THE INFLUENCE OF GOOD CORPORATE GOVERNANCY MECHANISM ON COMPANY PROFIT MANAGEMENT AS MODERATING VARIABLES (EMPIRICAL STUDY ON REAL ESTATE AND PROPERTY COMPANIES LISTED IN INDONESIA STOCK EXCHANGE IN 2010 - 2015)

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Abstract: The Objective of the research was to examine and analyze the influence of the mechanism of GCG (Good Corporate Governance) on profit management to examine and analyze firm size in moderating the correlation of GCG with profit management in real estate and property companies listed in BEI (Indonesia Stock Exchange). The research used descriptive quantitative explanatory method. The population was 34 real estate and property companies listed in BEI which did their financial statement in the period of December 31, 2010 – 2015. The samples were taken by using probability random sampling technique with Slovin formula. The data were analyzed by using descriptive statistic analysis and multiple linear regression analysis. The result of the research, using F-test, showed that the mechanism of GCG which consisted of institutional ownership, audit committee, and risk management committee had significant influence on profit management in real estate and property companies listed in BEI in the period of 2010-2015. Partially, only institutional ownership and independent Board of Commissioners had positive and significant influence on profit management, while Audit Committee had negative and significant influence. Only Risk Management Committee had negative and insignificant influence on profit management in real estate and property companies listed in BEI in the period. Firm size could moderate the mechanism of GCG which consisted of institutional ownership, audit committee, and risk management committee so that it had significant influence on profit management in real estate and property companies listed in BEI in the period of 2010-2015.

Keywords: Institutional Ownership, Independent Board of Commissioners, Audit Committee Management Risk Committee, Firm Size, Profit Management

INTRODUCTION
Several cases of earnings management that have occurred in Indonesia include large companies such as PT Kimia Farma, PT Indofarma, and PT Ades Alfindo (Sulistiawan et al., 2011). Case at PT. Kimia Farma occurred in 2002, namely the presentation of too high profit of Rp 32.7 billion, of which 2.3% came from sales and 24.7% came from net profits owned by PT Kimia Farma. The error comes from overstated sales in the industrial unit of raw materials, in inventory at the central logistics unit, in merchandise inventories, and on sales. The PT Ades Alfindo case was revealed in 2004 when the new management of PT Ades found an inconsistency in recording the sales for the 2001-2004 period. Management reports real sales figures are lower than they actually are. This was missed because in the financial statements presented by PT Ades did not enter the sales volume in the audited financial statements. In the same year PT Indofarma overstated the value that should have been reported, consequently referring to the presentation of a higher profit. Based on the background of the problem, the title of this study was "The Effect of Good Corporate
Governance Mechanism on Profit Management with Company Size as a Moderating Variable

Research purposes
The purpose of this study is to examine and analyze the effect of good corporate governance mechanisms on earnings management in real estate and property companies listed on the Indonesia Stock Exchange both simultaneously and partially and to test and analyze company size in moderating the relationship between good corporate governance mechanisms and management profits on real estate and property companies listed on the Indonesia Stock Exchange.

Hypothesis
1. The mechanism of good corporate governance affects earnings management in real estate and property companies that are listed on the Indonesia Stock Exchange simultaneously and partially.
2. Company size can moderate the relationship between good corporate governance mechanisms and earnings management in real estate and property companies listed on the Indonesia Stock Exchange.

METHODOLOGY
This research was conducted using a comparative causal approach, or a causal study. The population used in this study are real estate and property companies listed on the Indonesia Stock Exchange (IDX) with information publishing their annual financial statements for the period of December 31, 2010 - 2015 stated in rupiah (Rp) and then not enlisting during 2010 - 2015, Based on this, a total population of 34 (thirty four) companies was obtained. Secondary data in the form of annual financial reports published annually in the period 2010 - 2015. Data obtained from the annual financial statements of real estate companies and property obtained from the site The Indonesia Stock Exchange (IDX) is www.idx.co.id. In this study, the classic assumption test that will be used is normality test, multicollinearity test, heteroscedasticity test, and autocorrelation test. Multiple linear regression equations in the research model are divided into hypothesis 1 and hypothesis 2 can be formulated as follows:

\[ Y = a + b_1X_1 + b_2X_2 + b_3X_3 + b_4X_4 + e \] (Hipotesis 1)

