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Analysis of the Effect of Good Corporate Governance, Leverage and Financial Performance on Profit Management

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ABSTRACT

The company definitely strives to display the best possible financial statements. Financial statements are often used as a reference to determine the status of a company. In order to display good financial statements, it is not uncommon for company managers to decide to do profit management. Profit management is basically seen as unethical, but there are quite a few other perspectives that show that profit management is not a bad thing. There are several factors that can affect profit management. Factors that can affect profit management are good corporate governance, leverage, and the company's financial performance. This study aims to analyze the relationship of these three variables to profit management. The method used is a quantitative method. The data used is secondary data. Data analysis was performed using multiple linear regression. The results showed that good corporate governance has a negative and significant influence on profit management, leverage has no influence on profit management, and financial performance has a negative influence on profit management

INTRODUCTION

Profit is one of the components that is often used as a reference to assess the level of stability of a company. The amount of company profit is generally known through periodic financial statements. Profit is also a basic component that has an important role in the sustainability of the company. Therefore, it is certain that a company will pay great attention to profit. One of the efforts made by the company in order to obtain the projected profit is to carry out profit management. Profit management generally arises because there are different interests between the management and the company owner (Dewi, Suryandari, & Susandya, 2022). Profit management can be viewed from several perspectives. In one perspective, profit management is referred to as an efficiency while in another perspective it is stated that profit management is an opportunistic thing (Khuriyati, 2018). Profit management is considered as something that is still controversial (Poerbasari & Sasongko, 2012).

Profit management is quite commonly found in various industrial fields. Cases of profit management findings in Indonesia have occurred several times. It is known that a profit management case has been rumored to have occurred at PT. Agis Tbk, PT. Inovisi Infracom, Bakrie Group (Febrianti, 2016), PT. Toshiba Corporation, PT. The Three Pillars of Prosperous Food (Asyati & Farida, 2020), Bank Bukopin (Nurahmadian, 2022), and many other companies that were rumored to be doing profit management. Basically, profit management is an action that has many negative impacts. Therefore, profit management can be anticipated with good corporate governance (Janrosl & Lim, 2019). Good corporate governance in general can have a negative relationship with profit management.

The embodiment of good corporate governance can be in the form of a system that can provide rules and control to the company so that the company can regulate the relationship between shareholders, company managers, creditors, the government, and employees and other company members who have rights and obligations in running the company. Profit

management can also be influenced by many other things besides good corporate governance, including financial leverage or more familiarly called leverage. Leverage, which is the ratio between a company's debt and company assets, often has an indirect influence on the occurrence of profit management by company managers. Leverage does not consider the amount of the company's profit in making interest payments periodically (Istikhomah, 2018). However, stakeholders will doubt the company's ability if it is seen that the company's leverage is low-value. Therefore, leverage is often a factor in managing a company doing profit management. Thus, in theory the relationship between leverage and profit management is positive (Naftalia & Marsono, 2013). In addition, financial performance is also often a contributing factor to profit management. When the company's financial performance is in a bad condition, company managers have the potential to take the initiative to carry out profit management (Sari, 2012). This is related to regulations where the company's profit is often used as a reference for whether a company is still feasible to operate or not. Thus, financial performance is one of the potential variables in the creation of profit management. The relationship between financial performance and profit management is negative.

This research will analyze the effect of good corporate governance, leverage, and financial performance on profit management. This study aims to determine the influence of good corporate governance, leverage, and financial performance on profit management. This research is expected to provide updates for the development of science in the field of accounting, especially those discussing profit management in companies.

METHODS

This research is a quantitative study that explains the causal relationship between variables or called explanatory research, which is research to find out and explain the influence between existing variables and hypothesis testing. The test conducted in this study aims to determine the relationship between good corporate governance, leverage, and financial performance to profit management This

study uses secondary data in the form of cross section data. The research population is all companies listed on the Indonesia Stock Exchange that have a type of stock in the form of shares. The sample of this study is 40 companies with company criteria that provide complete financial reports in 2021 and provide information related to the company's good corporate governance. The data type used is secondary data, while the data source comes from the Indonesia Stock Exchange directory. This data is in the form of financial statements of several companies listed on the Indonesia Stock Exchange. The data analysis methods used are descriptive statistics and multiple linear regression analysis. In addition to testing relationships through multiple linear regression analysis, this study also tested hypotheses carried out by comparing between test results and applicable theories. Data processing is carried out using SPSS.

