# Leverage, profitability, corporate governance mecanism and earning management: cases in manufacturing company in Indonesia Stock Exchange

Novria Prawida, Sutrisno*

Department of Management, Faculty of Economics, Universitas Islam Indonesia, Yogyakarta

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**Corresponding author:**
sutrisno@uii.ac.id

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**Abstract**

Earnings management is a form of manager manipulation in company external financial report in aim for individual profit. This research aim to analyze leverage efek, profitability, the amount of commissioner board and audit committee towards earnings management in bank that registered in BEI 2016-2017. This research is quantitative research and the sample conducted with purposive sampling method. This research apply secondary resource data from annual financial report of registered bank in BEI 2016-2017. There are 32 bank that fulfill criteria that researcher submit. This research apply multiple linier regression analysis method using IBM SPSS program. The results shows that leverage (DAR) has positive significant effect towards earnings management, profitability (ROA) doesn't have significant effect towards earnings management, amount of commissioner board (BS) and audit committee (KA) doesn't have significant effect toward earnings management.

## Introduction

In a company that has been up and running, financial statements are necessary in order to ensure company performance and conditions that occur in the company. The financial report according to Sutrisno (2003) is a form of the final result of the accounting process in which there are at least two main reports, namely (1) the balance sheet and (2) the profit and loss report. The purpose of making financial reports is to provide company financial information to parties who have needs or interests that can be used as material for consideration in the decision-making process. Financial reports are prepared by the company on the basis of a sense of responsibility they have to all stakeholders associated with the company.

This form of sense of responsibility to stakeholders is sometimes used by several parties who are not the main owners of the company in order to gain profits as a means to enrich themselves. In this case, the management manages the profits according to his wishes with the intention that he will get the profit from these activities. This behavior by management in manipulating or managing earnings is known as earnings management.

Earnings management according to Saraswati (2015) is an activity carried out by the management of a company in order to increase or decrease the amount of profit based on the wishes of individuals or groups. This unfavorable activity is not only detrimental to the internal parties of the company, of course, the level of credibility of the financial statements that he issued has been asked, but also external parties who can also be harmed due to manipulation of the company's financial report earnings. External parties who use a company's financial statements as a step have been manipulated or have wrong content. Here the view or image of the wider community towards a company can be bad, where when the decision has been taken by an external party in the context of investment and it turns out that the results obtained are far different from the initial expectations, there is a result of decision making errors resulting from the contents of the report. wrong finances. This issue should be the concentration of the company's thoughts because of the abuse of authority by the company management.

There are several factors that can encourage earnings management practices, including leverage, level of profitability, financial distresss, quality of the board of commissioners, number of audit committees, company size, quality of the board of directors and so on. Some of these factors, either directly or indirectly, will have an impact on the level of a company's earnings management practice. From several factors, it could lead to the manager's thinking which could lead to earnings management practices, where from his actions in manipulating the things above, it could have an impact on the bonuses and benefits he could get.

There are many strategies that the company undertakes in running its business, one of which is the use of leverage, where the use of sources of funds from debt on the one hand has a good impact on the company but also has an adverse impact on the company. When a company uses a little debt in the company's operational activities, it will certainly bring the perception or view of the wider community to the view that the company is in good shape because it uses little debt, therefore it could be that managers in order to maintain public views regarding the condition of the company as seen from the level of use of debt company.

According to Agustia and Suryani (2018), it is explained that leverage is a ratio used in assessing the amount of company assets that are financed using debt. Where companies that have many assets that are financed from the use of debt tend to carry out activities to increase the amount of profit, where this occurs because of the result of high interest expenses.

If it is referred to from the theoretical understanding above regarding leverage, logically if a company has a little debt then it is considered that the company is in good condition and vice versa when the company has or most of its sources of funds come from debt, it will be considered that the company's condition is not good. From the logic of thinking above, it is possible for managers to manipulate financial statements in order to maintain the condition and image of the company in the eyes of investors.

