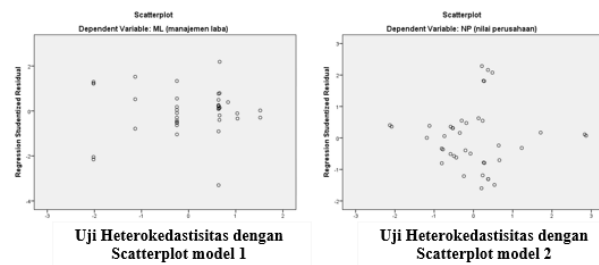


Figure 3 Heterokedasty test with Scatterplot model 1 & 2

From the scatter plot result in the image above, the spots are randomly scattered (uncontrolled) both above and below the number 0 on the Y axis, which means that the assumption of heterocadasty is met (homogeneous residual spots) for model one and model two.

3.6 Autocorrelation tests

To determine whether or not autocorrelation in this study was performed Durbin-Watson test statistics. This test was carried out by comparing Durbin Watson's calculation values with the durbin watson table values. (dL dan dU). Where the test hypothesis used is as follows:

H0: There is no auto-correlation between residues

H1: There is a residual inter-autocorrelation

Decision-making with the Durbin Watson test is carried out first to obtain the values dL and dU on the durbin watson table for values k = 2 (model 1), k = 3 (model 2) and n = 40. The area of decision is as follows:

Model	dL	dU	DW	4-dU	4-dL
1	1.391	1.600	1.956	2.400	2.609
2	1.338	1.659	2.134	2.341	2.662

Figure 4 Autocorrelation with Durbin Watson

Seeing from Durbin Watson's table 4 above, since Durbin's value is between dU and 4-dU, then it can be said that there is no autocorrelation between the residual (asumsi terpenuhi untuk model 1 dan model 2). After all assumptions are made, then proceed to the analysis of the influence of variables on variables using path analysis.

3.7 Analysis of Route (Path)

Theoretical Model Testing. Based on the study of the theory this research formulates a model in the form of a path diagram as follows:

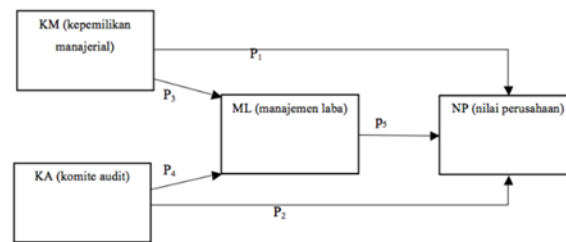


Figure 5 Track diagram of theoretical model of research

The above picture can be expressed in the following equation:

$$ML = \beta_1 KM + \beta_2 KA + \epsilon_i \text{ (Substruktur 1)}$$

$$NP = \beta_3 KM + \beta_4 KA + \beta_5 ML + \epsilon_i \text{ (Substruktur 2)}$$

The calculation of path coefficients in this study uses a standardized regression analysis by looking at simultaneous and partial effects on each equation. The method used is the ordinary least square (OLS) which is the smallest square method calculated using SPSS software.

Testing model

The Goodness_of Fit test uses a total determination coefficient. The total diversity of data that can be described by the model is measured below by the formula:

$$R2m = 1 - P2E1 P2e2...P2ep$$

where

$$P2E1 = 1 - R21; P2e2 = 1 - R22.$$

Where R21 is R square for the equation 1 which is 0.151, R22 for equation 2 is 0.422:

$$P2e1 = 1 - 0.151 = 0.849; P2E2 = 1 - 0.422 = 0.578.$$

The total determination coefficient is as follows:

$$R2m = 1 - (0.849 \times 0.578) = 0.509 \text{ or } 50.9\%$$

The results of R2m calculations show that the data that can be described by the model is 0.509. That is, as much as 50.9% of the information contained in the data can be described by the model. The remaining 49.1% of diversity is explained by other variables. (Not included in the model.)

3.8 Testing the hypothesis

Impact of Management Ownership and Audit Committee on Profit Management

The results of the standardized regression test are shown in the table below:

Variabel	Beta	T	p-value t	Keterangan
KM (kepemilikan manajerial)	0.036	0.230	0.819	Tidak signifikan
KA (komite audit)	-0.379	-2.443	0.019	Signifikan
$t_{(0.05,37)}$	= 2.026			
R Square	= 0.151			

Figure 6 Results of return analysis

The R Square value shows a value of 0.151 or 15.1%. The variable ML (profit management) is described by the variable KM (managerial ownership), and KA (audit committee) by 15.1%, while the remaining 84.9% is influenced by variables outside the free variable being studied. A KM (managerial ownership) variable has a t-talk t-value that is smaller than the t table ($0.230 < 2.026$) or a p-values t value greater than α ($0.819 > 0.050$) so the KM variable is influenced positively and is not significant to the ML variable. (manajemen laba). A positive coefficient indicates that an increase in KM variables can increase ML variables but not significantly.

A variable KA (audit committee) has a counting t-value greater than the t table ($2.443 > 2.026$) or a value_p-value t is smaller than α ($0.019 < 0.050$) so the variable Ka (auditing committee), has a negative and significant impact on the ML variable. (manajemen laba). A negative coefficient indicates that an increase in the KA variable can significantly lower the ML variable.

