The Effect of Profit Management, Good Corporate Governance Mechanism, and Investment Decisions on Firm Value

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Abstract—This study aimed to analyze and obtain empirical evidence the effect of profit management, mechanism good corporate governance and investment decision on firm value. This type of research was quantitative research using secondary data where this research was conducted on hotel, restaurant and tourism sector companies listed on the Indonesia Stock Exchange in 2013-2017. The total study observations were 40 sample. The data analysis method used was multiple linear regression analysis. Result of this study showed that profit management positive effect to firm value. The mechanism of good corporate governance that is represented by the proxy of an independent board of commissioners and institutional ownership is proven to influence the firm value. However, this study did not succeed in finding the effect of investment decision on firm value.

Keywords: firm value, profit management, mechanism of good corporate governance, investment decision

I. INTRODUCTION

The establishment of a company must have a clear purpose. There are several things that suggest about the purpose of establishing a company. The first objective of the company is to achieve maximum profit or maximum profit. The second objective of the company is to prosper the company owner or shareholders. While the third objective of the company is to maximize the firm value reflected in the price of its shares. The three objectives of the company are actually not much different. It's just that the emphasis that each company wants to achieve is different from one to the other [1].

The higher the firm value describes the more prosperous the owner of the company. The firm value is very important, this is because if the firm value is high it will be followed by the high prosperity of shareholders. The higher the stock price the higher the firm value [2].

The value of a company will be reflected in its stock price, with investment opportunities, it can provide a positive signal about the company's growth in the future so that it will increase stock prices. Investors will be more interested in buying securities in companies that have maximum corporate value. With more investments made by investors towards the company, it will have the potential to obtain maximum profits [3].

In 2017 there are 4 issuers in hotel, restaurant and tourism services which experienced the most drastic decline in shares. The first ICON experienced the most significant decrease of 72.20%. Followed by JGLE which also decreased by 66.41%. In addition, PSKT also decreased by 61.74%. Last HOME, which decreased by 59.58%.

Information in financial statements must be relevant and representations in order to influence the purpose of decision making. Information provided by management to shareholders must be able to represent the good and bad condition of the economic condition of a company. According to Scott states that if several parties involved in business transactions have more information than other parties, then the condition is said to be information asymmetry [4]. The condition of the asymmetry is utilized by the management to maximize his personal interests by hiding information that is not known by shareholders. Everything is inseparable from what is referred to as efforts to obtain personal benefits or benefits (obtaining private gains). Management can influence accounting numbers in financial reporting by making profit management.

Profit management is defined as the efforts of company managers to intervene or influence the information in financial statements with the aim of tricking stakeholders who want to know the performance and conditions of the company [5]. Profit management does not have to be associated with attempts to manipulate accounting data or information, but it can also be associated with the selection of accounting methods to regulate the benefits that can be made because it is permissible according to accounting regulation. Therefore, the income statement is one of the objects that become a means of manipulation activities carried out by management with the aim of obtaining unilateral profits but on the other hand will be able to harm other parties such as investors and other creditors [6].

Profit management practices are considered detrimental because they can reduce the value of financial statements and provide information that is not relevant to investors. According to Herawaty [7] agency theory provides the view that profit
management problems can be minimized by self-supervision through good corporate governance.

The purpose of good corporate governance is to create added value for all interested parties. Good corporate governance which contains four important elements namely fairness, transparency, accountability and accountability is expected to be a way to reduce agency conflict and profit management practices. With good corporate governance, it is expected that the firm value will be valued better by investors.

Capital investment is one of the main aspects of investment decisions besides determining the composition of assets. Investment decisions are provisions made by the company is spending its funds in the form of certain assets in the hope of obtaining profits in the future. If investing in a company is able to generate profits by using company resources efficiently, the company will gain the trust of prospective investors to buy their shares. Thus the higher the company's profits, the higher the firm value, which means the greater prosperity that will be received by the company owner.

Making investment activities is the most difficult decision for company management because it will affect the firm value. The purpose of investment decisions is to obtain a high level of profit with a certain level of risk. High profits accompanied by manageable risks are expected to increase firm value, which means increasing shareholder prosperity. In signaling theory, investment expenditure shows a positive signal about the growth of company assets in the future, thus increasing stock prices as an indicator of firm value.

