

Good Corporate Governance Mechanism For-Profit Management of Automotive Indonesia Company

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Abstract: *The research aims to detect the causes of the rise of Indonesian automotive companies' profit management, one reason for the weak implementation of Good corporate governance (GCG). Companies that do not apply mcg principles consistently hurt the company's survival. Analysis using 2TLS, time-series data for the period 2015-2019. The results prove a significant influence of the independent board of commissioners, audit committees, institutional ownership, managerial ownership, financial ratios, and the size of the company. Independent panel of commissioners, audit committee, institutional ownership, managerial ownership, economical to profit management ratio.*

Keywords: *profit management, GCG, company size, financial ratio*

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I. Introduction

The current state of the economy is very shaken due to the threat of the Covid 19 pandemic, which makes changes to the business environment that ultimately encourage companies to enhance innovations in their products further so that companies can ensure their competitiveness and market position (Calantone et al., 2006; Anderson et al., 2014). Product development's success depends heavily on the formulation and implementation of several key product improvement strategies. Based on the difference in money between exploitative learning and exploratory learning. (Murthy et al., 2008; Fairlie and Muller, 2003). Financial ratios are often used by companies to classify economic structures, looking for different financial structure profiles, performance, or difficulty. (Willardo Prado et al., 2016)

Some phenomena regarding profit management occur in some large companies. Managers have the authority to increase profits to affect the company's profits (Kolsi & Grassa, 2017). Inappropriate corporate governance can cause corporate problems (D'Cruz, 1999; Typical, 2002). There are an effective monitoring and accountability system for corporate governance minimizing agency problems (Epps & Ismail, 2009).

Discussion of GCG and managerial options as essential topics to discuss. The company's GCG practices have a relationship with corporate size and profit management (Johl, Khan, Subramaniam, & Muttakin, 2016), companies with effective governance systems improving managerial efficiency (Audousset-Coulter, Jeny, & Jiang, 2016).

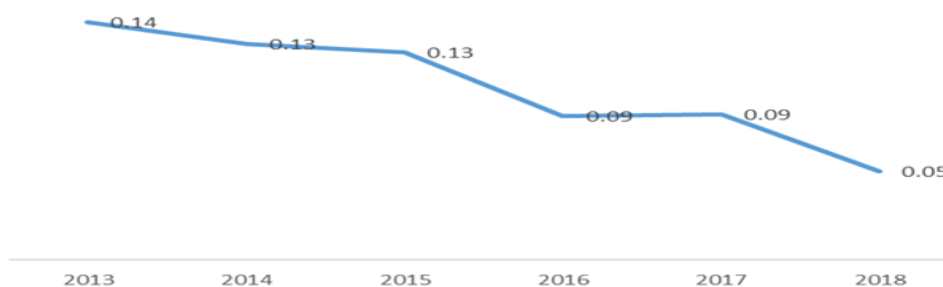
Several studies in developed and developing countries examined corporate governance and profit management (Core, Guay, & Rusticus, 2006, Sami, Wang, & Zhou, 2011), but all the results are still inconsistent. The results show a relationship between corporate governance and profit management (Gompers, Ishii, & Metrick, 2003; Cremers and Nair, 2005, Bebchuk, Cohen, & Ferrell, 2009). On the contrary, there is no evidence of a link between corporate governance and profit management (Yermack, 1996, Lehn, Patro, & Zhao, 2007). However, Gompers et al. (2003) and Cornett, Mcnutt, and Tehranian (2009) said the relationship between corporate governance and profit management was solid.

Examples of the phenomenon of profit management practices have occurred in recent times. Profits of the Japanese automotive giant Toyota fell for the first time in five years. Toyota sold more cars in the first quarter of 2017 compared to the same period in 2016. Toyota acknowledged that the fall in profits was due to high costs and exchange rate fluctuations. Toyota's profit in the first quarter of 2017 stood at 1.83 trillion yen or 16.1 billion U.S. dollars. That figure was down 21 percent compared to a profit in the first quarter of 2016. Toyota's management has also warned that earnings in 2018 will be lower. This is due to the strengthening exchange rate of the Japanese yen. Toyota's prediction is based on projections that the yen exchange rate will be around the level of 105 per U.S. dollar until March 2018. That level is down from 108 last financial year. Toyota has lost its status as the highest-selling automaker. German car manufacturer Volkswagen now holds this status.

