Enrichment: Journal of Management, 12 (2) (2022) 1478-1487

Published by: Institute of Computer Science (IOCS)

Enrichment: Journal of Management

Journal homepage: www. enrichment.iocspublisher.org

The Influence of Good Corporate Governance, Free Cash Flow, Leverage and Profitability on Earnings Management in Automotive Sector Companies listed on the Indonesia Stock Exchange

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ARTICLEINFO

Keywords:

Innovativeness,
Committee Size Audit,
Percentage Of Independent Committees,
Institutional Ownership,
Management Ownership,
Free Cash Flow,
Leverage Ratio,
Profitability And Revenue Management

ABSTRACT

The subject of this survey is automotive companies on the IDX. Several companies have studied the value of corporate governance, free cash flow, profitability and results management over the years. This decrease cannot maximize the use of agents and independent auditors in corporate governance, and it is not optimal for companies to use both the shares raised by investors and the shares of the company itself, and the company, resulting in low profits. Leverage, on the other hand, increases in some firms, and an increase in the debt held by firms increases leverage. This means that most of the capital and assets owned by the company are due to its liabilities. The aim of this research is to provide empirical evidence on committee size, audit committee ratios, ownership of independent bodies, manager's ownership, free cash flow, and the impact of debt and profitability on management results. is to get. Survey method by type, type and quantitative research. Quantitative research was chosen as the data collection method. The analysis used is the multiple analysis method. The results of the research show that the size of the audit committee, independent committee, management ownership, net cash flow and leverage ratio have an effect on earnings management in the automotive sector industry which is listed on the BEI. Transactions and profitability owned by institutions partially affect profits on the IDX.

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1. Introduction

Management results are defined as the method chosen by management when compiling financial statements where management tries to increase or decrease profits according to company needs, but has a negative impact on the industry in the long term. This theory is based on several theories that identify free cash flow as one of the factors in influencing earnings management practices, with the importance of implementing good industrial governance and earnings management efficiency, the role of auditors in detecting. The behavior of managers practicing results management can be minimized through an ideal company management system. In terms of leverage, external sources in the form of debt are an alternative source of industrial funding to take over the sale of shares in the capital market, and large returns are expected to reduce the formation of debt violations, so managers tend to carry out this matter. practice accounting policies that can increase profits. Companies that use leverage aim to ensure that their profits are greater than their regular payouts. The level of debt of an industry is one of the driving aspects of earnings management.

Profitability also affects earnings management. Industry profitability represents the industry's ability to generate profits over a certain period of time. Profitability is a dimension of industry expertise in generating profits. This figure is also a measure of the efficiency of industrial management. This is indicated by the profit from sales and return on investment. The bottom line is that you can use these metrics to showcase your industry's performance. Pautih et al. Montoliang & Tjun (2018) show that the greater the free cash flow of the industry, the healthier it is because it has available cash for development, debt settlement, dividend funds. Free cash flow is the main determinant of business value, so business leaders will focus more on efforts to increase free cash flow (Sawir, 2015; 94). The following is the calculation of the automotive sector financial data listed on the IDX. This can explain the phenomenon that occurs as follows.

TABLE 1

CALCULATION OF GOOD CORPORATE GOVERNANCE, FREE CASH FLOW, LEVERAGE, PROFITABILITY AND AUTOMOTIVE PROFIT MANAGEMENT ON THE IDX

Company name	Year	Good Corporate Governance				Free Cash Flow	DER	NPM	Profit management
		Audit Committee	Independent Commissioner	Institutional Ownership	Managerial Ownership				
PT. Astra Otoparts, Tbk	2015	3	3	0.91	0	Rp. 128,925	0.41	0.03	0.000002
	2016	3	3	0.91	0	Rp. 615,471	0.39	0.04	0.000004
	2017	3	3	0.91	0	Rp. 1.121	0.37	0.04	0.000004
	2018	3	3	0.87	0	Rp. 164.205	0.41	0.04	0.00007
	2019	3	3	0.87	0	Rp. 619,515	0.37	0.05	0.00010
PT.Indokordsa, Tbk	2015	2	2	0.49	0	Rp. 19,911,457	0.60	0.06	0.00456
	2016	2	2	0.26	0	Rp. 42,724,562	0.50	0.10	0.00400
	2017	2	2	0.31	0	Rp. 9,859,837	0.40	0.10	0.00253
	2018	2	2	0.31	0	Rp. 34,022,349	0.35	0.07	0.00545
	2019	2	2	0.31	0	Rp. 33,393,131	0.27	0.06	0.00180
PT. Indospring, Tbk	2015	3	1	0.47	0	Rp. 63,843,106,077	0.33	0.00	0.00184
	2016	3	1	0.47	1	Rp. 178,902,408,752	0.20	0.03	0.04495
	2017	3	1	0.55	1	Rp. 304,219,119,923	0.14	0.06	0.13168
	2018	3	1	0.55	1	Rp. 56,299,913,018	0.13	0.05	0.06487
	2019	3	1	0.55	1	Rp. (42,688,932,265)	0.10	0.05	0.05425
PT. Astra International, Tbk	2015	4	3	0.60	1	Rp. 13,746	0.94	0.08	0.00045
	2016	4	3	0.60	1	Rp. 2.144	0.87	0.08	0.00048
	2017	4	3	0.60	1	Rp. (4,906)	0.89	0.11	0.00068
	2018	4	3	0.66	1	Rp. 3.272	0.98	0.11	0.00077
	2019	4	3	0.60	1	Rp. (6,118)	0.88	0.11	0.00078