Dimana:
\( Y \) = Profit management
\( a \) = Constants
\( X_1 \) = Institutional Ownership
\( X_2 \) = Independent Board of Commissioners
\( X_3 \) = Audit Committee
\( X_4 \) = Risk Management Committee
\( b_1, b_2, b_3, b_4 \) = Regression Coefficient
\( e \) = Standard Error

\[ Y = a + b_1X_1 + b_2X_2 + b_3X_3 + b_4X_4 + b_5X_5 \]
\[ + b_6X_1X_5 + b_7X_2X_5 + b_8X_3X_5 + b_9X_4X_5 + e \] (Hipotesis 2)

Dimana:
\( Y \) = Profit management
\( a \) = Constants
RESULTS AND DISCUSSION
Classic Assumption Testing
1. Normality test

Table V.4.
Test results One Sample Kolmogorov-Smirnov Test
Analysis Model 1 (One)
One-Sample Kolmogorov-Smirnov Test

<table>
<thead>
<tr>
<th>N</th>
<th>150</th>
</tr>
</thead>
<tbody>
<tr>
<td>Normal Parameters&lt;sup&gt;a,b&lt;/sup&gt;</td>
<td>Mean</td>
</tr>
<tr>
<td></td>
<td>Std. Deviation</td>
</tr>
<tr>
<td>Most Extreme Differences</td>
<td>Absolute</td>
</tr>
<tr>
<td></td>
<td>Positive</td>
</tr>
<tr>
<td></td>
<td>Negative</td>
</tr>
<tr>
<td>Test Statistic</td>
<td></td>
</tr>
<tr>
<td>Asymp. Sig. (2-tailed)</td>
<td>.082&lt;sup&gt;c&lt;/sup&gt;</td>
</tr>
</tbody>
</table>

<sup>a</sup> Test distribution is Normal.
<sup>b</sup> Calculated from data.
<sup>c</sup> Lilliefors Significance Correction.

Sumber: data diolah, 2017

Table 5.4 above shows that the data has been normally distributed and the regression equation has fulfilled the results of normality.

Based on the normality test with a normal probability plot approach, the points spread quite close to the diagonal line. This indicates that the assumption of normality is fulfilled.
2. Autocorrelation Test

Table V.6.  
Test Results Autokorelasi Model Analisis 1 (Satu)

<table>
<thead>
<tr>
<th>Model</th>
<th>R</th>
<th>R Square</th>
<th>Adjusted R Square</th>
<th>Durbin-Watson</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>.593a</td>
<td>.351</td>
<td>.333</td>
<td>2.203</td>
</tr>
</tbody>
</table>

Predictors: (Constant), KMR, KOM_AUD, KO_IND, KEP_IN  
Dependent Variable: ML  
Sumber: data diolah, 2017  

Based on the table, it can be seen that autocorrelation does not occur. Autocorrelation Test Results Analysis Model 2 (Two)

Tabel V.7.  
Test Results Autokorelasi Model Analisis 2 (Dua)

<table>
<thead>
<tr>
<th>Model</th>
<th>R</th>
<th>R Square</th>
<th>Adjusted R Square</th>
<th>Durbin-Watson</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>.707a</td>
<td>.500</td>
<td>.468</td>
<td>2.221</td>
</tr>
</tbody>
</table>

Predictors: (Constant), KMR, KOM_AUD, KO_IND, KEP_INS  
Dependent Variable: ML  
Sumber: data diolah, 2017  

Based on the table, it can be seen that autocorrelation does not occur.

Research Hypothesis Testing

1. Hypothesis Testing 1 (Satu)

Table V.8.  
Koefisien Model Analisis 1 (Satu)

<table>
<thead>
<tr>
<th>Model</th>
<th>Unstandardized Coefficients</th>
<th>Std. Error</th>
</tr>
</thead>
<tbody>
<tr>
<td>(Constant)</td>
<td>.052</td>
<td>.090</td>
</tr>
<tr>
<td>KEP_INS</td>
<td>.003</td>
<td>.001</td>
</tr>
<tr>
<td>1 KO_IND</td>
<td>.423</td>
<td>.075</td>
</tr>
<tr>
<td>KOM_AUD</td>
<td>-.446</td>
<td>.159</td>
</tr>
<tr>
<td>KMR</td>
<td>-.040</td>
<td>.027</td>
</tr>
</tbody>
</table>

a. Dependent Variable: ML  
Sumber: data diolah, 2017  

The results of multiple regression analysis give the results of multiple regression analysis model coefficients for hypothesis 1 (one), to be as follows:  
\( Y = 0.052 + 0.003 X_1 + 0.423 X_2 - 0.446 X_3 - 0.040 X_4 \)  
it has a meaning if the value of the Institutional Ownership (X1), the Independent Board of Commissioners (X2), the Audit Committee (X3) and the Risk Management Committee (X4) is zero, then Management of Profit (Y) will increase by 0.052 units.
Determination Coefficient Test