Toyota sold 10.25 million units of cars in the first quarter of 2017, higher than 10.19 million units in the same period a year earlier. However, revenue from car sales in the first quarter of 2017 fell to 27.6 trillion yen. Toyota is in the midst of a struggle to maintain its business in the United States, its largest market. Sales plummeted in North America as Toyota struggled to meet the demand for larger cars, such as sport-utility vehicles (SUVs) that became cheaper to drive due to lower fuel prices.

Also, in P.T. Garuda Indonesia, it turns out that since June 2015, P.T. Garuda Indonesia's finances have been manipulated. Pt. Garuda Indonesia (persero) is suspected of making changes in financial statements to look healthy. This alleged change is visible from a conversational copy of a Whatsapp group (read: W.A.). In the composition of the conversation, it is evident that the board of directors or Board Of Directors (BOD) gave orders to the head of the unit and the head of the accounting section of P.T. Garuda Indonesia to reverse all debt payments. This regression is intended to make financial statements useful. In the first order, the finance director commissioned to identify non-routine expenses in June 2015, to be revised further on July 6 or August 2015. But this way on condition does not occasionally interfere significantly. Furthermore, if a debt relief agreement has been agreed primarily in the form of a contract, it could be revised to be re-signed and will be useful in July or August. Here it is not just payment negotiations but the effectiveness of the agreement and the transaction. At the end of the conversation, factual statements were said in W.A. All employees assigned the order do not carry it out; it will get a harsh rebuke from the board of directors. (www. Energyworld. Co.id) The warmest phenomenon is that the automotive sector is predicted to be flat in 2018.

In financial statements, one of the crucial things in the examination of a company's finances is the financial ratio, which by using these ratios can help investors or stakeholders to know the company's finances in assessing a company's performance based on the comparison of financial data contained in the post-financial statements (balance sheet, profit/loss report, cash flow statement). An actual ratio definition is simply a tool stated in "arithmetic terms" that can be used to explain the relationship between two kinds of financial data.



Source : (www.bei.co.id) 2020

Figure 1. Automotive Corporate Profit Management

The average profit management at automotive companies listed on the Indonesia Stock Exchange in 2013-2018 moved slightly based on the above data. There was an increase. This illustrates that the company can cope with profit management by the manager of the automotive company. Earnings management will affect financial information by the wishes of the person recording the transaction and compiling the financial statements by distorting the data of the accrual components in the financial statements. Accrued parts are not accompanied by cash received or issued by the company, so it will be easy to play a small number of accrual components.

Based on the above data, the company's average size in the automotive company listed on the Indonesia Stock Exchange in 2013-2018 moves slightly. There is an increase. This illustrates that the company's size represents the company's small size indicated on the total assets, sales, the average total purchases, and the average sales (Riyanto, 2011: 305). Sirait and Yasa (2015) and Asward and Lina (2015) conducted some previous research on corporate governance towards profit management. The study is inversely proportional to research conducted by Karuniasih (2013) and Sihwahjoeni (2015), which stated that: Good corporate governance has a significant impact on profit management.

II. HEADING

1. Agency Theory

As a human being, the manager will act opportunistically because it is man's nature, namely putting his interests first. The manager will maximize his gain. Agency theory where there is a separation between the agent and the principal resulting in the emergence of potential conflicts, affecting the quality of the reported profit. For its purposes and not for the benefit of the principal, management will tend to compile reports. Therefore, to align the differences of interest between the two parties, a control mechanism is required: corporate governance. In

line with this, the corporate governance mechanism is also a concept that can give confidence to principals as owners and investors to receive returns on the capital they invested in Sulistyanto 2008).

2. Profit Management

Profit management is an attempt by the company manager to influence the information in financial statements to trick stakeholders who want to know the performance and condition of the company" Sulistyanto (, 2008: 52). Managers behave opportunistically in line with the grouping of three main hypotheses in positive accounting theory that form the basis for developing hypothesis testing to detect profit management (Watts and Zimmerman in Sulistyanto, 2008: 55).