Impact of Managerial Ownership, Audit Committees, and Profit Management on the Company's Value.

The results of the standardized regression test are shown in the table below:

Variabel	Beta	T	Sig t	Keterangan
KM (kepemilikan manajerial)	0.402	3.097	0.004	Signifikan
KA (komite audit)	-0.238	-1.703	0.097	Tidak signifikan
ML (manajemen laba)	0.289	2.100	0.043	Signifikan
$t_{(0.05,36)}$	= 2.028			
R Square	= 0.422			

Figure 7 Results of return analysis

From the R value Square shows a value of 0.422 or 42.2%. This means that the variable NP (Company Value) is described by the variables KM (managerial ownership), KA (audit committee), and ML (profit management) of 42.2%, while the remaining 57.8% is influenced by variables outside the free variable studied.

A variable KM (managerial ownership) has a counting t-value greater than the t-table ($3.097 > 2.028$) or a p- Value t is smaller than α ($0.004 < 0.050$), so the KM variable has a positive and significant effect on the NP variable. (Value of Company). A positive coefficient indicates that an increase in the KM variable can significantly increase the NP variable.

A variable KA (audit committee) has a counting t-value that is smaller than the t-table ($1.703 < 2.028$) or a p- Value t value that is greater than α ($0.097 > 0.050$) so the variable Ka (auditing committee), has a negative and insignificant effect on the NP variable (Value of Company). A negative coefficient indicates that an increase in the KA variable can lower the NP variable but is not significant.

The ML (profit management) variable has a calculated t-value greater than the t table ($2.100 > 2.028$) or the p-values are smaller than the α ($0.043 < 0.050$) so the ML (profit management) has a positive and significant effect on the NP variable. (Value of Company). A positive coefficient indicates that an increase in the ML variable can significantly increase the NP variable.

4. Discussion

The results of the study showed that the hypothesis 1 in this study was accepted, which could conclude that the variable of managerial ownership influenced the variables of the company's value. The results of the test showed the value of a positive regression coefficient, so it can be concluded that the higher the management ownership, the greater the company's value. According to Anita and Yulianto (2016) managerial ownership is able to influence the course of the company that ultimately affects the company's performance in achieving the Company's objectives, that is, to optimize the value of the Company that occurs due to the presence of control from the shareholders and the company management that will seek to increase the company's value so that its value of wealth as a shareholder will also increase. This result supports the agency theory, where managers who act as agents if they are in the condition of the manager's ownership proportion of the company's shares being less than 100%, managers tend to act to protect their own interests and act unreasonably in maximizing value for financing decisions. As the proportion of managerial ownership increases, then the interests of shareholders and the management of the company begin to become one. Looking back at the event of public accountant violations in the case of jiwaskarya involves the entire management of the company in manipulating profitability to look healthy. The case seems to indicate that management as the owner of the company pursues its own interests. The results of the test of the hypothesis showed that the 2 hypothesis in this study were rejected, so it could be concluded that the audit committee had no significant influence on the value of the company. This proves that if the audit committee increases, the value of the company will decrease. According to Widya and Yustina (2017), the establishment of an audit committee is limited to the fulfillment of obligations to the applicable regulations alone, thus resulting in the role of the audit committees in monitoring management performance becoming less effective. Good corporate governance is not right – it is right to be enforced within the company, but only to avoid sanctions.

The results of the 3 hypothesis test in this study showed that the 3 hypothesis was accepted, which could conclude that the variable of managerial ownership influenced the profit management variable. The test results showed the value of the regression coefficient is positive, so it can be explained that the higher the ownership of shares by the manager, the greater the likelihood of doing profit management but the influence of managerial ownership. As explained in theory, profit management is the activity of designing financial statements with the aim of improving the financial performance of a company. This research was supported by Arlita et al (2019) who stated that high management ownership can strengthen the position to control the company through voting rights over other stakeholders.

The results of the test of the hypothesis showed that the hypothesis 4 in this study was rejected, so it could be concluded that the audit committee variable had no influence on profit management. The test results showed that the value of the regression coefficient is negative, so the higher the proportion of independent audit committee members in a management can lower

the profit management practice that occurs in the company. According to Natsir and Badera (2020) with the presence of audit committees in the company can reduce profit management practices that are of uneven actions and only benefit one of the parties carried out by the manager. This is due to the fact that independent audit committee members have broader powers to take action and opinions to counter profit management practices because such members of the audit committees will not be subjected to strong pressure from the management.

The results of the test of the hypothesis showed that the 5 hypothesis in this study were accepted. It can be concluded that the profit management variable affects the value variable of the company. Test results show that the value of the regression coefficient is a positive value, so the higher the profit management, the higher is the company's value. This research in support of research from Susanto and Christiawan (2016) stated that managers as managers of companies know more of the company's internal information and prospects in the future than owners (shareholders) thus creating information asymmetry. Asymmetry between management and owners gives the manager the opportunity to perform profit management to increase the value of the company at a given time. profit performance that comes from the actual component as earnings management activity has a lower persistence than cash flow. The profit is greater than the operating cash flow that can increase the value of the company.

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