Profit Management_Ricky et al (1).doc

by abay biru

PROFIT MANAGEMENT: THE EFFECT OF CORPORATE GOVERNANCE MECHANISM AND GOOD CORPORATE GOVERNANCE

Ricky[1], Lusi Endang Sri Darmawati[2*], Teguh Setiawan Wibowo[3], Mega Arisia Dewi[4], Agung Kristiawan[5]
[1]Universitas Widya Dharma Pontianak
[2*]Pendidikan Ekonomi STKIP PGRI Situbondo
[3]STIE Mahardhika Surabaya
[4]Sekolah Tinggi Ilmu Ekonomi Indonesia Surabaya
[5]Sekolah Tinggi Ilmu Ekonomi Indonesia Surabaya
E- mail: lusiendang@stkippgri-situbondo.ac.id

Abstract :

This research is motivated by the importance of good corporate governance in companies. This study aims to identify and analyze the influence of corporate governance and good corporate governance mechanisms on profit management. The research method used in this research is descriptive method with a quantitative approach. The sample in this study were 100 employees of private companies using random sampling technique. Data collection uses a questionnaire distributed to employees of private companies. The instruments used have been tested for validity and reliability. The collected data were analyzed using the classical assumption test and multiple linear regression with SPSS tools. The results of this study indicate that 1) The mechanism of corporate governance has a positive and significant effect on profit management, 2) Good corporate governance has a positive and significant effect on profit management, and 3) The mechanism of corporate governance and good corporate governance has a positive and significant effect on profit management. The findings of this study indicate that if companies want to improve profit management, companies must also improve corporate governance and good corporate governance mechanisms.

Keywords: *Mechanism of Good Corporate Governance, Good Corporate Governance, and Profit Management*

---

1. Introduction

Profit management can be interpreted as a practice carried out by company management to manipulate financial information so that the financial statements look better than they should (Setiawati, L., & Na'im, 2000). In line with this definition, Ghozali (2013) defines profit management as an action taken by company management to change the value of assets, expenses or income in its financial statements, so that it looks better than it should. Furthermore, Profit management can also be understood as actions taken by company management to change financial statements to make them look better, even if this does not fully reflect the actual development of the company (Handayani, RS, & Rachadi, 2009).

It should be noted that although there are some people who argue that profit management can provide benefits to companies, in general, Profit management is considered an unethical practice and is not recommended. Profit management can undermine the trust of investors and creditors in the company (Lidiawati, N., & Asyik, 2016). Due to manipulated financial reports, they may not reflect the true performance of the company. This can influence the decisions of investors and creditors in choosing to invest or provide loans to the company. That's why it's important to the company to ensure that their financial reports are accurate and transparent, and do not practice profit management. In this way, companies can build the trust of investors and creditors, as well as obtain more sustainable long-term benefits (Putra, FE, & Kusumaningtias, 2017).

One of the factors that influence profit management is the corporate governance mechanism. Corporate governance mechanisms refer to the way companies implement corporate governance principles. Corporate governance mechanisms can be understood as structures and processes that regulate the relationship between shareholders and company management, and ensure that the interests of shareholders are protected, management operates ethically, and the company is run effectively and efficiently (Wardhani, 2014). In addition, the corporate governance mechanism can be interpreted as a corporate governance system consisting of structures and decision-making processes involving the board of directors, management, shareholders and other stakeholders to ensure that the company is run in a transparent, accountable and sustainable manner. In general, corporate governance mechanisms are about how companies are regulated, run, and supervised to ensure that stakeholder interests are protected, and companies can operate in a transparent, accountable, and sustainable manner (Utami, 2009).

Furthermore, what is also suspected of influencing profit management is good corporate governance. GCG is a concept that refers to good, transparent, accountable and responsible corporate governance practices, with the aim of increasing corporate value and protecting the interests of all company stakeholders (Shank, T., Paul Hill, R., & Handlebar, 2013). GCG can be applied to all types of companies, both public and private companies, and is a very important practice to ensure that the company is run properly and in the interests of all stakeholders, including shareholders, employees, customers and the wider community. By implementing good GCG practices, companies can build stakeholder trust and improve their performance in the long term. In addition, companies can also minimize legal and reputation risks, and ensure that their operations are carried out with high integrity and social responsibility (Rodriguez-Fernandez, 2016).