3. Good Corporate Governance

Agency theory is the basis used to understand good corporate governance. Agency theory is a relationship based on contracts between the company's members, namely between the owner and the agent as the main culprit. Agency theory results in an asymmetrical relationship between the owner and the manager. To avoid the asymmetric relationship being required, an excellent corporate governance concept aims to make the company healthy. (Jensen & Meckling, 1976 in Ujjiyantho & Scouts, 2007).

The concept of good corporate governance refers to the theory of agency. Agency theory, due to the separation between ownership and management of a company can cause agency problems in the form of conflicts or conflicts of interest" (Shahyunan, 2015: 7).

Good corporate governance is a system built to direct and control the company to create a good, fair, and transparent relationship between various relevant parties and have stakeholders in the company (Maksum 2005: 58).

Good corporate governance is a set of rules that formulate relationships between shareholders, managers, creditors, governments, employees, and other interested parties concerning their rights and responsibilities both internally and externally (Cadbury Committee in Tjager 2013: 27).

The Organization for Economic Cooperation and Development (OECD) defines corporate governance as "a structure by which shareholders, commissioners, and managers draw up the company's goals and means to achieve those goals and oversee performance" (Tjager 2003:28).

Financial ratio

The ratio is one number compared to another as a relationship (Harvarindo 2010:12). A rate is a number described in a pattern compared to other ways and expressed in percentage (Jonathan Golin, 2001). At the same time, finance is related to accounting, such as financial management and financial statements. So the financial ratio is an index that connects two accounting numbers and is obtained by dividing one number by another (James c Van Horne quoted from Cashmere, 2008:104).The purpose of financial ratio analysis is intended so that the comparisons made to the posts in the financial statements are a logical comparison, using specific measures that have been recognized to have particular benefits. The results of the analysis deserve to be used as a decision-making guideline.

III. Indentations And Equations

This research approach is quantitative descriptive with the support of simultaneous regression models. The criteria specified by the author are: The automotive company publishes its financial statements in full and does not delist during the period 2013-2019. Based on these criteria, a large sample of 12 companies is shown in the following table.

Table 1. Automotive Company Samples

No.	Nama Perusahaan	code	Criteria	
			criteria 1	criteria2
1.	Astra International Tbk	ASCII	✓	✓
2.	Astra Otoparts Tbk	AUTO	✓	✓
3.	Indo Kordsa Tbk d.h. Branta Mulia Tbk	BRAM	✓	✓
4.	Goodyear Indonesia Tbk	GDYR	✓	✓
5.	Gajah Tunggal Tbk	GJTL	✓	✓
6.	Indomobil Sukses International Tbk	IMAS	✓	✓
7.	Indospring Tbk	INDS	✓	✓
8.	Multi Prima Sejahtera Tbk d.h. Lippo Enterprises Tbk	LPIN	✓	✓
9.	Multi strada Arah Sarana Tbk	MASA	✓	✓
10.	Nipress Tbk	NIPS	✓	✓
11.	Prima Alloy Steel Universal Tbk	PRAS	✓	✓
12.	Selamat Sempurna Tbk	SMSM	✓	✓

Source: www.bei.co.id, 2020

The formula used is as follows:

Equation 1:

$$Y1 = a + b1X1 + b2X2 + b3X3 + b4X4 + e$$

Equation 2 :

$$Y2 = a + b1X1 + b2X2 + b3X3 + b4X4 + e$$

Equation 3 :

$$Y2 = a + b3Y1 + e$$

Description:

Y2 = Profit Management

a = Intercept

b1, ... b2 = Regression coefficient

X1 = Independent Board of Commissioners

X2 = Audit Committee

X3 = Institutional Ownership

X4 = Managerial Ownership

Y1 = Company Size

IV. Figures And Tables

An independent board of commissioners is a comparison between the number of independent commissioners and corporate commissioners. In this study, the highest independent board of commissioners in 6 years from 2013 to 2018 was P.T. Selamat Sempurna, Tbk (SMSM) by 1. This leads to the fact that the company's independent commissioners are close to equal to the number of corporate commissioners. The lowest independent board of commissioners in 6 years from 2013 to 2018 is Multi Prima Sejahtera Tbk d.h. Lippo Enterprises Tbk (LPIN) of 0.25 amounts to 30% of the company's total commissioners.

