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Practices Corporate Governance on Profit Management (Literature Reviews)

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Abstract: Literature Review Article Effects of Managerial Ownership Structure, Firm Size, and Practices *Corporate Governance* on Earnings Management is a scientific article that aims to build a research hypothesis on the influence between variables to be used in further research, within the scope of the science of Financial Management. The method of writing this Literature Review article is by method *research library,* sourced from online media such as *Google Scholar, Mendeley* and media*on line*other academics. The results of this literature review article are : 1) Managerial Ownership Structure influences earnings management; 2) company size influences earnings management; and 3) corporate governance practices affect earnings management.

Keyword: Earnings Management, Managerial Ownership Structure, Company Size and Corporate Governance

INTRODUCTION

Earnings management is a condition in which management intervenes in the process of preparing financial statements for external parties so that they can level, increase and decrease profits (Schipper, 1989). Meanwhile , Healy and Wahlen (1999) in Beneish (2001) stated that*earnings management*occurs when management uses certain decisions in financial reporting and preparation of transactions that change the financial statements, this is intended to mislead customers *stakeholders*about the condition of the company's economic performance , as well as to influence the contractual income that controls the reported accounting numbers.

In accordance with the definition above, the fact is that lately financial reports have become a central issue as a source of misuse of information that is detrimental to parties. interested party. Profit as an important component often does not show the actual situation because of earnings management (*earnings management*).

According to agency theory, to overcome the problem of misalignment of interests between *principal* And*agent* can be done through good corporate management (Midiastuty & Machfoedz, 2003). As revealed by Veronica and Bachtiar (2004) *corporate governance*is one way to control the action *opportunistic* management does. There are four

mechanism s*corporate governance* which can be used to overcome agency conflicts, namely increasing managerial ownership, increasing institutional ownership, independent commissioners and audit committees (Andri and Hanung, 2007).

By increasing share ownership by managers, it is hoped that managers will act as they wish *principal* because managers will be motivated to improve work. Mean while, institutional ownership is considered to be able to reduce earnings management practices because management considers institutional ownership to be*sophisticated investors* can monitor management whose impact will reduce the motivation of managers to manage earnings (Pranata and Mas'ud, 2003).

The composition of the board of commissioners is one of the characteristics of the board related to the information content of earnings. Through its role in carrying out the supervisory function, the composition of the board can influence management in preparing financial reports so that a quality profit report can be obtained (Boediono, 2005).

Chtourou*et al.* (2001) and Midiastuty and Machfoedz (2003) who examined the relationship between managerial ownership, institutional ownership, and board size which stated that managerial ownership and institutional ownership had a negative relationship with earnings management, while board size had a positive relationship with earnings management. The results of this study contradict Boediono (2005) which states that institutional ownership, managerial ownership, and the composition of the board of commissioners have a positive and significant effect on earnings management. The larger the size of the company, the more information available to investors in making decisions regarding investing in the company's shares Albrecht & Richardson (1990) and Lee & Choi (2002) found that larger companies have less incentive to perform income smoothing than small companies because large companies are seen as more critical by outsiders.

Therefore, it is suspected that company size affects the amount of company earnings management. Based on empirical experience, many students and authors have difficulty finding supporting articles for their scientific work as previous research or as relevant research. Relevant articles are needed to strengthen the theory being researched, to see the relationship or influence between variables and build hypotheses. This article examines the influence of managerial ownership structure, firm size, and practices *corporate governance* on earnings management, a literature review study in the field of Financial Management.

LITERATURE REVIEW

Profit management

According to (Copeland, 1968:10), earnings management includes management efforts to maximize or minimize profits, including income smoothing according to management's wishes. Earnings management is defined by Setiawati and Na'im (2000) as management intervention in the process of external financial reporting with the aim of benefiting oneself. The understanding of earnings management according to Scott (1997) is divided into two. First, view it as the opportunistic behavior of managers to maximize their utility in the face of compensation contracts, debt contracts, and so on *political costs* (*opportunistic earnings management*). Second, by looking at earnings management from a perspective *efficient contracting* (*Efficient Earnings Management*), where earnings management gives managers a flexibility to protect them selves and the company in anticipating unexpected events for the benefit of the parties involved in the contract. If earnings management is opportunistic, then the earnings information can lead to making wrong investment decisions for investors.

Managerial Ownership

Managerial ownership is share ownership by company management. Managerial share ownership can align the interests of shareholders with managers, because managers directly benefit from the decisions taken and managers bear the risk if there are losses arising as a consequence of making wrong decisions. This states that the greater the proportion of management ownership in the company, the better the company's performance will be able to unite the interests of managers and shareholders (Jensen, 1986).