Using the table above, some companies can see that the value of corporate governance, free cash flow, and profitability and revenue management has declined over the years. Society and society is not optimal. Leverage, on the other hand, increases in some firms, and an increase in corporate debt increases leverage. That is, most of the capital and assets owned by a company comes from liabilities. The aim of this research is to provide empirical evidence on committee size, audit committee ratios, ownership of independent bodies, manager ownership, free cash flow, and the impact of debt and profitability on management outcomes. is to get.

2. Methods

2.1 Data collection technique

Deductive research, and the types are quantitative and descriptive. The data collection is in the form of a documented method that collects all sources of financial reporting data related to companies in the automotive sector from the website www.idx.co.id.

2.2 Research Data Analysis Model

In this study, the research model uses multiple linear regression analysis techniques. With the equation used, namely:

Y = a + b1X1 + b2X2 + b3X3 + b4X4 + b5X5 + b6X6 + b7X7 + e

Information:

Y	= Earnings Management
a	= Constant
X1	= Audit Committee Size
X2	= Proportion of Independent Commissioners
X3	= Institutional Ownership
X4	= Managerial Ownership
X5	= Free Cash Flow
X6	= Leverage Ratio
X7	= Profitability
b1,.....b7	= Variable Coefficient
e	= fault tolerance limit

3. Results and Discussion

3.1 Result

a. Classic Assumption

1). Data Normality Test

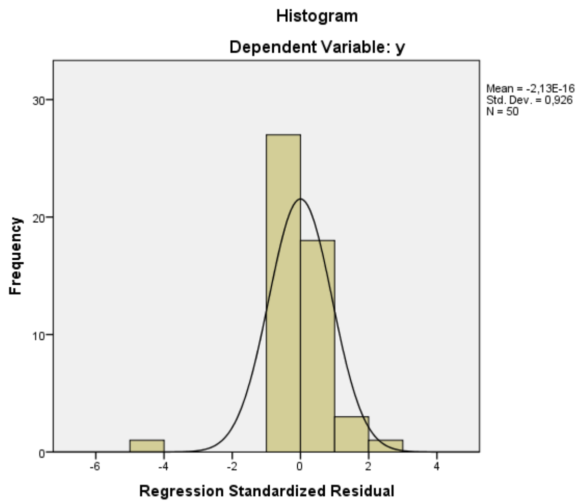

Figure 1. Histogram Graph

From the picture above shows that the curve follows the diagonal line, then the data is normal.

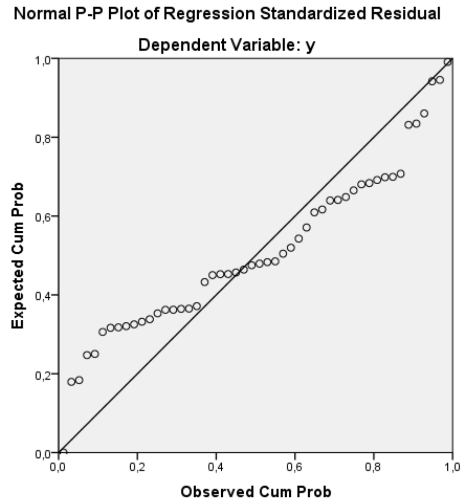

Figure 2. Research using P-Plot

From the picture above shows that the items follow the diagonal line, then the data is normal. As for testing with Kolmogorov-Smirnov as follows:

TABLE 2
KOLMOGOROV SMIRNOV . TEST RESULTS

		Unstandardized Residual
N		50
Normal Parameters, b	mean	,0000000
	Std. Deviation	,05417803
Most Extreme Differences	Absolute	,192
	Positive	,158
	negative	-,192
Test Statistics		,192
asymp. Sig. (2-tailed)		,000c
a. Test distribution is Normal.		
b. Calculated from data.		
c. Lilliefors Significance Correction.		