According to research conducted by Wirawati (2018), it was found that leverage has a negative effect on earnings management where when the level of leverage in a company is high, earnings management practices will be low, whereas according to research conducted by Asitalia (2017) and Agustia (2018) it was found conflicting results where leverage has a positive effect on a firm's earnings management. The three studies have different results or conclusions. Several previous studies whose results have been briefly described above can be seen that there is a conflict which is seen from the different research results between the two even though the variables used are the same.

All companies that are established certainly want their company to run well and continue to grow and develop from time to time. The growth of a company is followed by an increase in the number of sales, the emergence of a good image about the company, increased profits, and the company's assets are getting bigger and bigger. One of them is the profit or profitability which is expected with the increasing age of the company, it is also followed by an increase in the level of profit that a company can create. When the company has a high level of profitability, it will be seen that the condition of the company is in good condition and the level of sales continues to increase.

According to Rezeki (2015) profitability is the ability of a company to get a certain amount of profit (profit) in a certain period. The same understanding is conveyed by Eugene and Houston (2006) where profitability is a form of the end result of several policies and a decision made by a company. The two meanings above can represent an understanding of profitability itself, where when a company has a high level of profitability it will be followed by a high level of profit or income.

Profitability in a company is also a special concern in the eyes of investors. Investors as parties who have funds to be invested in a company will certainly invest their funds in a company which they think will generate huge profits for investors. Therefore, before investing their funds in a company, investors should first look at the financial statements of a company and see the company's profitability growth rate from time to time. When a company's profitability is high, the company will be seen as in good condition, on the other hand, when the company's profitability decreases, it will be viewed as unfavorable. Of course, when the company has a high level of funding from investors, it is very possible for the manager to get a bonus because of his good performance so that it can be seen that the company's financial statements show a high or good level of profitability. This matter could encourage managers to practice earnings management.

According to research conducted by Aljana (2017) and Rezeki (2015), it is found that profitability has a positive effect on earnings management. Meanwhile, it is different from the research conducted by Widyaningrum, et al. (2018) where the results of the study stated that profitability has a negative effect on earnings management. From previous research, there are still differences in the results or conclusions that occur related to the effect of profitability and earnings management.

Report (1999) explains in a section quoted in Effendi's book (2016), he explains that corporate governance is a tool that companies can use in managing risks that will arise in order to protect the assets owned by the company as well as a guarantee given by the company to be able to increase the level. investment in shareholders. The practice of Good Corporate Governance (GCG) emphasizes five main aspects that must be based on each, namely Transparency, Accountability, Responsibility, Independency, and Fairness. These five main aspects are expected to work together with all activities in a company without exception. One of them is a banking company, which is a company that must be professional in its performance.

The government as the maker of laws and regulations has also made efforts to create regulations that are useful for companies so that the company's operational activities can be better, namely by issuing regulations regarding the implementation of good corporate governance mechanisms in BUMN companies. As regulated in Article 1 paragraph 1, Regulation of the Minister of State for SOEs No. PER-01 / MBU 2011 dated 1 August 2011 regarding the Implementation of Good Corporate Governance in SOEs, states that the implementation of good corporate governance by applying the principles firmly held by the company starts from the processes and management mechanisms in accordance with the regulations and ethics in business. BUMN companies (state-owned companies) have clearly been subject to the obligation to implement a work system based on the principles of Good Corporate Governance in an effort to create a company that is getting better in quality and the quality of its company with good supervision from competent parties.

Supervision within the company has become something that needs to be done, where there needs to be attention related to what has been done with what is planned. It is expected that the supervision carried out in a company can align the expectations the company expects with the realities that occur in the activities of a company. The form of supervision carried out by a company can be carried out in various ways, such as by checking, involving the role of the board of commissioners, presenting an audit committee, and so on. These things are done not in order to pressure employees but in order to ensure that the work of each employee supports what will be achieved or the goals of the company, so that with good performance, the company's goals can be achieved properly.