Table 2. Descriptive Statistics

	DKI	KA	KI	KM	ROA	ROE	TA	NPM	GPM	ML	UP
Mean	0.385	0.839	33.28	66.72	4.48	3.96	26837.56	6.36	52.15	0.106	13.41
Median	0.330	1.000	39.44	60.56	2.18	1.65	21965.00	3.03	17.73	0.010	13.53
Maximum	1.000	3.000	81.71	94.02	71.60	82.94	96543.00	186.48	1998.00	0.903	18.65
Minimum	0.250	0.364	5.98	18.29	-13.40	-124.12	1718.00	-45.18	7.46	0.010	7.45
Std. Dev.	0.117	0.469	20.99	20.99	10.29	20.44	20547.32	23.88	238.94	0.225	2.95
Skewness	2.998	2.742	0.38	-0.38	4.22	-2.54	1.53	6.02	7.82	2.287	-0.09
Kurtosis	13.849	13.383	2.39	2.39	27.07	25.85	4.76	47.28	63.81	6.717	2.45
Jarque-Bera	454.574	407.932	2.84	2.84	1924.75	1620.72	36.81	6228.36	11662.70	102.753	1.00
Probability	0.000	0.000	0.24	0.24	0.00	0.00	0.00	0.00	0.00	0.000	0.61
Sum	27.331	59.578	2362.67	4737.33	318.12	281.09	1905467.00	451.33	3702.90	7.500	951.93
Sum Sq. Dev.	1	15	30828	30828	7406	29254	29600000000	39928	3996312	4	607
Observations	71.000	71.000	71.000	71.000	71.000	71.000	71.000	71.000	71.000	71.000	71.000

Source: Output Eviews 10

Profit management attempts to influence the information in financial statements to trick stakeholders who want to know the company's performance and condition. In this study, all profit management levels are at 0; even some are below 0. This indicates that there is no attempt by the company manager to influence the information in the financial statements to trick stakeholders who want to know the company's performance and condition. Estimates to determine the influence of variables in 2 simultaneous equations are carried out using the Weighted Least Squares model. The estimated results of the equation system with Weighted Least Squares are shown in the equation below.

Profit Management Equation

$$\text{LOG(ML)} = C(10) + (11) * \text{LOG(DKI)} + C(12) * \text{LOG(KA)} + C(13) * \text{LOG(KI)} + (14) * \text{LOG(KM)} + C(15) * \text{LOG(GPM)} + C(16) * \text{LOG(NPM)} + C(17) * \text{LOG(ROA)} + C(18) * \text{LOG(ROE)}$$

Company Size Equation

$$\text{LOG(UP)} = C(20) + (21) * \text{LOG(DKI)} + C(22) * \text{LOG(KA)} + C(23) * \text{LOG(KI)} + C(24) * \text{LOG(KM)} + C(25) * \text{LOG(GPM)} + C(26) * \text{LOG(NPM)} + C(27) * \text{LOG(ROA)} + C(28) * \text{LOG(ROE)}$$

System: SIMULTAN
 Estimation Method: Weighted Least Squares
 Date: 10/13/20 Time: 15:06
 Sample: 1 71
 Included observations: 71
 Total system (balanced) observations 142
 Linear estimation after one-step weighting matrix

	Coefficient	Std. Error	t-Statistic	Prob.
C(10)	-2.471529	4.828049	-0.511911	0.6096
C(11)	1.638348	0.692326	2.366439	0.0195
C(12)	-2.009446	0.358647	-5.602846	0.0000
C(13)	0.168256	0.372781	0.451353	0.6525
C(14)	0.064890	0.867982	0.074760	0.9405
C(15)	-0.425782	0.201949	-2.108363	0.0370
C(16)	-0.015322	0.016827	-0.910610	0.3643
C(17)	0.051698	0.042743	1.209515	0.2288
C(18)	0.002563	0.012915	0.198469	0.8430
C(20)	1.077522	0.592629	1.818206	0.0714
C(21)	-0.277795	0.084981	-3.268908	0.0014
C(22)	0.072517	0.044023	1.647248	0.1020
C(23)	0.050780	0.045758	1.109762	0.2692
C(24)	0.329948	0.106542	3.096869	0.0024
C(25)	-0.075892	0.024789	-3.061572	0.0027
C(26)	0.013554	0.002065	6.562458	0.0000
C(27)	-0.031085	0.005247	-5.924956	0.0000
C(28)	-0.002672	0.001585	-1.685151	0.0945
Determinant residual covariance		0.025930		