From Table 2 above, KS has audit committee size, percentage of independent agents, institutional ownership, test statistic for each variable is 0.192, greater than 0.05. With a significant value of 0.000 <0.05, which means the data is normally distributed.

2). Multicollinearity

TABLE 3
MULTICOLLINEARITY TEST

		Correlations			Collinearity Statistics	
Model		Zero-order	Partial	Part	Tolerance	VIF
1	(Constant)					
	x1	-,009	,108	0.075	,697	1.434
	x2	-,211	-,019	-,013	,726	1.377
	x3	,265	,312	,227	,752	1,329
	x4	-,066	,101	,071	,738	1.356
	x5	,033	,032	,022	,692	1,446
	x6	-,365	-,208	-,147	,687	1,456

Model	Correlations			Collinearity Statistics	
	Zero-order	Partial	Part	Tolerance	VIF
x7	,671	,585	,500	,753	1,328

If Table 3 Audit Committee Size, Independent Committee Shares, Institutional Ownership, Ownership Management, Free Cash Flow, Leverage Ratio, Profitability, and Revenue Management Scoregreater than 0.1, so VIF is us can conclude that less than 10. Audit committee size data, ownership organization, management ownership, free cash flow, leverage ratio, profitability, and variable revenue management does not show signs multicollinearity.

3). Heteroscedasticity

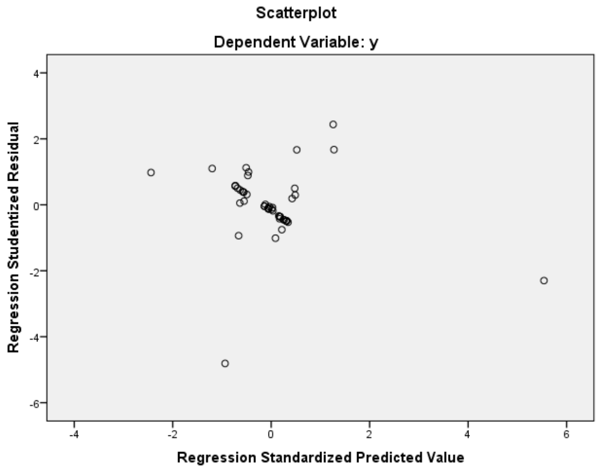

Figure 3. Heteroscedasticity Test

From the picture above shows that the scattered grains are not in the form of a pattern, it can be said to be free from Heteroscedasticity.

4). Autocorrelation

TABLE 4

AUTOCORRELATION TEST

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Durbin-Watson
1	,720a	,519	,439	0.05852	1,825

a. Predictors: (Constant), x7, x1, x5, x4, x3, x2, x6

b. Dependent Variable: y

Based on the table on, Mark Durbin Watson is 1.825 which smaller of 2, and no autocorrelation occurs.

3.2 Research Data Analysis

a. Multiple Linear Regression Analysis

TABLE 5

MULTIPLE LINEAR REGRESSION

Model		Unstandardized Coefficients		Standardized Coefficients			Collinearity Statistics	
		B	Std. Error	Beta	t	Sig.	Tolerance	VIF
1	(Constant)	-,119	,086		-1,380	,175		
	x1	0.016	,022	0.090	,705	,484	,697	1.434
	x2	-,001	,011	-,015	-,122	,903	,726	1.377

Model	Unstandardized Coefficients B	Std. Error	Standardized Coefficients Beta	t	Sig.	Collinearity Statistics Tolerance	VIF
x3	,119	0.056	,262	2,126	,039	,752	1,329
x4	0.030	0.045	,082	,660	,513	,738	1.356
x5	2.094E-15	,000	,026	,205	,839	,692	1,446
x6	-,010	,007	-,178	-1,378	,176	,687	1,456
x7	,157	,034	,576	4,671	,000	,753	1,328
a. Dependent Variable: y							

The results of the multiple linear regression test:

$Y = -0.119 + 0.016X1 - 0.001X2 + 0.119X3 + 0.030X4 + 2.094E\text{-}15X5 - 0.010X6 + 0.157X7 + e$

The model shows the meaning that:

1). Constanta = -0.119.
The size of the audit committee, the percentage of independent members, institutional ownership, management ownership, free cash flow, leverage ratio, and profitability are all zero, so the company's management performance is 0.119.