Research on profit management: The Effect of Corporate Governance and Good Corporate Governance Mechanisms has been performed by many previous researchers, including (Nugroho, 2020; Riadiani, AR, & Wahyudin, 2015; Sutino, ERD, & Khoiruddin, 2016; Dwija, 2012; Asitalia , F., & Trisnawati, 2017; Rahmawati, 2013; Oktafia, 2011; Suri, N., & Dewi, 2018; Karuniasih, 2013; Sari, AA, Putri, IGAMAD, Economics, F., & Udayana, 2014; Asward , I., & Lina, 2015; Guna, WI, & Herawaty, 2010; Prasasti, B., & Ardianto, 2011; Suaidah, YM, & Utomo, 2018; Widiatmaja, BF, & Syafruddin, 2010; Praditia, OR, & Marsono, 2010; Kristiani, KE, Sulindawati, NLGE, SE Ak, M., Herawati, NT, & AK, 2014).

Background and previous research make the authors interested in research profit management: The Effect of Corporate Governance Mechanisms and Good Corporate Governance. This study aims to identify and analyze them profit management: the effect of corporate governance and good corporate governance mechanisms. The results of this research are expected to be able to provide understanding, insight and input for all interested parties regarding profit management: Effects of Corporate Governance Mechanisms and Good Corporate Governance.

2. Research Method

The research method used in this research is descriptive method with a quantitative approach. The sample in this study were 100 employees of private companies using random sampling technique. Data collection uses a questionnaire distributed to employees of private companies. The instruments used have been tested for validity and reliability. The collected data were analyzed using the classical assumption test and multiple linear regression with SPSS tools. The measurement of profit management variables uses two indicators from Healy (1985), namely controlling the type of accruals and accounting policies. The measurement of corporate governance variables uses four indicators according to Kusmayadi (2015), namely the size of the board of commissioners, independent commissioners, managerial ownership and institutional ownership. While the measurement of good corporate governance variables uses four indicators from Sedarmayanti (2004), namely accountability, transparency, openness, and the rule of law.

3. Results and Discussion

3.1. Results

Overview of Study Participants

The sample size for this study was 100 private sector employees. The results of data collection and processing are presented illustratively in the discussion below:

a) Study Participants Based on Gender

Based on gender, the study participants consisted of 30 men and 70 women, in other words, 30% were male and 70% were female.

b) Study Participants Based on Age

Based on age, study participants aged <25 years were 20 people, 20 people were 25-40 years and > 40 years were 60 people or in other words, 20% people were <25 years old, 20% people were 25-40 years and > 40 years as much as 60%.

Classic assumption test

a) Normality test

Table 1.

Kolmogorov-Smirnov One Sample Normality Test Results

Significance	Information
.288 [c,d]	Normal Distribution

Source: Data Processing, 2023

Based on table 1 above, it can be concluded that this model has a normal distribution, which is evidenced by a significance value greater than 0.05, which is 0.2888.

b) Heteroscedasticity Test

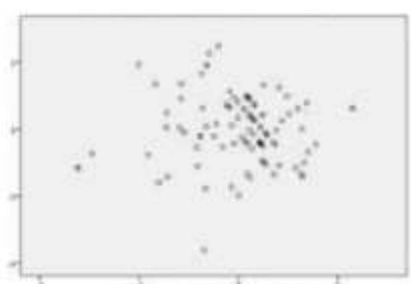

Figure 1.

Heteroscedasticity Test Results

Source: Data Processing Results, 2023

From Figure 1 above we can conclude that heteroscedasticity did not occur in this study.

c) **Multicollinearity Test**

Table 2.
Multicollinearity Test Results

Variable	***Collinearity Statistics***		**Information**
	tolerance	**VIF**	
Corporate Governance Mechanism (X1)	0.381	3.725	Multicollinearity Free
Good Corporate Governance (GCG) (X2)	0.396	4.935	Multicollinearity Free
Profit Management (Y)	0.373	3.745	Multicollinearity Free

Source: Data Processing, 2023

From Table 2 above it can be seen that there is no multicollinearity, this is evidenced by tolerance values > 0.10 or < 1 and VIF < 10.

