THE EFFECT OF GOOD CORPORATE GOVERNANCE, LEVERAGE AND COMPANY SIZE ON PROFIT MANAGEMENT

Lindawati
Universitas Pamulang, Banten
lindamarwan2102@gmail.com

ABSTRAK

This study aims to determine the effect of *Good Corporate Governance* (GCG) proxied through Manjerial Ownership (KM), Board of Directors Size (UDD), and Board of Commissioners Size (UDK), *Leverage* and Company Size, on property companies listed on the IDX. To facilitate research, the author uses financial statements as a sample of 10 property companies in the period 2011-2017. The research method used is quantitative. The analytical method used in this study is panel data analysis. The results showed that KM did not significantly influence earnings management, UDD had a significant effect on earnings management, UDK had no significant effect on earnings management, GCG had a significant effect on earnings management, *Leverage* had no significant effect on earnings management, Company Size had a significant effect on earnings management. Based on the simultaneous test showing GCG, *Leverage*, and Company Size simultaneously have a significant effect on earnings management.

Keywords: Good Corporate Governance (GCG), Leverage, Firm Size, Profit Management

PROEM

The purpose of establishing a company is to make a profit. But in practice, making a profit is not as easy as turning the palm of the hand. The company must carry out various efficiency, optimization and maximization of its potential. Companies in the property sector in Indonesia are no exception. Based on Bank Indonesia records in 2013, the distribution of property loans showed a positive level of 60% KPR, 24% construction and 16% Real Estate. Meanwhile, based on records from the Rumah.com Property Index (2017), the national property index from 2015 to the end of 2016

experienced a positive trend in which the highest index occurred in Q1 2016, amounting to 105.9. In addition to the supply side, the property index experienced an increase recorded in the first quarter of 2017 at 11.4%.

The data above confirms, that market share in the property sector is very large, the growth rate is stable and it is an opportunity should be taken. So it is not surprising, currently property development is mushrooming in all regions of Indonesia, with various attractive offers, ranging from the cheapest prices to the most expensive prices, even the government itself offers subsidized housing. This condition is important for property companies, to take the opportunity to pay attention to aspects of Good Corporate Governance, Leverage and company size. Good Corporate Governance is carried out by establishing close partnerships for all stake holders. While Leverage, ensures that the company is careful of its ability to liquidate the level, especially for short-term debt. The size of the company looks at the company's capacity and readiness in terms of assets. The extent of assets, has a good and very strong level of turnover fundamentally in business operations.

Therefore, the study of financial security in investing is very important. In order for optimization to be carried out, efficiency is achieved and focus on the goal. The good corporate governance, leverage and company size on profit management analysis study was conducted to see how the financial performance of a property company manages its finances, maximizes opportunities, adheres to liquidation, and organizes healthy organizations.

THEORETIC

Good Corporate Governance

According to PBI (Bank Indonesia Regulation) Number 8/4 / PBI / 2006 concerning Implementation of Good Corporate Governance for Commercial Banks, Good Corporate Governance is a Bank's governance that applies the principles of transparency, accountability, responsibility), independence (independency), and fairness (fairness). In the study of Suaidah and Utomo (2018) and Abdillah and Purwanto (2016) argued that GCG measured by managerial ownership had a significant effect on earnings management, but other indicators did not effect.
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Leverage

In general, this ratio explains the source of corporate funding that comes from investment (debt). The results of research conducted by Agustia (2013) suggest that Leverage ratios have a significant effect on earnings management. While the results of Jao and Pagalung (2011) research show that leverage has a negative effect on earnings management.

Firm Size

According to Butar and Sudarsi (2012), company size is a value that indicates the size or size of the company. The results of research by Medyawati and Dayanti (2017) suggest that company size has a significant effect on earnings management. The results of the Handayani and Rachadi (2009) study suggest different from the research above, where company size does not affect earnings management. Based on the understanding and results of the above research, we can understand that company size refers to the size of the company's assets, the level of sales and the market share of the company. With a clear structure, namely large or small or medium certainly has an influence on the company's earnings management.