2). Audit Committee Size X_1
The audit committee size of 0.016 means that for every 100% increase in capacity, results management increases by 1.6%.

3). Independent Board of Commissioners X_2
Independent board of commissioners is -0.001. means that for every 100% increase in capacity, yield management decreases by 0.1%.

4). X_3 Institutional Ownership
Institutional ownership shows a figure of 0.119. There is a decision that if institutional ownership increases by 100%, revenue management will increase by 11.9%

5). Managerial Ownership X_4
Managerial ownership shows a figure of 0.030. Stating that if there is a 100% increase in management rights, a 3% increase in revenue management.

6). Free Cash Flow X_5
Free cash flow shows a figure of 2.094E-15. Stating that if there is a 100 increase in free cash flow, revenue management will increase by 2.094E-15.

7). Leverage Ratio X_6
Leverage ratio shows a number of -0.010. Says that a 100% increase will decrease it, but this is not due to a 1% increase in revenue management.

8). X_6 Profitability
Profitability shows a number of 0.157. Suppose revenue management increases by 15.7% after a 100% increase in profitability.

b. Coefficient of Determination

TABLE 6
COEFFICIENT OF DETERMINATION

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Durbin-Watson
1	,720a	,519	,439	0.05852	1,825
a. Predictors: (Constant), x7, x1, x5, x4, x3, x2, x6					
b. Dependent Variable: y					

From Table 6 above, we could see that Mark R-squared is 0.519 or 51.9%. It means there is an effect between the size of the audit committee, committee percentage independent, owner ship institution, owner ship management, and free of charge. Cash flow, ratio leverage and profitability from management result is 51.9%, with remaining 48.1% be variable others who don't considered in this research, like capital, company assets and other variables.

c. Partial (t-test)

TABLE 7
T TEST

Model		Unstandardized Coefficients B	Std. Error	Standardized Coefficients Beta	t	Sig.	Collinearity Statistics Tolerance	VIF
1	(Constant)	-,119	,086		-1,380	,175		
	x1	0.016	,022	0.090	,705	,484	,697	1.434
	x2	-,001	,011	-,015	-,122	,903	,726	1.377
	x3	,119	0.056	,262	2,126	,039	,752	1,329
	x4	0.030	0.045	,082	,660	,513	,738	1.356
	x5	2.094E-15	,000	,026	,205	,839	,692	1,446
	x6	-,010	,007	-,178	-1,378	,176	,687	1,456
	x7	,157	,034	,576	4,671	,000	,753	1,328

a. DaEPENDENT V avariable: y

The size of the audit committee has no effect on earnings management as seen from the significant value of 0,484>0,05. The t-table value is 0,705< manners 2,010. The independent board of commissioners has no effect on earnings management, which is seen from the significant value of10,903>0.05. Calculated value -0122< grammar 2,010. Ownership institutional have influence agains management profit, as seen from significant value10.039<0.05. Calculated value 2,216> manners 2,010.

Ownership managerial nothing have influence against management profit, ass een from significant value 0,513>0,05. Calculating value 0,660<grammar 2,010.

Free cash flow nothing have influence agains management profit, as seen from significant value 0,18391>0,105. Count value 0,1205 < manners 2, 010. Leverage ratio nothing have influence against management profit, as seen from significant value 0,1761>10.05. Calculated value-1,1378< manners 2,010. Parofitability have influence against management profit, as seen from significant value 0,1000<10.05. Calculated value 4, 671> layout 2,010.

d. Simultaneous (F Test)

TABLE 7
F UJI TEST

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	,155	7	,022	6,473	,000b
	Residual	,144	42	,003		
	Total	,299	49			

a. Dependent Variable: y
b. Predictors: (Constant), x7, x1, x5, x4, x3, x2, x6

From results ANOVA test or F-test obtained Mark F-count (6.473)> F-table (2.24) with significance level of 0.000. This matter show that the size of the audit committee, commissioner independent, ownership institution, ownership management, free cash flow, and leverage all affected.

3.3 Discussion

a. Effect of Audit Committee Size on Earnings Management

From the statistical test Size committee audit no have influence to management profit seen from the significant value 0.484>0.05. The value of t-count 0.705 < t-table 2.010.

The Audit Committee is a professional and independent entity formed by the leadership, thus providing financial reporting, which also has an impact on corporate governance (Arief, 2016: 25).

b. The Influence of the Proportion of Independent Commissioners on Earnings Management

From statistical test Board commissioner independen nothing have influence against management profit, as seen from significant value 0,903>0.05. The t-table value is -0.122<t-table 2.010.