### Table V.9.

<table>
<thead>
<tr>
<th>Model</th>
<th>R</th>
<th>R Square</th>
<th>Adjusted R Square</th>
<th>Std. Error of Estimate</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>.593a</td>
<td>.351</td>
<td>.333</td>
<td>.15116460</td>
</tr>
</tbody>
</table>

a. Predictors: (Constant), KMR, KOM_AUD, KO_IND, KEP_INS  
b. Dependent Variable: ML  
Sumber: data diolah, 2017

Based on Table 5.9 above, it can be seen that all independent variables show the ability to explain independent variables (Y) by 33.30%. Test F.

F Test Statistics are performed to test whether the independent variables simultaneously affect the non-independent variables with a 95% confidence level (α = 0.05). F test results of statistics on the analysis model 1 (one) in this study can be seen in the following table:

### Table V.10.

**Statistics F Test Results Analysis Model 1 (One)**  
ANOVA*

<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>1,793</td>
<td>4</td>
<td>.448</td>
<td>19,622</td>
<td>.000p</td>
</tr>
<tr>
<td>1 Residual</td>
<td>3,313</td>
<td>145</td>
<td>.023</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total</td>
<td>5,107</td>
<td>149</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

a. Dependent Variable: ML  
b. Predictors: (Constant), KMR, KOM_AUD, KO_IND, KEP_INS  
Sumber: data diolah, 2017

Based on the results of the regression output in Table 5.10, Institutional Ownership (X1), Independent Board of Commissioners (X2), Audit Committee (X3) and Risk Management Committee (X4) have an effect on Profit Management (Y)

**Statistics t test**

Statistical t-test is intended to examine the partial effect between independent variables on non-independent variables with the assumption that other variables are considered constant, with a 95% confidence level (α = 0.05). The results of the t test statistic model analysis 1 (one) in this study can be seen in the following table:

### Table V.11.

**Hasil Uji t Statistik Model Analisis 1 (Satu)**

<table>
<thead>
<tr>
<th>Model</th>
<th>Unstandardized Coefficients</th>
<th>Standardized Coefficients</th>
<th>t</th>
<th>Sig.</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>B</td>
<td>Std. Error</td>
<td>Beta</td>
<td></td>
</tr>
<tr>
<td>(Constant)</td>
<td>.052</td>
<td>.090</td>
<td></td>
<td>.575</td>
</tr>
<tr>
<td>KEP_INS</td>
<td>.003</td>
<td>.001</td>
<td>.268</td>
<td>3.670</td>
</tr>
<tr>
<td>1 KO_IND</td>
<td>.423</td>
<td>.075</td>
<td>.383</td>
<td>5.606</td>
</tr>
<tr>
<td>KOM_AUD</td>
<td>-.446</td>
<td>.159</td>
<td>-.201</td>
<td>-2.801</td>
</tr>
<tr>
<td>KMR</td>
<td>-.040</td>
<td>.027</td>
<td>-.101</td>
<td>-1.462</td>
</tr>
</tbody>
</table>

a. Dependent Variable: ML  
Sumber: data diolah, 2017
Based on the results of the regression output in Table 5.11, it can be seen partially the effect of the dependent variable is significant on the dependent variable.

**Hypothesis Testing 2 (Two)**

The analysis model in testing hypothesis 2 (two) in this study uses moderation regression analysis with the following formula:

\[
Y = a + b_1X_1 + b_2X_2 + b_3X_3 + b_4X_4 + b_5X_5 + b_6X_1X_5 + b_7X_2X_5 + b_8X_3X_5 + b_9X_4X_5 + e
\]

To clarify the results that make up the coefficient on the 2 (two) analysis model in this study, it can be seen in the following table:

**Table V.12. Koefisien Model Analisis 2 (Dua)**

<table>
<thead>
<tr>
<th>Model</th>
<th>Unstandardized Coefficients</th>
<th>Std. Error</th>
</tr>
</thead>
<tbody>
<tr>
<td>(Constant)</td>
<td>-0.096</td>
<td>0.607</td>
</tr>
<tr>
<td>KEP_INS</td>
<td>0.002</td>
<td>0.002</td>
</tr>
<tr>
<td>KO_IND</td>
<td>1.047</td>
<td>1.19</td>
</tr>
<tr>
<td>KOM_AUD</td>
<td>-0.347</td>
<td>0.399</td>
</tr>
<tr>
<td>KMR</td>
<td>-0.099</td>
<td>0.045</td>
</tr>
<tr>
<td>UK_PRSHN</td>
<td>-0.002</td>
<td>0.008</td>
</tr>
<tr>
<td>KI_UP</td>
<td>-0.007</td>
<td>0.072</td>
</tr>
<tr>
<td>KOMI_UP</td>
<td>-0.222</td>
<td>0.035</td>
</tr>
<tr>
<td>KA_UP</td>
<td>0.027</td>
<td>0.051</td>
</tr>
<tr>
<td>KMR_UP</td>
<td>0.176</td>
<td>0.192</td>
</tr>
</tbody>
</table>

a. Dependent Variable: ML

Sumber: data diolah, 2017

The results of the moderation regression analysis yield the coefficient of the moderation regression analysis model for the hypothesis 2 (two), to be as follows:

\[
Y = -0.096 + 0.002X_1 + 1.047X_2 - 0.347X_3 - 0.099X_4 + 0.002X_5
- 0.007X_1X_5 - 0.222X_2X_5 + 0.027X_3X_5 + 0.176X_4X_5
\]

From the results of the moderating regression analysis model equation in the 2 (two) hypothesis, each independent variable used in this study has an influence on Profit Management

**Determination Coefficient Test**

The coefficient of determination (adjusted $R^2$) is the number that shows the effect of the independent variables on the dependent variable. The results obtained from the analysis model 1 (one) can be seen in the following table:
Table V.13. Hasil Uji Koefisien Determinasi Model Analisis 2 (Dua)

<table>
<thead>
<tr>
<th>Model</th>
<th>R</th>
<th>R Square</th>
<th>Adjusted R Square</th>
<th>Std. Error of the Estimate</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>.707&lt;sup&gt;a&lt;/sup&gt;</td>
<td>.500</td>
<td>.468</td>
<td>.13501438</td>
</tr>
</tbody>
</table>

a. Predictors: (Constant), KMR_UP, KOM_AUD, KO_IND, KI_UP, UK_PRSHN, KMR, KEP_INS, KOMI_UP, KA_UP
b. Dependent Variable: ML

Sumber: data diolah, 2017

Based on Table 5.13 above, the Independent Board of Commissioners (X<sub>2</sub>), Audit Committee (X<sub>3</sub>) and Risk Management Committee (X<sub>4</sub>) as Moderating variables, show the ability to explain Profit Management variables (Y).

Statistics F Test

F Test Statistics are performed to test whether the independent variables simultaneously affect the non-independent variables with a 95% confidence level (α = 0.05). The F test results of statistics on the analysis model 2 (two) in this study can be seen in the following 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>2,555</td>
<td>9</td>
<td>.284</td>
<td>15,572</td>
<td>.000&lt;sup&gt;a&lt;/sup&gt;</td>
</tr>
<tr>
<td>1 Residual</td>
<td>2,552</td>
<td>140</td>
<td>.018</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total</td>
<td>5,107</td>
<td>149</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

a. Dependent Variable: ML
b. Predictors: (Constant), KMR_UP, KOM_AUD, KO_IND, KI_UP, UK_PRSHN, KMR, KEP_INS, KOMI_UP, KA_UP

From Table 5.14 the Independent Commissioners (X<sub>2</sub>), the Audit Committee (X<sub>3</sub>) and the Risk Management Committee (X<sub>4</sub>) and Company Size (X<sub>5</sub>) as the moderating variables simultaneously or simultaneously have a significant influence on Profit Management (Y).

DISCUSSION

Simultaneous Influence of Good Corporate Governance Mechanisms (Institutional Ownership, Independent Board of Commissioners, Audit Committee and Risk Management Committee) on Profit Management

The alternative hypothesis 1 (one) explains that earnings management that occurs in real estate and property companies for the period 2010 - 2015 is influenced by the existence of a Good Corporate Governance Mechanism consisting of Institutional Ownership, Independent Board of Commissioners, Audit Committee and Risk Management Committee.

The results of this study are also in line with the results obtained in the research Widyastuti (2007), Setiawan (2009), Husni and Surya (2011), Ratnaningsih and Hidayati (2012) and Asward and Lina (2015).