METHOD

This study aims to determine the effect of Good Corporate Governance (GCG), which is proxied through Merial Ownership (KM), Board of Directors Size (UDD), and Board of Commissioners Size (UDK), Leverage and Company Size, on property companies listed on the IDX. To facilitate research, the author uses financial statements as a sample of 10 property companies in the 2011-2017 period. The research method used is quantitative. The analytical method used in this study is panel data analysis.

RESULT

Table 1. Chow Test

Effects Test	Statistic	d.f.	Prob.
Cross-section F	0.570852	(9,35)	0.8114
Cross-section Chi-square	6.848354	9	0.6529

Source: Research data, 2018

Based on the table above, the value of the Cross-section F (probability) is 0.8114, greater than 0.05. Because the value (prob) is 0.8114> 0.05 then Ho is accepted so that it can be concluded that the most appropriate model used is to use the common effect approach.

Table 2. Haussman Test

Test Summary	Chi-Sq. Statistic	Chi-Sq. d.f.	Prob.
Cross-section random	4.525347	5	0.4765

Source: Research data, 2018

Based on the table above the results of Cross-Section Random (prob) 0.4765 are greater than 0.05. Because the value (prob) is 0.4765> 0.05, then Ho is accepted, so it can be concluded that the right model is a random effect model.

From the two panel data regression models used, namely Chow Test and Hausman Test, showed inconsistent results. In the Chow Test the most appropriate model used is to use the common effect approach. While in the Haussman Test, the right model is a random effect model. So the authors carry out the Lagrange Multiplier Test to ensure that the most appropriate model is used for regression.

Table 3. Lagrange Multiplier Test

| | Test Hypothesis | | |
	Cross-section	Time	Both
Breusch-Pagan	0.913794 (0.3391)	0.164269 (0.6853)	1.078063 (0.2991)

Source: Research data, 2018

Based on the table above, it can be seen that the value of Breusch-Pagan (Both) is 0.2991> 0.05, H0 is accepted and Ha is rejected. In other words, the suitable model in this study is the Common Effect Model. So it can be concluded that the most appropriate model used for regression is the Common Effect Model.

Therefore, the common effect method is that partial and simultaneous analysis is carried out properly. The following is stated the results of the regression analysis of common effect data:

Table 4. Partial Test

Variable	Coefficient	Std. Error	t-Statistic	Prob.
X1	0.002402	0.001609	1.493105	0.1424
X2	-0.107941	0.017171	6.286355	0.0000
X3	0.019111	0.010346	1.847295	0.0713
X4	-0.239596	0.147430	-1.625144	0.1111
X5	0.028793	0.003573	8.058832	0.0000
R-squared	0.521199	Mean dependent var		0.274632
Adjusted R-squared	0.478638	S.D. dependent var		0.184792
S.E. of regression	0.133430	Akaike info criterion		-1.095845
Sum squared resid	0.801157	Schwarz criterion		-0.904642
Log likelihood	32.39612	Hannan-Quinn criter.		-1.023034
Durbin-Watson stat	2.090962			

Source: Research data, 2018

The results of above data can be presented as follows:

1. Good Corporate Governance (managerial ownership) on Profit Management

    The results of the analysis in the table above show, the t-statistic value is 1.4931 <from ttable 2.0141 and the probability value (prob) is 0.1424> 0.05. Because t-statistic is 1.4931 <smaller t table 2.0141 and probability value (prob) is 0.1424> 0.05. Then it can be concluded, that Good Corporate Governance does not have a significant effect on Earnings Management.

2. Good Corporate Governance (directors board) on Profit Management

    The results of the analysis in the table above show that the t-statistic value is 6.2864> t table 2.0141 and the probability value (prob) 0.0000 <0.05. Because t-statistic is 6.2864 <from ttable 2.0141 and probability value (prob) 0.0000 <0.05. Then it can be concluded, that Good Corporate Governance (board of directors) has a significant effect on Earnings Management.

3. Good Corporate Governance (commissioners board) on Profit Management

    The results of the analysis in the table above show that the t-statistic value is 1.8473 <t table 2.0141 and the probability value (prob) is 0.0713> 0.05. Because the t-statistic is 1.8473 <t table 2.0141 and the probability value (prob) is 0.0713> 0.05. So it can be concluded, that Good Corporate Governance (board of commissioners) has no significant effect on Earnings Management.