Equation: LOG(ML)=C(10)+C(11)*LOG(DKI)+C(12)*LOG(KA)+C(13)
 *LOG(KI)+ C(14)*LOG(KM)+C(15)*LOG(GPM)+C(16)*(NPM)+C(17)
 (ROA)+C(18)(ROE)

Observations: 71

R-squared	0.350944	Mean dependent var	-3.825895
Adjusted R-squared	0.267195	S.D. dependent var	1.502695
S.E. of regression	1.286368	Sum squared resid	102.5940
Durbin-Watson stat	0.495680		

Equation: LOG(UP)=C(20)+C(21)*LOG(DKI)+C(22)*LOG(KA)+C(23)
 *LOG(KI)+ C(24)*LOG(KM)+C(25)*LOG(GPM)+C(26)*(NPM)+C(27)
 (ROA)+C(28)(ROE)

Observations: 71

R-squared	0.597219	Mean dependent var	2.570072
Adjusted R-squared	0.545248	S.D. dependent var	0.234147
S.E. of regression	0.157898	Sum squared resid	1.545770
Durbin-Watson stat	0.647499		

Equation test results 1 :

The first equation is an equation used to know simultaneously against output (ML) with the following equations:

$$\text{LOG(ML)} = \text{C(10)} + \text{C(11)} * \text{LOG(DKI)} + \text{C(12)} * \text{LOG(KA)} + \text{C(13)} * \text{LOG(KI)} + \text{C(14)} * \text{LOG(KM)} + \text{C(15)} * \text{LOG(GPM)} + \text{C(16)} * (\text{NPM}) + \text{C(17)} * (\text{ROA}) + \text{C(18)} * (\text{ROE})$$

Based on these equations, the output results of reviews with the Weighted Least Squares model are as follows:

$$\begin{aligned} \text{LOG(ML)} = & -2.47152894369 + 1.63834776328 * \text{LOG(DKI)} \\ & 2.00944585949 * \text{LOG(KA)} + 0.16825550748 * \text{LOG(KI)} + 0.0648900426898 * \text{LOG(K)} \\ & 0.425781653312 * \text{LOG(GPM)} \\ & 0.015322425999 * (\text{NPM}) + 0.0516978230079 * (\text{ROA}) + 0.00256330526278 * (\text{ROE}) \end{aligned}$$

Based on the above estimates, results can show that $R^2 = 0.597219$, which means that the Independent Board of Commissioners, Audit Committee, Management Ownership, Size of the Company, can affect profit management.

Equation test results 2 :

The second equation is an equation used to know simultaneously the Output (UP) and variables with the following equations:

$$\begin{aligned} \text{LOG(UP)} = & 1.07752219166 - \\ & 0.277795297055 * \text{LOG(DKI)} + 0.0725167107264 * \text{LOG(K.A.)} \\ & + 0.050780229788 * \text{LOG(KI)} + 0.329947553298 * \text{LOG(KM)} \\ & 0.0758922553408 * \text{LOG(GPM)} \\ & + 0.0135541716505 * (\text{NPM}) - 0.0310854805119 * (\text{ROA}) - 0.00267151778114 * (\text{ROE}) \end{aligned}$$

The results of this study show that the independent board of commissioners has a significant influence on the company's size. The results of this study are consistent with the research of Sihwahjoeni (2015), Rustiarini (2012), and Merawati (2013), which found that the variables of the independent board of commissioners statistically affect the size of the company. Much of the board of commissioners is also viewed from the size of the company. The results of this study show that the audit committee has a significant impact on profit management. This indicates that the audit committee is the party responsible to the board of commissioners to help carry out the board's duties and functions—Commissioner in terms of corporate accounting policy, internal oversight, and financial reporting system. Regarding profit management, companies with audit committees can minimize fraud committed by managers through the financial reporting system's supervisory function.