The presence of the board of commissioners in a company is expected to be able to carry out the supervisory function properly to company managers. If the determination of the number of boards of commissioners is right, it will certainly affect the quality of decisions taken from managers, where when many parties from the board of commissioners are involved in supervising the running of a company, there is little possibility for managers to do things that have a negative impact on the company, and vice versa when the number of from a small board of commissioners, managers can easily play games or manipulate the financial statements of a company which will harm the company.

According to research from Wahyono (2012), it is found that the number of commissioners has a negative effect on earnings management, where the number of commissioners will be inversely proportional to the earnings management practices that occur in a company, in contrast to research conducted by Yulianto (2010) which shows that the size of the board of commissioners has a positive effect on earnings management, so that when there are many boards of commissioners it will actually improve the practice of earnings management. Almost the same function as the board of commissioners, where the audit committee is also in charge of supervising, but in terms of the accuracy of the financial statements of a company. When in a company there is a role for the audit committee, the financial statements published to the public should be accurate and true in content, so that external parties who wish to use the financial statements for making investment decisions can determine the right decision. It is different if there is no audit committee in a company, it is possible that the manager will manipulate the financial statements in order to gain benefits for himself and it can easily be published without any oversight process from the audit committee related to these financial statements.

According to research conducted by Rezeki (2015), it is stated that the audit committee has a positive effect on earnings management. The existence of an audit committee in a company needs to be supervised so that its work is also professional. In contrast to research conducted by Elghuweel (2017), where it was found that the audit committee had a negative effect on earnings management. In his research, he argues that the proportion of the audit committee alone is not sufficient to reduce earnings management practices but needs to be followed by the frequency of meetings of the audit committee which according to him will be more effective in preventing earnings management practices.

Currently, banks in Indonesia are competing in applying the principles of Good Corporate Governance (GCG) which are not easy to apply to a company. With the implementation of Good Corporate Governance (GCG) which is good in the banking sector in Indonesia, it is hoped that it can minimize the activities of management that deliberately commit fraud with the intention of gaining benefits for both a group and itself.

## Literature Review and Hypotheses Development

### Definition of Earnings Management

According to Davidson, Stickney, and Weil, quoted from the book Sulistyanto (2008), earnings management is the process of taking steps that are carried out deliberately within the boundaries of accounting principles in order to generate the desired level of profit from published reports.

According to Schipper, quoted from the book Sulistyanto (2008), earnings management is a form of interference in the preparation of external financial reports, with the aim of obtaining personal benefits. Fisher and Rosenzweig quoted from the book Sulistyanto (2008), earnings management is the behavior or actions of managers in order to increase or decrease the profit of a company that is managed without causing an increase or decrease in a company's economic profit in the long run.

Earnings management is a decision taken by managers in manipulating financial reports for the benefit of a handful of people. The level of earnings management practices that occur in a company can reflect good or bad management in a company. The level of earnings management practice can be high or low depending on several factors, such as company control factors. Control and monitoring carried out by the company will certainly greatly affect the decisions taken by the managers of a company. A good company will certainly maintain that there are no earnings management practices that occur in the company because when there is such a practice it can harm some parties related to the company and benefit a handful of parties who have certain goals.

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### Effect of Leverage on Earnings Management

Leverage in a company is not only a tool used by the company in order to increase sources of funds, but leverage can also have other impacts on the activities of a company. The right proportion of use of leverage can bring the company to a good condition, when the proportion of use of leverage is good it will reflect the condition of the company which is also in good condition so that investors will judge the company in good condition.