RESULTS AND DISCUSSION

Based on the results of the study, it can be seen that the data descriptions of the 40 companies are as shown in Table 1. Based on Table 1, it can be seen that the average company performs profit management of 1.6 units. The majority of companies still have a level of good corporate governance which on average means it is not too bad but also not good enough. The average value of good corporate governance is 61.9 percent. Although there are companies that are able to achieve good corporate governance values of up to 97 percent. The company's average leverage ratio is in the range of 5,083 billion in value. The company's financial performance is also at the standard average value of 54.8 percent. The meaning cannot be said to be bad but neither is it entirely good.

Table 1. The Result of Multiple Linear Regression

Table 1. Descriptive Statistics					
	N	Minimum	Maximum	Mean	Std. Deviation
ML	40	-6.40	11.00	1.5600	4.73708
GCG	40	20.00	97.00	61.8750	26.30120
LEVERAGE	40	1093.00	9844.00	5.0831E3	2612.46792
KEUANGAN	40	17.30	95.30	54.8350	27.56791
Valid N (listwise) 40					

Table 2. Regression Coefficient Results

Model	Unstandardized Coefficients		Standardized Coefficients	t	Sig.	
	B	Std. Error	Beta			
1	(Constant)	2.399	5.357		.448	.657
	GCG	-.075	.022	-.417	-3.434	.002
	LogLeverage	2.265	1.321	.115	1.714	.095
	KEUANGAN	-.081	.023	-.472	-3.459	.001

a. Dependent Variable: ML

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Based on the results of the regression test contained in Table 2, it is known that good corporate governance has a negative influence on profit management. When the company implements good corporate governance, the company's probability of doing profit management can be reduced by up to 0.08 percent. The value is also significant at 5 percent. This means that good company leadership can reduce the occurrence of profit management even though the percentage is quite low. This is in accordance with the theory. This is also in accordance with the research results from (Fathorossi, Cahyono, & Nuha, 2020).

Leverage is known to have a positive but not significant influence. This shows that when the leverage value is high, then the company will create a profit management scheme. However, in this study the leverage variable was not of significant value. This means that leverage does have the possibility of affecting profit management, but in the 40

companies sampled in this study, leverage is not a variable that can make companies decide to do profit management. The results of the study are similar to the results of research from (Wijaya & Hendriyani, 2021).

The next variable is financial performance. It is known that financial performance has a negative relationship with profit management and is of significant value at the level of 5 percent. The variable coefficient of financial performance is known to be -0.08 percent. This means that companies that have good financial performance, have a potential of 0.08 percent not to do profit management. Vice versa, companies with poor financial performance have the potential to carry out profit management. This is in accordance with the theory and this is significant. That is, the company relies heavily on the state of financial performance to decide whether it is necessary to carry out profit management or not.

Table 3. The Degree of Influence of These Three Variables on Profit Management

Tabel 1. Nilai Hubungan Variabel Secara Simultan				
Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.977 ^a	.955	.951	1.04750

a. Predictors: (Constant), KEUANGAN, LogLeverage, GCG

It is known that the variables of good corporate governance, leverage, and financial performance have a considerable influence on profit management with an influence of up to 95 percent as indicated by the value of Adjusted R-Square. This means that these three variables have a considerable influence on profit management. Although there are other variables that can influence a company's decision to do profit management, these three variables can be called the main variables that can have a big impact on the company's decision to do profit management.

1. Effect of Good Corporate Governance on Profit Management

The effect of good corporate governance on profit management can be identified through 4 components. These components are institutional ownership, managerial ownership, board of commissioners influence, and audit committee influence. Institutional ownership is more often referred to as investors. The large level of institutional ownership can have an influence on profit management because institutional owners

often come from individuals or groups of people who already have considerable experience so that they really understand how to read financial statements. In addition, the international investor has the ability to detect the level of reasonableness of financial statements. Companies that have a high level of institutional ownership rarely do profit management.

