THE EFFECT OF GOOD CORPORATE GOVERNANCE, LEVERAGE AND PROFITABILITY TO PROFIT MANAGEMENT WITH SIZE AS A VARIABLE MODERATING (EMPIRICAL STUDY ON MANUFACTURING COMPANY REGISTERED IN IDX)

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ABSTRACT
The objective of the research is to find out and to test the influence of corporate governance authorized by the institutional ownership, managerial ownership, independent commissioner, auditing committee, leverage, and profitability on profit management partially and simultaneously at the manufacturing companies registered at the Indonesia Stock Exchange (BEI). Besides, it is also to find out whether the company size can moderate the correlation of corporate governance authorized by the institutional ownership managerial ownership, independent commissioner, auditing committee, leverage, and profitability with profit management. This is casual research using secondary data. The population is 144 manufacturing companies registered at the Indonesian Stock Exchange (BEI) in 2012-2015. The sample are 59 manufacturing companies determined by using Slovin’s formulae. The data are analyzed using multiple regression analysis with the application of SPSS.

Based on the test, simultaneously the independent variables, institutional ownership, managerial ownership, independent commissioner, auditing committee, leverage, and profitability have a significant influence on the profit management. Partially, the institutional ownership and profitability variables have a significant influence on profit management, whereas managerial ownership, independent commissioner, auditing committee, and leverage do not have an influence on the profit management. For moderating test, it is found out that company size is not the variable that can moderate the correlation between the institutional ownership, managerial ownership, independent commissioner, auditing committee, leverage and profitability with the profit management.

Keywords : Profit management, Institutional Ownership, Managerial Ownership, Independent Commissioner, Auditing Committee, Leverage, Profitability, Company Size.
Introduction

As a means of information, financial statements can provide accurate information for its users. One of the information contained in the financial statements is information about the company's earnings. The reported profit companies is used as a signal to investors to see the company's performance. Profit as a measure of financial performance is measured on an accrual basis. Through the selection of accrual accounting methods are freely determined by the management, raise concerns about the accuracy of earnings. Profit inaccuracies caused by the desire of management to meet their own interests are called earnings management practices.

Earnings management has led to several cases of accounting reporting scandals were widely known, including Enron, Merck, World Com and the majority of other companies in the United States (Cornett and Saunders, 2006). Some of the cases occurred in Indonesia, such as PT. Lippo Tbk. and PT. Kimia Farma Tbk also involves financial reporting that starts from the detected manipulation (Boediono and Gideon, 2005).

Corporate governance is the key company in managing the company so that the resulting financial statements are guaranteed quality. GCG mechanisms used in independent variables are intitustional ownership, managerial ownership, independent commissioners and audit committees and use leverage and profitability to measure its effect on earnings management as a dependent variable.

The size of the firm is used as a moderating variable because with the reason that large firms have large incentives for earnings management, because one of the main reasons is that large companies must be able to meet the expectations of investors or shareholders, Halim (2005).

Literature survey

Jensen and Meckling (1976) argue that agency relationships are a contract between the management (agent) and the investor (principal). The asymmetry between agent and principal provides an opportunity for managers to act opportunistically.

Purwanto (2012), the theory of signal (signaling theory) explained that the company had every incentive to provide financial information to external parties. The impetus arises because of asymmetric information between management and outsiders. Financial statements that reflect the ability to gain good profitability is a signal that the company has been operating well. Good signal will be responded well by outsiders.

Earnings management. The emergence of earnings management can be explained by agency theory. Agency theory assumes that every individual is solely motivated by his or her own interests, resulting in a conflict of interest between principal and agent. The shareholder as a principal party contracts to maximize his own welfare with ever increasing profitability while the manager as an agent is motivated to maximize the fulfillment of his economic and psychological needs such as in obtaining investment, loan, and compensation contract (Arif, 2007). The agency problem arises because of the opportunistic behavior of agents, enabling agents to practice earnings management.

GCG Mechanism. The agency theory was first introduced by Jensen and Meckling (1976) describing the contractual relationship between the party delegating a particular decision (principal / owner) to the party receiving the delegation (agent / management). There are four GCG mechanisms used in this study that aim to reduce agency conflicts and their relation to earnings management practices, namely institutional ownership, managerial ownership, and independent board of commissioners and audit committees.

Leverage. Prastowo (2011) states that leverage is a measure of the amount of assets financed by debt. Debts used to finance the assets come from creditors, not from shareholders or investors. This ratio can be calculated from long-term items such as fixed assets and long-term debt.
Profitability. According to Harahap (2007), profitability in the company describes the ability of companies to earn profits through all capabilities, and existing sources such as sales activities, cash, capital, number of employees, number of branches, and so forth. Profitability is often used to measure the efficiency of capital use in a company by comparing profit with capital used in operations.