Leverage in a company can be one of the factors that managers can consider in practicing earnings management. When the proportion of leverage used is small, it can indicate the possibility that the company is in good shape, and vice versa when the proportion of leverage is large, there is a possibility that the company is in poor condition from a financial perspective so that it requires financing from debt. Therefore, it is possible for managers to practice earnings management by adjusting between high levels of debt and high levels of profit, so that the financial statements will still show that the amount of company debt is less than the amount of company profits. This hypothesis is supported by research which states that leverage has a positive effect on earnings management. The research was conducted by Nozarpour (2015), Bassiouny (2016), and Asitalia (2017).

$H_1$: Leverage has a positive effect on earnings management

**Effect of Profitability on Earnings Management**

Profitability is a form of the end result of the company's efforts in selling the products offered to the market. The level of profitability that exists in a company can reflect the condition of the company. Companies that have a high level of profitability will certainly show that the company is in good condition, on the other hand, when the profit generated is small, it can reflect the company's condition is not good.

High profitability will certainly be one of the considerations for investors in investing their capital in a company. When the company's profits as stated in the financial statements continue to increase from time to time, it will certainly lead to the assumption of investors that the company is in good growth and development conditions, so it will be very profitable to invest in the company, so that there is the possibility of managers manipulating the level of profitability of a company. This hypothesis is supported by previous research which states that profitability has a positive effect on earnings management. The research was conducted by Rezeki (2015), Alexander (2017), and Aljana (2017).

$H_2$: Profitability has a positive effect on earnings management

**The Effect of The Number of Commissioners on Earnings Management**

The board of commissioners is a party formed in a company with the aim of performing duties as a supervisor of the work of a manager. Its presence in a company is expected to lead managers to make decisions that are favorable to the company. The right number of commissioners is expected to be able to oversee every decision made by the manager. The right number of commissioners will certainly make supervision more effective and efficient. When the number of boards of commissioners is small, the level of supervision to managers becomes weak so that earnings management practices are high and vice versa when the number of commissioners is right, it is hoped that good supervision can be carried out regarding the decisions that will be taken by the manager. This hypothesis is supported by previous research which states that the number of commissioners has a negative effect on earnings management. Research conducted by Uwuigbe (2014), and Alareeni (2018).

$H_3$: The number of commissioners has a negative effect on earnings management

**The Effect of The Audit Committee on Earnings Management**

The audit committee is a party that helps the work of the board of commissioners in order to maintain or perform a monitoring function of company manager decisions that refer to the accuracy of the published financial statements. From the financial statements, you will find a variety of information which is of course very useful for potential investors, so that accurate financial reports are expected to make the right decisions.

The audit committee, which is used as a tool in checking the validity of financial reports, needs to work professionally, its presence is expected to bring better quality financial reports, not

just to fulfill the applicable regulations. A good performance of the audit committee must also be followed by the frequency of meetings of the audit committee so that the company's financial statements are better and avoid earnings management practices. This hypothesis is supported by previous research statements which state that the audit committee has a negative effect on earnings management. The research was conducted by Elghuweel (2017), and Suaidah (2018).
$H_4$: The audit committee has a negative effect on earnings management

Based on the background, problem formulation, theory study and hypothesis development, a research concept framework can be made as follows:

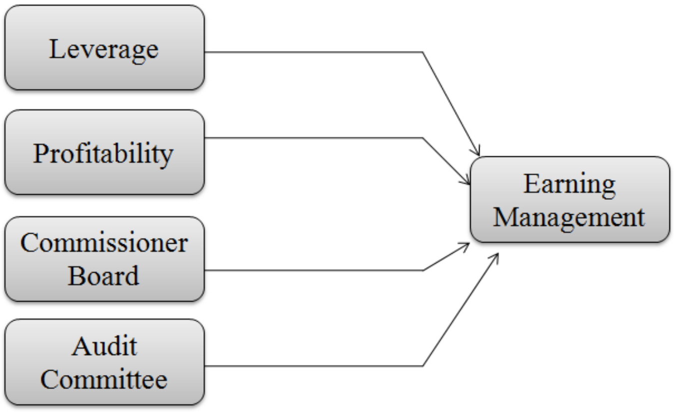


**Figure 1.** Conceptual Framework

## Research Methods

This research involved all banking companies listed on the Indonesia Stock Exchange (BEI) for the 2016-2017 period. Samples were taken as many as 32 companies taken by purposive sampling method.