Partial Influence of Institutional Ownership on Earnings Management

Berdasarkan hasil yang diperoleh bahwa manajemen laba yang terjadi pada perusahaan real estate dan property untuk periode waktu 2010 - 2015 dipengaruhi oleh adanya
Mekanisme Based on the results obtained that earnings management that occurs in real estate and property companies for the period of 2010 - 2015 is influenced by the existence of the Good Corporate Governance Mechanism. These results are in line with the results obtained by Widyastuti (2007) which shows that institutional ownership variables have a significant effect on earnings management which is proxied by discretionary accruals with the direction of negative coefficients. This result is in line with the results of Asward and Lina's research (2015) and Setiawan (2009).

**Partial Influence of the Independent Board of Commissioners on Earnings Management**

Based on the results obtained that the significance value $t$ in the analysis model 1 (one) for the Independent Board of Commissioners variable is smaller than $\alpha = 0.05$ (5%). This result is in line with the results of Husni and Surya's (2011) study which examined the effect of the existence of independent commissioners on earnings management in companies which showed that there was a significant influence between the existence of independent commissioners and earnings management.

**Partial Influence of the Audit Committee on Earnings Management**

Based on the results obtained from the Statistical Test $t$ in the analysis model 1 (one) shows that the significance value of $t$ in the analysis model 1 (one) for the Audit Committee variable is smaller than $\alpha = 0.05$ (5%). This also explains that the earnings management that occurs in real estate and property companies for the period of 2010 - 2015 is influenced by the existence of the Good Corporate Governance Mechanism. This result is in line with the results of research conducted by Setiawan (2009) which proves that there is an influence between the audit committee and earnings management. Similar results were also obtained in the research of Husni and Surya (2011) which stated that the existence of an audit committee in a company affects earnings management in the company.

**Partial Influence of the Risk Management Committee on Profit Management**

Based on the results obtained from the t-Test Statistics on the analysis model 1 (one) shows that the earnings management that occurs in real estate and property companies for the period of 2010 - 2015 is influenced by the Good Corporate Governance Mechanism. This result is in line with the results of Restuningdiah's (2011) study which shows that there is no influence of the Risk Management Committee on earnings management practices in companies. However, these results are not in line with the results of Djatu's (2013) study which states that the Risk Management Committee has a significant negative effect on earnings management.

**Effect of Institutional Ownership, Independent Board of Commissioners, Committee, Audit of Risk Management Committee with Company Size as Moderating Variables to Profit Management**

Based on the results obtained from Test F explain empirically about the things presented by Sawir (2005), where the size of the company as a determinant of the financial structure in almost every study for different reasons. With the selection of total assets as a proxy for the size of the company, also provides an explanation of the meaning of the results of the research submitted by Hilmi and Ali (2008), where the greater the assets of a company, the greater the invested capital, the greater the total sales of a company so there will also be more money turnover and the greater the market capitalization, the greater the company will be known by the public.
CONCLUSIONS AND RECOMMENDATIONS

After analyzing based on the results of this study, the researcher can conclude, as follows:

1. Institutional Ownership and Independent Board of Commissioners have a positive and significant effect on Profit Management in real estate and property companies listed on the Indonesia Stock Exchange for 2010-2015, while the Audit Committee has a negative and significant effect. However, only the Risk Management Committee has a negative and insignificant influence on Profit Management in real estate and property companies listed on the Indonesia Stock Exchange during this period.

2. company size variables can moderate (weaken) significant influence on the occurrence of profit management actions in the company. This is said to weaken based on the regression coefficient (β) of the variables moderated by the size of the company, where the regression coefficient (β) is negative (Institutional Ownership and Independent Board of Commissioners)> of the positive coefficient regression (β) (Audit Committee and the Risk Management Committee).

Limitations

This research is inseparable from the limitations that require improvement and development in subsequent studies. The limitations of this study are:

1. The value of the elements of the Good Corporate Governance Mechanism in property and real estate companies in the Indonesia Stock Exchange is very varied, so this is of particular concern to potential investors and investors for companies listed on the Indonesia Stock Exchange.

2. The model in this study only revealed 33.30% of the influence of the variables studied on company earnings management, while 66.70% was the influence of other variables not used in this study.

Suggestion

Based on the limitations of the research above the author proposes the following suggestions:

1. The company should pay more attention to the value of the elements of the Good Corporate Governance Mechanism, especially in property and real estate companies in the Indonesia Stock Exchange, which have very varied values.

2. In future research, future researchers are expected to develop other variables outside the Good Corporate Governance Mechanism as independent variables, for matters that affect Profit Management.

REFERENSI