Oktovianti & Agustia(2012), namely independent commissioners do not affect revenue management. Kouki et al. (2011), namely independent commissioners influence earnings management practices. Dewanto (2012:75), who also reached the conclusion that independent commissioners influence revenue management

c. The Effect of Institutional Ownership on Earnings Management

Ownership institutional have influence to management profit, as seen from significant value 0.039<0.05. t-count 2,216 > t-table 2,010.

Organizational ownership is often used as a form of corporate governance oversight (Mahariana & Ramantha, 2014:1). (Reis, 2013: 3). Institutional ownership can provide a mechanism for monitoring company performance. Institutional ownership in the form of share ownership originating from outside the company itself, such as insurance companies, banks, and other companies.

d. Effect of Managerial Ownership on Earnings Management

Ownership managerial no have influence to management profit, as seen from significant value 0.513> 0.05. t-count 0,660 < t-table 2,010.

Wardani (2011), namely the ownership of shares owned by the company itself, in the form of shares from company leaders or from company employees, such as shares from commissioners, directors, managers and other employees. Where this managerial election can have an impact by increasing earnings management, this is because: managers by choosing certain accounting procedures that are considered most profitable for managers

e. Effect of Free Cash Flow on Earnings Management

*Free cash fl*aow no have influence to management profit, which is seen from the significant value 0.839>0.05. The value of t-count 0.205 < t-table 2.010.

Montoling & Tjun (2018) that is, with the amount of free cash flow increasing, it can have an impact on the company's ability to pay its obligations and be able to pay dividends, and conversely the more cash flow expenses will have an impact on the setbacks that occur in the company which will also have a negative impact on the company. company earnings management(Agustia, 2013).

f. Effect of Leverage Ratio on Earnings Management

Leverage ratio no have influence to management profit, as seen from significant value 0.176>0.05. t-count-1,378<t-table 2, 010.

The debt ratio is done to see the company's ability to settle the company's debts. The more debt used, the greater the risk borne by the company. Therefore, companies with this high ratio have high financial risks for creditors and investors, and will manage their income (Suda Na, 2015).

g. The Effect of Profitability on Earnings Management

From the results of statistical tests Profitability has a positive and significant effect on Earnings Management in the Automotive Sector Company that registered he Exchange Indonesian Effect. Due to t-count result (4,671)> t-table (2,010) with a significance value with significant value 0.000 <0.05 then H0 is accepted and Ha is rejected.

One of the company's goals is to make a profit. If the company's profitability is low, then the bonus received by the company's management is also low. As a result, management generally tends to take earnings management measures so that company management can receive bonuses and rewards. Therefore, if it is profitable, investors believe that the company is doing well. The more profitable you are, the more often results management occurs (Purnama, 2017).

h. The Influence of Good Corporate Governance, Free Cash Flow, Leverage and Profitability Factors on Earnings Management in Automotive Sector Companies listed on the Indonesia Stock Exchange

Simultaneous testing shows that the variables of audit committee size, proportion of independent commissioners, institutional ownership, managerial ownership, free cash flow, leverage ratio, profitability have an effect on earnings management in Automotive Sector Companies.which registered he Exchange Indonesian Effect. Due to the results of F-count(6.473)>F- table(2.24) with a significance level of 0.000 below the value of 0.05 then H0 is rejected and Ha. With an R Square value of 0.519 or 51.9%, which means that there is an influence between the size of the audit committee, the proportion of independent commissioners, institutional ownership, managerial ownership, free cash flow, leverage ratio, profitability on earnings management of 51.9%, while the rest 48.1% of other variables not examined by this study, such as capital, company assets and other variables.

4. Conclusions

Conclusions of the results of testing the data are as follows: the size of the committee audit no effect towardsmanagement profiton company in the field automotive registered in Exchange Indonesian Effect. Board proportion commissioner independent no affect management performance companies in the field of the automotive registered in Exchange Indonesian Effect. Institutional ownership take effect towards management auto company profit which registered in Exchange Effect Indonesia. Managerial ownership has no effect on the company's earnings management the automotive registered in Exchange Effect Indonesia. Free cash flow does not affect revenue management automotive sector company which registered in Exchange Effect Indonesia Leverage Ratio is management company income sector the automotive registered in Exchange Effect Indonesia Size committee audits, proportion board commissioner independent, institutional ownership, managerial ownership, free cash flow, leverage ratio and profitability affect the earnings management of the automotive sector. Exchange Indonesian Effect.

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