Company Size

Siregar and Utama (2005) said that the larger the size of the company, usually the more information available to investors in making decisions regarding investing in the company's shares Albrecth & Richardson (1990) and Lee & Choi (2002) found that larger companies have less motivation to perform income smoothing than small companies because large companies are seen as more critical by outsiders. Therefore, it is suspected that the size of the company affects the company's earnings management, where if the earnings management is opportunistic, the bigger thecompany, the smaller the earnings management (negative relationship). However, if earnings management is efficient, the larger the size of the company, the higher the earnings management (positive relationship).

Corporate Governance

corporate governance is a corporate management mechanism based on agency theory. With implementation *Corporate Governance*It is hoped that it can function as a tool to give confidence to investors that they will receive a return on the funds they invest in a company. *Corporate Governance*relates to how investors believe that managers will provide benefits to investors, believes that managers will not steal/embezzle or invest in unprofitable projects related to funds that have been invested by investors and relates to how investors control managers (Shleifer and Vishny, 1997 in Herawaty, 2008). Mechanism*Corporate Governance* namely the existence of managerial share ownership, institutional ownership, an independent board of commissioners, and an audit committee.

RESEARCH METHOD

The method of writing this Literature Review article is the Descriptive Qualitative method and Library Research, sourced from online applications *Google Scholar*, *Mendeley* and other online academic applications. In qualitative research, literature review must be used consistently with methodological assumptions. This means that it must be used inductively so that it does not direct the questions posed by the researcher. One of the main reasons for conducting qualitative research is that it is exploratory in nature (Ali & Limakrisna, 2013).

FINDINGS AND DISCUSSION

Review Relevant Articles

Reviewing relevant articles as a basis for establishing research hypotheses by explaining the results of previous studies, explaining the similarities and differences with the research plan from relevant studies as table 1 below.

Table 1: Relevant article reviews

No	Author (Year)	Research Results Previously	Similarities With This Article	Difference With This article	hypothesis
1	Riske Meitha Anggraeni, P. Basuki Hadiprajitno, (2013)	Structure ownership managerial and company size influential negative against profit management	Company size ha no effect on profit management	Ownership structure influential managerial on earnings management	H1
2	Rexy Joseph S. Dimara, P. Basuki Hadiprajitno ,(2017)	Structure ownership managerial, size company and *corporate governance* negative effect and not significant towards management	Ownership structurea managerial and size the company doesn't effect on profit management	corporate governance effect on earnings management	H1
3	Cindy Felicya Paulina Sutrisno (2020)	Structure ownership managerial, size company and negative effect and not significant towards management profit	ownership structure management and size the company doesn't effect on profit management	corporate governance no effect on earnings management	H1
.4	Rista Bintar a, (2019)	Structure ownership managerial and company size positive influence And significant to profit management	Company size effect on profit management	Ownership structure influential managerial on earnings management	H2
.5	Basuki Hadiprajitno, (2013)	Ownership structure managerial, size the company doesn't influential significant and corporate governance positive influence and significant towards management profit	Corporate governance effect on profit management	Ownership structure management and size the company doesn't effect on Earnings management	H2
6	Zaenal Fanani, (2014)	Structure ownership managerial, size company, no influential significant and corporate governance influential significant to earnings management	Company size has no effect on profit management	Ownership structure managerial and corporate governance influence on earnings management	H2

7	Bryan Sebastian, Irwanto Handojo, (2019)	Structure ownership managerial, size company, no influential significant and corporate governance influential significant to earnings management	Company size has no effect on profit management	Ownership structure managerial and corporate governance influence on earnings management	H3
8	Maria Ursula Canesia Dasilva, Anwar Madeb, Ati Retna Saric (2021)	Structure ownership managerial, size company positive effect towards management profit	Company size effect on earnings management	corporate governance effect on profit management	H3
9	Luluk Yumna Noor Farida, Rr Karlina Aprilia Kusumadewi (2019)	Ownership managerial no influential negative against profit management	Company size effect on profit management	managerial ownership significant effect negative against profit management	H3

Influence Analysis between Variables

The effect of managerial ownership structure on earnings management.

view based*alignment effect*which refers to Jensen and Meckling's framework which states that pooling of interests between managers and owners can be achieved by giving share ownership to managers. If managers own shares in the company, they will have interests that tend to be the same as other shareholders. With this pooling of interests, agency conflicts will be reduced so that managers are motivated to improve company performance and shareholder prosperity.

Managers who have access to company information will have the initiative to manipulate the information if they feel the information is detrimental to their interests (Febrianto, 2005). However, if the interests of managers and owners can be aligned, managers will not be motivated to manipulate information or perform earnings management so that the quality of accounting information and the informativeness of earnings can be increased.