In this study using two variables, namely the dependent variable in the form of earnings management, while the independent variable consists of leverage, profitability, board of commissioners and audit committee. The following is a table of variables and their measurement variables:

**Table 1.** Variables and Variable Measurement

| Variabel | Notasi | Pengukuran |
|---|---|---|
| Earning Management | DAC | (Total Accrual/Total Assets) – Non Discretionary Accrual |
| Leverage | LEV | Total Dbet/Total Equity |
| Profitabilitas | ROA | EAT/Total Assets |
| Dewan komisaris | DK | Susm of Commissioner Board |
| Komisi audit | KA | Number of Member of the Audit Committee |

To test the hypotheses of the factors that influence earnings management, multiple regression analysis is used with a significance level of 0.05 and is processed using the SPSS version 20.0 data processing program. The regression equation is as follows:

$$EM = \alpha + \beta_1 \text{ LEV} + \beta_2 \text{ ROA} + \beta_3 \text{ DK} + \beta_4 \text{ KA} + \varepsilon$$

## Results and Discussion

### Descriptive Statistics

Descriptive statistics are a form of statistics used to analyze data by describing the collected data with no intention of making general conclusions. Descriptive statistics relate to the collection and ranking of data that describe a characteristic of the sample used in a study. In descriptive statistical analysis, there are several contents, namely the minimum value, maximum value, average value (mean) and standard deviation.

**Table 2.** Descriptive Statistics

| N | | Minimum | Maximum | Mean | Std. Deviation |
|---|---|---|---|---|---|
| EM | 64 | -5,33 | 2,81 | -,0402 | ,82447 |
| LEV | 64 | ,01 | 852,88 | 141,233 | 10,650,888 |
| ROA | 64 | ,11 | 386,00 | 75,191 | 4,809,386 |
| DK | 64 | 2,00 | 9,00 | 51,250 | 217,854 |
| KA | 64 | 2,00 | 7,00 | 38,125 | 111,091 |
| Valid N (listwise) | 64 | | | | |

Source: Data processed

Based on the table above, it shows the results of descriptive statistical analysis with the total data (N) of 64 data. DAC shows a minimum value of -5.33 obtained from Bank Nusantara Parahyangan, while the maximum value is 2.81 obtained from the Regional Development Bank of East Java. Sum value for 64 data indicating a value of -2.58. The average (Mean) shows a value of -0.0402 and a standard deviation of 0.82447. LEV shows the results for a minimum value of 0.01 and a maximum value of 852.88. Of the 64 data collected, it shows that the SUM value shows a value of 903.89, for the average value (mean) shows a value of 14.1233 and a standard deviation of 106.50888.

## Hypothesis Test Results

After passing the classical assumption test, the data is processed using multiple regression analysis tools, the results are as follows:

**Table 3.** Hypothesis Test Result

| Model | Unstandardized Coefficient b | Std.Error | Standardized Coefficien Beta | t | Sig. |
|---|---|---|---|---|---|
| (Constant) | -,077 | ,382 | | -,201 | ,842 |
| LEV | ,070 | ,026 | 9,049 | 2,684 | ,009 |
| ROA | -,155 | ,058 | -9,048 | -2,686 | ,009 |
| DK | ,045 | ,053 | ,120 | ,862 | ,392 |
| KA | -,005 | ,102 | -,007 | -,048 | ,962 |

Source: Data processed

## The Effect of Leverage (DAR) on Earnings Management

The results of the regression analysis show a significance value of 0.009 compared to the significance level of 0.05, thus it is stated that leverage (LEV) has a positive and significant effect on earnings management, meaning that these results indicate that the first hypothesis ($H_1$) is accepted.