Multiple Linear Regression Analysis

Table 3.
Multiple Regression Test Results

Model	**Unstandardized Coefficients**		**standardized Coefficients**	**t**	**Sig**
	B	**std. Error**	**Betas**		
Constant	6.380	7.456		.730	.100
Corporate Governance Mechanism	.476	.134	.258	4.328	.000
Good Corporate Governance (GCG)	.573	024	.570	4.459	.000

Source: Data Processing, 2023

F test

Table 4.
F test results

Model	**Sum of Squares**	**df**	**MeanSquare**	**F**	**Sig**
Regression	1752,421	2	766.300	38.789	.000b
residual	2530270	98	32.341		
Total	3670501	98			

Source: Data Processing, 2023

From Table 4 above we can see that in general the independent variable has an influence on the dependent variable, this is evidenced by the F value of 38.789 and a significance value of 0.000.

Determination Coefficient Test (R2)

Table 5.
Determination Test Results (R2)

Model	R	R Square	Adjusted R Square	std. Error of the Estimate
1	.680a	.450	.550	4.500

Source: Data Processing, 2023

From Table 5 above, we can conclude that the mechanism of corporate governance and good corporate governance variables affect profit management by 55.00% while the remaining 45.00% is influenced by other factors.

Hypothesis Testing (T Test)

Table 12.
T test results

Model	t	Sig.
Corporate Governance Mechanism	4.328	.000
Good Corporate Governance (GCG)	4.459	.000

Source: Data Processing, 2023

3.2. Discussion

The Influence of Corporate Governance Mechanisms on Profit Management

The results of this study show that corporate governance mechanisms influence profit management. This means that the better the corporate governance mechanism, the better the profit management, conversely the worse the company's good corporate governance, the worse the profit management. This suggests that if the company wants to improve profit management, the company should improve good corporate governance.

Good Corporate Governance (CG) mechanisms can affect profit management in companies. The CG Mechanism is a monitoring and control system designed to ensure that the company is properly managed according to the principles of transparency, accountability and social responsibility. Overall, a good CG mechanism can influence profit management in a company by preventing unfair profit management practices and ensuring that the company's financial statements are presented in a transparent and accountable manner. Transparent disclosure of information can prevent unfair profit management practices. This is because transparent disclosure of information can provide sufficient information to stakeholders about company performance so as to minimize the tendency of profit management practices.

The results of this study are consistent with the results of previous studies (Sari, AA, Putri, IGAMAD, Economics, F., & Udayana, 2014; Asward, I., & Lina, 2015; Guna, WI, & Herawaty, 2010; Prasasti, B., & Ardianto, 2011; Suaidah, YM, & Utomo, 2018; Widiatmaja, BF, & Syafruddin, 2010; Praditia, OR, & Marsono, 2010; Kristiani, KE, Sulindawati, NLGE, SE Ak, M., Herawati , NT, & AK, 2014) which explains that corporate governance mechanisms affect profit management.

The Effect of Good Corporate Governance on Profit Management

The results of this study indicate that good corporate governance influences profit management. This means that the better the good corporate governance, the better the profit management, conversely the worse the good corporate governance, the worse the profit management. This suggests that if the company wants to improve profit management, the company should improve good corporate governance.

Profit management is an accounting practice that aims to influence financial statements in an unreasonable way to achieve a specific objective, such as increasing share prices or meeting profit targets. Companies that implement GCG tend to be more transparent and accountable in reporting financial information. This can prevent unfair profit management practices, because the information provided openly and honestly will assist stakeholders in making the right investment decisions. Companies that have a good governance structure, including separation between ownership and control, can reduce potential conflicts of interest between management and shareholders. This can reduce pressure to engage in profit management practices to meet individual goals.

The results of this study are consistent with the results of previous studies (Nugroho, 2020; Riadiani, AR, & Wahyudin, 2015; Sutino, ERD, & Khoiruddin, 2016; Dwija, 2012; Asitalia, F., & Trisnawati, 2017; Rahmawati, 2013 ; Oktafia, 2011; Suri, N., & Dewi, 2018; Karuniasih, 2013) which explains that good corporate governance influences Profit management.

Effect of Corporate Governance and Good Corporate Governance Mechanisms Against Profit Management

The results of this study indicate that corporate governance mechanisms and good corporate governance affect profit management. This means that the better the mechanism of corporate governance and good corporate governance, the better the profit management, conversely the worse the mechanism of corporate governance and good corporate governance, the worse the profit management. This suggests that if the company wants to improve profit management, the company should improve corporate governance and good corporate governance mechanisms.