Enlarging managerial ownership is expected to reduce earnings management actions which are reflected in reduced value*discretionary accruals*. The amount of managerial ownership is expected to improve the quality of financial reporting and the resulting profit. From this description the research hypothesis is formulated as follows
H1: Managerial ownership structure has a positive effect on earnings management

The Effect of Company Size on Earnings Management

The larger the size of the company, the more information available to investors in making decisions regarding investing in the company's shares. Albrecth & Richardson (1990) and Lee & Choi (2002) found that larger companies have less motivation to perform income smoothing than small companies because large companies are seen as more critical by outsiders. Therefore, it is suspected that company size affects the amount of company earnings management. Therefore the hypothesis is presented as

follows *H2: Company size has a negative effect on earnings management*

The Influence of the Composition of the Independent Board of Commissioners on Earnings Management

The board of commissioners as the culmination of the company's internal management system, has a very important role in the company, especially in implementation *good corporate governance*. According to Egon Zehnder (2000), the board of commissioners is the essence of *corporate governance* assigned to ensure the implementation of corporate strategy, supervise management in managing the company, and require accountability. Vafeas (2000) in Siallagan (2006) states that the role of the board of commissioners is expected to improve earnings quality by limiting the level of earnings management through the monitoring function of financial reporting. With the large number of existing commissioners, it is expected to increase *corporate governance*so that it will reduce the level of earnings management. Based on the description above, the research hypothesis is obtained as follows *H3: The composition of the Independent Board of Commissioners has a negative effect on earnings management*

Conceptual Framework of the Research

Based on the formulation of the problem, theoretical study, relevant previous research and discussion of the influence between variables, the framework for thinking this article is processed as below.

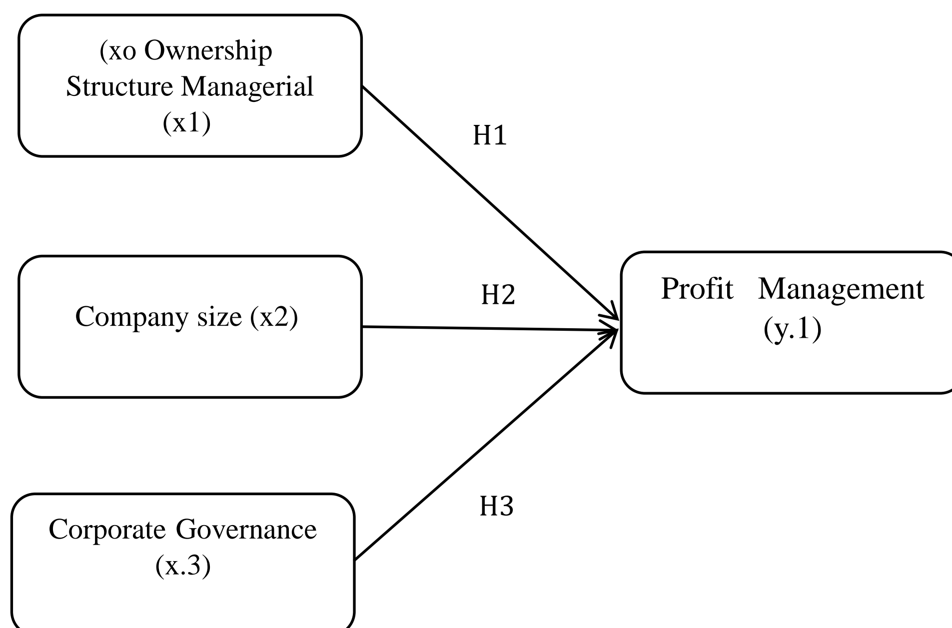

Figure 1: Conceptual Framework

Based on the conceptual framework picture above, then: managerial ownership structure, company size and corporate governance affect earnings management. Apart From these three exogenous variables that affect earnings management, there are many other variables that influence earnings management, including:

1) Characteristics of the Company: (Zaenal fanani., 2014), (Bryan Sebastian., 2019) and (Cindy Felicia et al., 2019),
2) Audit Committee: (Intan Dewi et al., 2016),(Rexy Joseph, 2017),(Luluk Yumna et al., 2019)

3) Good Corporate Governance: (Feryansah et al., 2020), (Rowland Bismark et al., 2015), (Rista Bintara et al., 2019).

CONCLUSIONS AND RECOMMENDATIONS

Conclusion

Based on the theory, relevant articles and discussion, hypotheses can be formulated for further research:

1. The managerial ownership structure influences earnings management.
2. Company size affects earnings management.
3. Corporate governance influences earnings management.

Suggestion

Based on the conclusions above, the suggestion for the next author is that there are many other factors that influence earnings management, apart from managerial ownership structure, company size and corporate governance, therefore further studies are still needed to look for these other factors. . another factor affect earnings management. Apart from the three variables examined in this article, such as the audit committee, KAP size.

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