Sources of funds used in a company need to be considered carefully. The use of sources of funds from debt can be a company's choice in the realization of good company operations. The use of debt as a source of funds is not without consequences, but makes the company also need to pay the obligations charged from the use of the debt (Sutrisno, 2003), so that the use of debt in a company must be determined according to the needs of a company. The proportion of debt used by a company can be seen in the financial statements issued by the company, where the contents of a company's financial statements are often taken into consideration by investors in making decisions related to investment decisions.

The use of too much debt in a company could indicate that the company is not in good condition. There is a possibility that the income earned decreases so that a source of funds from debt is needed to cover the operational costs of a company. Therefore, it will appear manager manipulation in order to increase the level of income. Manipulation carried out by managers in increasing the level of income is solely to make it appear as if the profit or income owned by the company in a certain period is still higher than the total debt owed by the company (Nozarpour, 2015).

Leverage variable (DAR) has a positive and significant effect on earnings management. This result is in accordance with the initial hypothesis proposed by the researcher which states that leverage (DAR) has a positive effect on earnings management so that the hypothesis is accepted. Previous research that supports the test results of this variable is Nozarpour (2015), Bassiouny (2016), and Asitalia (2017).

**The Effect of Profitability (ROA) on Earnings Management**

Based on the results of the analysis above, it was found that the results of regression data processing with the Sig. = 0.009 with Level of Significance = 5% while the negative t value is -2.686 so it can be stated that profitability (ROA) has a negative and significant effect on earnings management. From the summary above, hypothesis number two ($H_2$) is rejected.

Profitability is the ability that a company has in getting profits in a period (Rezeki, 2015). When a company can sell its products in large quantities, it will be followed by a lot of profit / profit, on the other hand, when the sales of a company's products are small, the profit generated is also small. Profitability can be used as a measure of the success of a company in carrying out its trading activities. Profitability that can be used as a measure of achievement or success of a company can be found in the company's financial statements. Profitability can easily be found in the profit and loss section of a company's financial statements. The level of profit of a company will be seen by investors as their consideration for investment decisions to be made. Investors will certainly be attracted to companies that have growth in terms of profitability that continues to increase from time to time, not companies that have decreased profits. Therefore it is necessary to pay attention to the accuracy of the financial statements issued by the company, because of course it will have a lot of impact on parties outside the company.

Purnomo (2015), which in his research found that profitability had a significant negative effect on earnings management. He said that companies that have a low level of profitability tend to use earnings management practices so that profits or revenues look good or high, but it is different when the conditions for profitability are high, managers will try to maintain their achievement, as a form of good performance from the company. Not much different from the research conducted by Sufiana (2012), it also found that profitability had a significant negative effect on earnings management. It is also argued that earnings management practices only occur when profits are small, but when company profits are high, the level of earnings management practices is small.

The profitability variable (ROA) has a negative and significant effect on earnings management. This result is not in accordance with the initial hypothesis proposed by the researcher which states that profitability (ROA) has a positive effect on earnings management so that the hypothesis is rejected. Previous research that supports the test results of this variable is Sufiana (2012), and Purnomo (2015).

**Effect of Number of Commissioners (BS) on Earnings Management**

Based on the results of the analysis above, it was found that the results of regression data processing with the Sig. = 0.392 with Level of Significance = 5% while the positive t value is 0.862, so it can be stated that the number of commissioners (BS) has a positive and insignificant effect on earnings management. From the summary above, hypothesis number 3 ($H_3$) is rejected.

The existence of a board of commissioners in a company is intended as a party that participates in overseeing every decision or action taken by the manager (Effendi, 2016). Decision making by managers is expected to be in accordance with company goals. When the decision made by the manager is right, it will bring the company to a good condition and it is hoped that the company's goals can be achieved, but when the decisions taken are only beneficial for a handful of parties, the feedback will only be felt by a few parties, and the company's goals undoubtedly cannot be achieved (Wiyadi, et al., 2015).