4. Leverage Ratio on Profit Management

   The results of the analysis in the table above show, the value of t-statistic -1.6251 <ttable 2.0141 and probability value (prob) 0.1111> 0.05. Because t-statistics - 1,6251 <ttable 2,0141 and probability values (prob) 0,1111> 0,05. So it can be concluded, that the Leverage Ratio has no significant effect on Earnings Management.

5. Firm Size on Profit Management

   The results of the analysis in the table above show, the t-statistic value is 8.0589> t table 2.0141 and the probability value (prob) is 0.0000 <0.05. Because the t-statistic is 8.0589> t table 2.0141 and the probability value (prob) is 0.0000 <0.05. So it can be concluded, that Company Size has a significant effect on Earnings Management.

   Based on the explanation above, it can be concluded that from all the independent variables used, this is Good Corporate Governance (managerial ownership, board of directors and board of commissioners), Leverage Ratio and Company Size, it turns out that only two variables have a significant effect on Profit Management, namely variable board of directors (X2) and Company Size (X5).

Table 5. Simultaneous Test

R-squared	0.532229	Mean dependent var	0.274632
Adjusted R-squared	0.479074	S.D. dependent var	0.184792
Log likelihood	32.97882	Hannan-Quinn criter.	-0.991780
F-statistic	10.01264	Durbin-Watson stat	2.049425
Prob(F-statistic)	0.000002		

Source: Research data, 2018

Based on the table above, it is known that the F-statistic value is 10.0126 and the probability value is 0.0000. Ftable value at the confidence level of 5% with df1 = 5 and df2 = 44, then obtained Ftable = 2.43. Because F-statistics> Ftable (10,0126> 2,43) and probability value <0,05 (0,0000 <0,05). Then it can be concluded, that Good Corporate Governance (managerial ownership, board of directors and board of commissioners), Leverage Ratio and Company Size simultaneously have a significant influence on Profit Management. In other words, the existence of GCG, debt ratio and company size cannot be separated in measuring earnings management.

Table 6. Determination Coefficient Test

R-squared	0.532229	Mean dependent var	0.274632
Adjusted R-squared	0.479074	S.D. dependent var	0.184792
S.E. of regression	0.133374	Akaike info criterion	-1.079153
Sum squared resid	0.782699	Schwarz criterion	-0.849710
Log likelihood	32.97882	Hannan-Quinn criter.	-0.991780
F-statistic	10.01264	Durbin-Watson stat	2.049425
Prob(F-statistic)	0.000002		

Source: Research data, 2018

Based on the results of testing in the table above, the R-Square value of 0.5322 is obtained. Then it can be concluded, that Good Corporate Governance (managerial ownership, board of directors and board of commissioners), Leverage Ratio and Company Size have an effect of 53.22% while the remaining 46.78% is influenced by other factors not explained in this study.

Table 7. Analysis of Multiple Linear Regression

Variable	Coefficient	Std. Error	t-Statistic	Prob.
X1	0.004985	0.001892	2.635459	0.0114
X2	-0.085104	0.018853	-4.514041	0.0000
X3	0.004054	0.011373	0.356426	0.7232
C	0.596206	0.083500	7.140155	0.0000
R-squared	0.343463	Mean dependent var		0.274632
Adjusted R-squared	0.300645	S.D. dependent var		0.184792
S.E. of regression	0.154537	Akaike info criterion		-0.820152

Source: Research data, 2018

Based on the results above, the research explanation and analysis can be stated as follows:

1. Constant coefficient of 0.5962. That is, if Good Corporate Governance (managerial ownership, board of directors and board of commissioners) is worth 0 (zero), then Profit Management value is equal to 0.5962.

2. The GCG regression coefficient (managerial ownership) is 0.0049 (coefficient is positive). That is, each addition of 1% managerial ownership GCG variable, it will increase Profit Management by 0.0049, assuming other variables are fixed value.

3. The GCG regression coefficient (board of directors) is -0.0851 (coefficient is negative). That is, every addition of 1% of the board of directors' GCG variable, it will reduce Profit Management by -0.0851, assuming other variables are fixed.