Company Size. The size of a company is a large company that can be measured by the logarithm of natural total assets. (Handayani, 2009). Watts and Zimmerman (1986) explained through Positive Accounting Theory (PAT) in the political cost hypothesis that firm size is used as a guide to political costs and political costs will increase as the size of the firm increases.

Conceptual Framework

Institutional investors often referred to as sophisticated investors that should be able to use the current period information in predicting future earnings compared to non-institutional investors (Herath, 2008). Institutional investors with large shareholdings will have a strong enough drive to gather information, and tighten the oversight to minimize earnings management practices.

Managerial ownership is a remuneration policy program to reduce agency problems in minimizing opportunistic action from management as agent. Boediono (2005), explains earnings management is largely determined by the motivation of corporate managers. Different motivations will result in different levels of earnings management.

An independent board of commissioners is a part of the board of commissioners, which generally serves to oversee the management of the company. With the presence of independent commissioners is expected to conduct more effective supervision, so as to reduce the practice of earnings management.

Audit Committee is a committee established by the board of commissioners to perform the task of supervising the management of the company. The audit committee has the primary responsibility to assist the board of commissioners in carrying out supervisory responsibilities so that the existence of the audit committee can minimize earnings management practices.

Profitability will affect managers in the conduct of earnings management (Rahmawati, 2008) because the principal tends to demand management to achieve high profitability. If management is able to achieve the target of the principal, management will be considered to have good performance. Gunawan (2015) explains that companies with low profitability tend to make income smoothing. This income smoothing is one form of earnings management.
Wildarman (2015) states that high leverage levels will improve earnings management to avoid possible breach of debt agreement. If a company has a high leverage, then the possibility to make earnings management is very large, and the company also has a greater obligation in public disclosure. The results of research by Bokiu (2015), concluded that leverage has a significant positive effect on earnings management activities.

Large companies have the motivation to earn earnings management by lowering profits to lower political costs. In contrast, small companies seek to increase profits (Sulistyanto, 2009). Therefore, the researcher will test how firm size can memoderating independent variable to the dependent variable in this research.

**Hypothesis**

Based on the formulation of the problem and conceptual framework, the hypothesis of this research is as follows:

**H1:** Good corporate governance that is proxied with institutional ownership, managerial ownership, independent board of commissioner and audit committee, and leverage and profitability influence simultaneously and partially to earnings management.

**H2:** Firm size can moderate good governance mechanism relationships proxied with institutional ownership, managerial ownership, independent board of commissioner and audit committee, and leverage and profitability with earnings management.

**Methodology**

The type of research used in this study is a comparative causal research that shows the direction of the relationship between independent variables with dependent variables in addition to measuring the strength of the relationship (Ghozali, 2011). This research is conducted at Indonesia Stock Exchange which provides audited financial statement data by accessing and downloading financial report. The population in this study is a manufacturing company listed on the Indonesia Stock Exchange. The type of data used in this study is secondary data while the method or technique of data collection used is documentation technique.

**Operational Definition and Variable Measurement**

Accrual profit management is measured using the modified Jones model by Dechow with the following formula: \( DA_{it} = TA_{it}/A_{it-1} - NDA_{it} \)

Institutional ownership is the ownership of shares owned by institutions or institutions such as insurance companies, banks, investment companies and other institutional ownership.

\[
\text{Institutional Ownership} = \frac{\text{Number of Intitutional Shares}}{\text{Total Number of Shares}} \times 100\%
\]

Managerial ownership is the amount of share ownership by the management of all share capital in the management.

\[
\text{Managerial Ownership} = \frac{\text{Number of Managerial Shares}}{\text{Total Number of Shares}} \times 100\%
\]

The Independent board of commissioners is the number of members of the board of commissioners who are not affiliated with the management and the controlling shareholder.

\[
\text{Independent board of commissioner} = \frac{\text{Number of independent Board of Commissioners}}{\text{Number of Board of Commissioners}}
\]

The audit committee is a committee established by and responsible to the board of commissioners in assisting with the duties and functions of the board of commissioners. This variable shows the number of audit committees in the company between the period of 2012-2015.

Leverage is the ratio used to see the ratio of liabilities and equity that a company uses to finance its operations. Leverage is measured by Debt to Equity Ratio (DER), the formula is \( DER = \frac{\text{Total Liability}}{\text{Total equity}} \times 100\% \)
Profitability ratios used in this study is the ratio of Net Profit Margin with the formula:
\[
\text{NPM} = \frac{\text{Net Profit}}{\text{Sell}} \times 100\%
\]

Company size is a measure that shows the size of the company measured from total assets. Measurement of firm size variables is based on the total assets of the firm with the total assets (Ln) equation.