The number or proportion of commissioners appointed is expected to make supervision better and give pressure to managers so that decisions are made in accordance with company objectives. If seen from the results obtained from this study, it is concluded that the more the number of commissioners, the higher the earnings management practice, and conversely when the lower the number of commissioners, the lower the earnings management practice. This could be due to the lack of a professional level of the board of commissioners in carrying out their work, where the work of the board of commissioners is questionable in its reliability in preventing earnings management practices (Yulianto, 2010).

Research from Charfeddine (2013) explains that a large board of commissioners will bring problems in terms of coordination so that it will weaken the supervisory function, thereby improving earnings management practices, and vice versa when the board of commissioners is small it will improve the quality of supervision of financial statements so that it can reduce earnings management practices.

The variable of the number of commissioners (BS) has a positive and insignificant effect on earnings management. This result is not in accordance with the initial hypothesis proposed by the researcher which states that the number of commissioners (BS) has a negative effect on earnings management so that the hypothesis is rejected. Previous research that supports the test results of this variable is Yulianto (2010), and Charfeddine (2013).

### The Effect of the Audit Committee (AUD) on Earnings Management

Based on the results of the analysis above, it was found that the results of regression data processing with the Sig. = 0.962 with Level of Significance = 5% while the negative t value is -0.048 so it can be stated that the audit committee (AUD) has a negative and insignificant effect on earnings management. From the summary above, hypothesis number four ($H_4$) is accepted.

The Indonesian Audit Committee Association (IKAI) explained that the audit committee is a committee that performs work professionally and independently formed by the board of commissioners which has the task of assisting the function of the board of commissioners in carrying out the supervisory function of the financial report reporting process and conducting audits. Its role in supervising managers is more focused on monitoring financial statements made by managers. There is a need for audit activities to supervise the quality of published financial reports that are of good quality and can be accounted for to the public so that financial reports can provide an overview of the actual condition of the company in a given period.

Audit committees in a number of companies are currently only limited to fulfilling obligations because there are regulations that regulate them which require each company to have an audit committee (Suaidah, 2018). Added by Elghuweel (2017), where he argues that the proportion of the audit committee must be followed by the frequency of meetings of the audit committee, so that prevention of earning management practices can be effective. The audit committee variable (AUD) has a negative and insignificant effect on earnings management. This result is in accordance with the initial hypothesis proposed by the researcher which states that the audit committee (AUD) has a negative effect on earnings management so that the hypothesis is accepted. Previous research that supports the test results of this variable is Elghuweel (2017), and Suaidah (2018).

## Implication and Conclusion

Based on the results of the above discussion, it can be concluded that there are two variables whose hypothesis is proven, namely leverage and profitability. Leverage has a significant and positive effect on earnings management, meaning that the higher the debt, the higher the willingness of management to carry out earnings management and this is consistent with the findings of Bassiouny (2016). Profitability as measured by return on assets (ROA) has a significant but negative effect, meaning that if profitability is high, then the willingness of management to manage earnings will decline. This is in accordance with the findings of Sufiana (2012), and Purnomo (2015). Meanwhile, there are two variables whose hypothesis is rejected, namely the board of commissioners and the audit committee. The board of commissioners has a positive but not significant effect, thus the board of commissioners is not able to influence company management to carry out earnings management, according to the findings of Yulianto (2010), and Charfeddine (2013), and the audit committee has an effect but is not significant on earnings management according to Elghuweel's findings (2017), and Suaidah (2018).

It is hoped that this research can be used by various interested parties such as company management, investors and researchers who are interested in earnings management issues. This research certainly has weaknesses, for example the GCG mechanism is only proxied by the board of commissioners and the audit committee. Therefore, further researchers can develop further by adding variables, the number of samples and the study period.

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