4. GCG regression coefficient (board of commissioners) of 0.0040 (coefficient is positive). That is, every addition of 1% of the board of directors' GCG variables, it will increase Earnings Management 0.0040, assuming other variables are fixed.

Table 8. Analysis of Multiple Linear Regression

Variable	Coefficient	Std. Error	t-Statistic	Prob.
X1	0.003308	0.001837	1.800065	0.0787
X2	-0.107539	0.017168	-6.263941	0.0000
X3	0.018043	0.010394	1.735788	0.0896
X4	-0.418034	0.228920	-1.826117	0.0746
X5	0.020102	0.009249	2.173407	0.0352
C	0.318915	0.313084	1.018624	0.3139
R-squared	0.532229	Mean dependent var		0.274632
Adjusted R-squared	0.479074	S.D. dependent var		0.184792
S.E. of regression	0.133374	Akaike info criterion		-1.079153
Sum squared resid	0.782699	Schwarz criterion		-0.849710
Log likelihood	32.97882	Hannan-Quinn criter.		-0.991780
F-statistic	10.01264	Durbin-Watson stat		2.049425
Prob(F-statistic)	0.000002			

Source: Research data, 2018

Based on the table above, it can be stated the regression equation and explanation as follows:

$$Y = 0{,}3189 + 0{,}0033X_1 - 0{,}1075X_2 + 0{,}0180X_3 - 0{,}4180X_4 + 0{,}0201X_5 + e$$

1. Constant coefficient of 0.3189. That is, if Good Corporate Governance (managerial ownership, board of directors and board of commissioners), Leverage Ratio and Company Size are worth 0 (zero), then Profit Management value is 0.3189.

2. GCG regression coefficient (managerial ownership) is 0.0033. That is, every addition of 1% of GCG variable (managerial ownership), it will increase Profit Management by 0.0033, assuming other variables are fixed value.

3. GCG regression coefficient (board of directors) is -0.1075. That is, every addition of 1% of the board of directors' GCG variables, it will reduce Profit Management by -0.1075, assuming other variables are fixed.

4. GCG regression coefficient (board of commissioners) of 0.0180. That is, every addition of 1% of the board of commissioners' GCG variables, it will be 1%

variable Leverage Ratio, it will reduce Profit Management by -0.4180, assuming other variables are fixed value.

5. Leverage regression coefficient of -0.4180. That is, every addition of 1% Leverage variable, it will reduce Profit Management by -0.4180, assuming other variables are fixed value.

6. Company Size regression coefficient of 0.0201. That is, every addition of 1% of the Company Size variable, it will increase Profit Management by 0.0201, assuming other variables are fixed.

Based on the explanation above, the research findings can be stated as follows:

1. GCG Managerial Ownership and Board of Commissioners GCG has no significant effect on Earnings Management. This means, that the current managerial ownership structure and the composition of the directors board in property sector companies, both in proportion and quality have not shown significant alignments with management decisions in generating profits, especially in implementation policies. The conditions that occur are, CEOs focus on how to get big profits for themselves.

2. GCG directors board has a significant negative effect on Earnings Management. This finding is quite surprising, because the existence of the board of directors is the main cause of property companies experiencing losses. This is possible, directors are less skilled in doing business in the digital era, and the global economic conditions are not stable and the state of the national economy is very fragile because of the raging politics

3. Leverage does not have a significant effect on Earnings Management. This finding is quite interesting to conclude, that capital loans do not affect earnings income in current economic conditions. This certainly opens our eyes, that it turns out that strong capital has no effect on increasing people's purchasing power.

4. Company Size has a significant effect on Earnings Management. This finding shows a positive side, where the size or size of a company is the main attraction for the community to buy property, and directly affect the increase in company profits. And once again this confirms, that the market demographics in Indonesia are happy to buy property from well-known companies.

CONCLUSION

Based on the results of the analysis and discussion above, conclusions can be made as follows:

1. GCG managerial ownership has no significant effect on Earnings Management.
2. GCG director board has a significant negative effect on Earnings Management.
3. GCG commissioners board has no significant effect on Earnings Management.
4. Leverage has no significant effect on Earnings Management.
5. Company Size has a significant effect on Earnings Management.

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