Managerial ownership is also referred to as agency theory. Companies that have a large enough proportion of management ownership can pressure managers not to do profit management. Corporate policy and decision-making certainly have a close influence on the level of ownership of management. A manager who is at the same time the owner of the company and a manager who is not part of the owner of the company will certainly give different decisions related to the actions of profit management.

Good corporate governance is further related to the decisions of the board of commissioners. Commissioners who are independent or not from the executive are considered better than commissioners who come from the executive. Independent commissioners are considered to be more neutral and can be problem solvers when disputes occur within the company. Independent commissioners are also considered more able to provide control regarding the use of profit management because independent commissioners do not have business and relationship with the business contractually and also have no other relationship with shareholders or the board of directors.

Last but not least is the audit committee. The audit committee is generally established by the board of commissioners. The audit committee is assigned to supervise the company's operations. The audit committee is a vital

part of the company because it is directly related to the credibility of a company's financial statements. The audit committee consists of people who have the ability to detect the presence or absence of profit management in a company. Therefore, the quality of the audit committee certainly has an influence on the manager's decision to carry out profit management. The four components in good corporate governance have an influence on profit management either partially or together.

2. Effect of Leverage on Profit Management

The company always needs funds for the sustainability of the company's operations. The funds used by the company can come from a variety of sources. The source of funds that can be used by the company as operational costs is basically quite a lot, one of which is by doing debt. Companies must apply a debt to equity ratio when deciding to go into debt. The ratio aims to keep the company in order to maintain the amount of debt so that it does not make the company bankrupt due to debt repayment. Basically, the debt to equity ratio is the ratio between the amount of debt and the amount of assets or the amount of capital obtained by the company itself. The ratio is also referred to as the leverage ratio or more familiarly called leverage. Leverage has a positive relationship with profit management because a company that has a large enough debt ratio has concerns that if the financial statements listed are not good, stakeholders will leave the company. Therefore, when leverage is large, many managers decide to carry out profit management.

3. Effect of Financial Performance on Profit Management

Financial performance is variables that indicate the financial condition of a company. Assessment of financial performance can be carried out by various techniques and methods. In general,

the assessment of financial performance that has been well known and widely known is an assessment with the CAMELS method. Namely a method of assessing financial performance by looking at Capital, Assets, Quality, Management, Earnings, Liquidity, and Sensitivity to Market Risked. Capital is the amount of capital owned by a company that comes from the company itself. Assets are the amount of assets owned by a company. Quality is the quality of financial statements of a company which shows fair value. Management relates to the ownership of management and the managerial condition of the company. Earning is the level of income that a company is able to achieve. Liquidity is the level of liquidity of a company. Finally, Sensitivity to Market Risked is the company's ability to detect risks that occur in the market both now and in the future. Companies that can predict the ups and downs of market demand can definitely adjust financial projections so that they can be sure that they also have good financial performance. Companies that already have good financial performance certainly do not need to do profit management. Therefore, financial performance has a negative influence on profit management because only companies that have poor financial performance do profit management.

CONCLUSION

All companies must have the intuition to achieve the amount of profit as projected. However, in fact, there are many things that can sometimes have an influence on the company so that the company cannot achieve the predetermined profit projections. In some cases, companies that in this case are represented by managers often decide to carry out profit management. Profit management has a variety of perspectives, but the majority of opinions say that profit management is not a good thing and is often regarded as an opportunistic act. This is because in the implementation of profit management, there are elements of lies and inaccessibility.

There are several things that can cause a company or a manager to do profit management. Some variables that can have an influence on whether or not profit management is good corporate governance, leverage, and the company's financial

performance. Based on the test results on 40 companies listed on the IDX, it was found that good corporate governance has a negative and significant influence on profit management. Leverage has a positive but not significant influence. Financial performance has a negative and significant influence. Simultaneously, all three variables can affect profit management by 95 percent. Thus, it can be concluded that these three variables are the main variables that have a large and dominant influence on the incidence of profit management.

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