**Data Analysis Method**

Data analysis method used in this research is multiple regression analysis and residual test for moderating variable. This research data is processed by using Statistical Package for Social Science (SPSS). Classic assumption test is needed to perform multiple regression analysis as requirement in analysis so that data can be meaningful and useful. The test of classical assumption used in this research include normality test, Heterokokedasticity Test (Ghozali, 2011). Multiple regression analysis intends to predict how the state of the dependent variable when associated with two or more independent variables. The multiple regression equation used is as follows:

\[
Y = b_0 - b_1X_1 - b_2X_2 - b_3X_3 - b_4X_4 + b_5X_5 - b_6X_6 + e
\]

**Hypothesis Testing Research**

The coefficient of determination ($R^2$) measures how far the model's ability to explain the variation of the dependent variable.

Test Statistic F basically shows whether all the independent variables included in the model have simultaneous effect on the dependent variable.

The statistical test $t$ basically indicates how far one independent variable individually or partially can explain the variation of the dependent variable.

The residual test tests the effect of the deviation of a regression model by looking at the Lack of Fit shown by the residual value. The regression equation for the residual test is as follows:

\[
Z = b_0 + b_1X_1 + b_2X_2 + b_3X_3 + b_4X_4 + b_5X_5 + b_6X_6 + b_7Y + e
\]

\[|e| = b_0 + b_7Y\]

**Research Results and Discussion**

**Descriptive statistics**

The standard deviation ($\sigma$) describes the possible value of the data obtained deviating from the expected value.

The table above shows that the standard deviation of each variable has a value smaller than the average of the variables studied, indicating that the data has been normally distributed.
Normality test

Based on the above is known that the residuals are normally distributed and symmetric shaped not menceng to the right and to the left.

Heteroscedasticity Test

If there is no clear pattern and the spots spread above and below the number 0 on the Y axis, there is no heteroscedasticity.

Test Coefficient of determination

```
Model Summary

Model | R | R Square | Adjusted R Square | Std. Error of the Estimate | Durbin-Watson
--- | --- | --- | --- | --- | ---
1 | .714 | .509 | .283 | .0208344 | 1.94
```

Adjusted R-Square value is 0.283. This means 28.3% dependent variable Earnings management can be explained by independent variable while the rest 71.7% is explained by other variables not included in this research model.

Statistical test F

```
ANOVA

Table

<table>
<thead>
<tr>
<th>Model</th>
<th>Sum of Squares</th>
<th>df</th>
<th>Mean Square</th>
<th>F</th>
<th>Sig</th>
</tr>
</thead>
<tbody>
<tr>
<td>Regression</td>
<td>5,266</td>
<td>6</td>
<td>.877</td>
<td>2.249</td>
<td>.074</td>
</tr>
<tr>
<td>Residual</td>
<td>5,611</td>
<td>13</td>
<td>.365</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total</td>
<td>10,211</td>
<td>19</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
```

Based on the test results in the above table obtained significant value obtained by 0.074 smaller than 0.1, indicating the independent variable (X) significant effect on the dependent variable (Y). It can be concluded that simultaneously institutional ownership, managerial ownership, independent commissioner, audit committee, leverage, and profitability have significant effect to earnings management.
Based on the test results in table, then the regression equation for earnings quality as the dependent variable that can be formed is:

\[ Y = 1.678 + 1.906X_1 + 0.022X_2 + 1.273X_3 + 0.697X_4 + 0.483X_5 + 1.246X_6 \]

or

\[ \text{Profit Management} = 1.678 + 1.906 \text{ Institutional Ownership} + 0.022 \text{ Managerial Ownership} + 1.273 \text{ Independent Commissioners} + 0.483 \text{ Leverage} + 1.246 \text{ Profitability} \]

Residual Test

\[ Z = 1.385 + 0.014X_1 + 0.004X_2 + 0.023X_3 + 0.078X_4 + 0.009X_5 + 0.001X_6 \]

\[ |e| = 0.218 - 0.123 \] Y

Describing a significant value of 0.249 greater than alpha 0.10 with negative parameter coefficient value is -0.123, then the variable size of the company is not a moderating variable.

From the research results, it can be concluded: (1) Corporate governance mechanism (measured through institutional ownership, managerial ownership, independent commissioner, audit committee), leverage, and profitability simultaneously have significant effect on earnings management practice. (2) Partially, there are two influential variables: institutional ownership and profitability while other variables that have no effect. (3) The firm size variable is not able to moderate the relationship between institutional ownership, managerial ownership, independent commissioner, audit committee, leverage, and profitability with management profit.
DAFTAR PUSTAKA


Kumala (2013), Pengaruh Good Corporate Governance, Leverage, dan kinerja keuangan terhadap Manajemen Laba (Studi Pada Perusahaan Perbankkan yang terdaftar di BEI).