The results of this study show that institutional ownership has a significant effect on profit management. The results of this study are consistent with Gunawan (2015), Agustia (2013), and Wahyono (2012) studies that show that institutional ownership does not affect profit management. The results of this study show that managerial ownership has a significant effect on profit management. The results of this study are in line with the research of Gunawan (2015), Agustia (2013), and Wahyono (2012), which showed that institutional ownership does not affect profit management.

This study shows that the size of the company has a significant effect on profit management. The results of this study are consistent with the research of Sihwahjoeni (2015), Rustiarini (2012), and Merawati (2013), which found that the company's size variables statistically affect profit management. Larger companies have a more significant push to flatten profits (one form of profit management) than smaller companies because they have higher political costs. The results of this study show that the independent board of commissioners has a significant influence on the company's size. The results of this study are consistent with the research of Sihwahjoeni (2015), Rustiarini (2012), and Merawati (2013), which found that the variables of the independent board of commissioners statistically affect the size of the company. Much of the board of commissioners is also viewed from the size of the company.

The results of this study show that the audit committee has a significant effect on the company's size. The results of this study are consistent with the research of Sihwahjoeni (2015), Rustiarini (2012), and Merawati (2013), which found that the variables of the audit committee statistically affect the size of the company. The size of the company also views many audit committees. Large companies usually have more audit committees than medium and small companies. The audit committee's existence is expected to be more effective in supervising the management according to the size of the company.

The results of this study show that institutional ownership has a significant effect on the company's size. The results of this study are consistent with the reviews of Sihwahjoeni (2015), Rustiarini (2012), and Merawati (2013), which found that institutional ownership variables statistically affect the size of the company. Much of the institutional ownership is also seen in the size of the company. Large companies usually have more institutional rights than medium and small companies. The existence of institutional ownership is expected to be more effective in supervising the management according to its size. The results of this study show that managerial ownership has a significant effect on the company's size. The results of this study are consistent with the reviews of Sihwahjoeni (2015), Rustiarini (2012), and Merawati (2013), which found that managerial ownership variables statistically affect the size of the company. Much of the notable managerial ownership is also seen from the size of the company. Large companies usually have more managerial rights than medium and small companies. The existence of managerial ownership is expected to be more effective in supervising the management according to the company's size. This study shows that the independent board of commissioners has no significant effect on profit management. This study's results are consistent with the results of Asward and Lina's research (2015) and Sirait and Yasa (2015), which revealed that the composition of the independent board of commissioners statistically negatively affects profit management.

The results of this study show that the audit committee has a significant impact on profit management. This indicates that the audit committee is the party responsible to the board of commissioners to help carry out

the board's duties and functions—Commissioner in terms of corporate accounting policy, internal oversight, and financial reporting system. Regarding profit management, companies with audit committees can minimize fraud committed by managers through the financial reporting system's supervisory function. The results of this study show that institutional ownership has a significant effect on profit management. The results of this study are consistent with Gunawan (2015), Agustia (2013), and Wahyono (2012) studies that show that institutional ownership does not affect profit management. The results of this study show that managerial ownership has a significant effect on profit management. The results of this study are in line with the research of Gunawan (2015), Agustia (2013), and Wahyono (2012), which showed that institutional ownership does not affect profit management. This study shows that the size of the company has a significant effect on profit management. The results of this study are consistent with the research of Sihwahjoeni (2015), Rustiarini (2012), and Merawati (2013), which found that the company's size variables statistically affect profit management. Larger companies have a more significant push to flatten profits (one form of profit management) than smaller companies because they have higher political costs.

V. Conclusion

Based on the analysis of the data and discussion on the results of this study, it can be concluded: The results of the study prove there is a significant influence of the independent board of commissioners on the size of the company. Results demonstrate a significant impact of the independent commission of commissioners, audit committees, institutional ownership, managerial ownership, financial ratios, and the company's size. Independent panel of commissioners, audit committee, institutional ownership, managerial ownership, economical to profit management ratio.

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