The results of this study are consistent with agency theory. Jensen and Meckling (1976) defined an agency relationship as an agreement whereby one or more (principals) delegate authority to another person (agent) to perform a particular service on behalf of the principal. is defined as The client or company owner hands over control of the company to management. Basically, shareholders want to increase their wealth and wealth, but managers, as those who are empowered to run the company, tend to maximize their own interests at the expense of the interests of their shareholders. Because of the agency problem arises.

4. Conclusion

From on the results of research and data processing about Profit management: Effect of Corporate Governance Mechanisms and Good Corporate Governance , the authors can draw conclusions: 1) Corporate governance mechanisms have a positive and significant effect on good corporate governance, 2) Profit management has a positive and significant effect on good corporate governance, and 3) Corporate governance mechanisms and profit management has a positive and significant effect on good corporate governance.

From on the conclusion about Profit Management: Effects of Corporate Governance and Good Corporate Governance Mechanisms : 1) **For companies,** preferably improve profit management by improving corporate governance and good corporate governance mechanisms by building a transparent and accountable corporate culture , increasing stakeholder involvement and building a strong monitoring system and **2) For future researchers,** explore other variables suspected of influencing earnings management and conduct more complex investigations by adding intermediary variables or intermediary variables suspected of enhancing or weakening earnings management effects. It is recommended.

Profit Management_Ricky et al (1).doc

ORIGINALITY REPORT

25%	13%	10%	5%
SIMILARITY INDEX	INTERNET SOURCES	PUBLICATIONS	STUDENT PAPERS

PRIMARY SOURCES

1	jurnal.stie-aas.ac.id Internet Source	9%
2	garuda.kemdikbud.go.id Internet Source	3%
3	Benny Wendry, Umar Nimran, Hamidah Nayati Utami, Tri Wulida Afrianty. "The role of good corporate governance in mediating the effect of planning, coordination, supervision, and organizational culture on firm performance and firm sustainability", Environment, Development and Sustainability, 2022 Publication	2%
4	Wang, W.K.. "Does corporate governance play an important role in BHC performance? Evidence from the U.S.", Economic Modelling, 201205 Publication	1%
5	"Corporate Governance in Emerging Markets", Springer Science and Business Media LLC, 2014	1%

Publication

6	Andini Nurwulandari, Hasanudin Hasanudin, Bambang Subiyanto, Yulia Catur Pratiwi. "Risk Based bank rating and financial performance of Indonesian commercial banks with GCG as intervening variable", Cogent Economics & Finance, 2022 Publication	1%
7	Submitted to Universitas Brawijaya Student Paper	1%
8	virtusinterpress.org Internet Source	1%
9	Submitted to Universitas Hasanuddin Student Paper	1%
10	enterslice.com Internet Source	1%
11	eprints.dinus.ac.id Internet Source	1%
12	ojs.unm.ac.id Internet Source	1%
13	Submitted to University of Waikato Student Paper	1%
14	Anggun Firma Rahmawati, Irma Yuniar Wardhani. "influence of Problem Reality-Based Web Course Learning (WCL) on	<1%

students' Higher-Order Thinking Skills (HOTS) on human reproductive system material", Journal on Biology and Instruction, 2022
Publication

15	Baliira Kalyebara, Sardar M. N. Islam. "Corporate Governance, Capital Markets, and Capital Budgeting", Springer Science and Business Media LLC, 2014 Publication	<1 %
16	Muhammad Dong, Mahfudnurnajamuddin Mahfudnurnajamuddin, Baharuddin Semmaila, Baharuddin Latief. "Contributions Of Human Resources Development, Leadership Style, Organizational Commitment, And Work Motivation On Good Governance And Police Officer Performance (Study Of Police Officer In South Sulawesi Regional Police)", European Journal of Business and Management Research, 2019 Publication	<1 %
17	www.jurnal.stie-aas.ac.id Internet Source	<1 %
18	docu.tips Internet Source	<1 %
19	e-journal.stie-kusumanegara.ac.id Internet Source	<1 %

20 Studies in Economics and Finance, Volume 30, Issue 2 (2013-05-27) <1%
Publication

21 Veerasak Jinarat, Truong Quang. "The impact of good governance on organization performance after the Asian crisis in Thailand", Asia Pacific Business Review, 2003 <1%
Publication

Exclude quotes Off
Exclude bibliography Off
Exclude matches Off