II. LITERATURE REVIEW AND HYPOTHESIS

According to Jensen and Meckling, agency relations are defined as contracts where one or more people (principals) employ or use the services of other people (agents) to take certain actions for their benefit, namely through partial delegation of authority to agents to make the decision making. Because they were chosen, the agent must account for all his work to the owner.

As an agent, managers are morally responsible for optimizing profits for the owner (principal), but on the other hand, the manager also has an interest in maximizing his personal well-being. So there is a high probability that agents do not always act in the principal's best interests. The imbalance in mastering information will trigger a condition called information asymmetry. The asymmetry between management and shareholders can provide an opportunity for managers to conduct profit management in order to provide false reports to shareholders regarding the company's financial performance.

According to Brigham and Houston, the signal is an action taken by the management of a company to give instructions to investors about how management views the company's prospects in the future. Management is obliged to signal to the owner about the condition and performance of the company as a form of management's responsibility as an agent whose task is to regulate and manage company funds by providing financial statement information to those in need.

Pada teori sinyal, informasi penting n signal theory, important information is given to external companies to overcome information asymmetry. Information submitted to external parties such as to shareholders must be complete, relevant, accurate and timely because the information is needed by investors in the capital market as an analytical tool for making investment decisions. Signaling theory explains that investment expenditure provides a positive signal about the company's growth in the future, thus increasing stock prices as an indicator of firm value.

A. The Effect of Profit Management on Firm Value

To be able to achieve a profit target, usually, management will choose certain accounting policies so that later the company's profits can be arranged. The selection of accounting policies is shown so that the company can increase or decrease the profits obtained in accordance with the needs and desires of management so that the company's financial statements look good in the eyes of the users.

Profit management is influenced by conflicts of differences in interests between shareholders (principals) and agents as managers (company management) that arise because each party strives to achieve or consider the level of prosperity it wants. Agency conflict that occurs results in false reported profits, resulting in low earnings quality where the impact decreases the company's value in the future. The low quality of earnings results in mistakes made by the users of financial statements such as investors and creditors, so that the firm value will decrease.

This is supported by research conducted by Andison, profit management has a negative effect on firm value. The negative influence emphasizes that profit management actions will reduce the firm value.

Based on previous research conducted by Indiriani et al., profit management has a significant effect on firm value because managers in certain steps in making profit management within the limits of generally accepted accounting principles must produce the desired level of profit reported.

H1: Profit management affects the firm value.

B. The Effect of the Independent Board of Commissioners on Firm Value

The size of the board of commissioners is one of the corporate governance mechanisms because the monitoring function carried out by the board of commissioners is influenced by the size or number of the board of commissioners. The board of commissioners must carry out a good oversight function to monitor the running management of the company so that the company's objectives can go according to plan.

In line with the research conducted by Lestari and Pamudji which states that independent commissioners influence the firm value, the greater the increase in independent commissioners in the company can minimize profit management actions carried out by management and will affect the quality of financial statements that can the truth is accounted for.
H2: Independent board of commissioners affects the firm value.

C. The Effect of Institutional Ownership on Firm Value

Institutional ownership is the ownership of company shares by financial institutions such as banks, insurance companies, pension funds, and investment banking. Institutional ownership has the ability to control and monitor management not to carry out activities that are detrimental to shareholders or owners of the company. Cornett states that corporate supervision measures by institutional investors can encourage managers to focus more on the company's performance so that it will reduce opportunistic or selfish behavior [11]. The percentage of shares held by an institution can affect the process of preparing financial statements that allow actualization in accordance with the interests of the management [11]. Companies with large institutional ownership indicate a greater ability to monitor management.

In line with the research of Herawaty, institutional ownership affects the firm value [7]. Institutional ownership can also monitor management which has the effect of reducing management's motivation to conduct profit management and increase firm value.

H3: Institutional ownership affects the firm value

D. Effect of Investment Decisions on Company Value

An investment decision is a provision made by the company is spending its funds in the form of certain assets in the hope of gaining profits in the future [9].

Investment decisions are decisions that concern the problem of how managers must allocate funds into forms of investment that will affect the level of profits in the future. The expected level of profit from an investment is because the investment will certainly bear all risks or uncertainties because it will greatly affect the achievement of goals in maximizing the firm value.

In line with research conducted by Sartini and Purbawangsa which indicate that investment decisions taken by companies will have an impact on increasing the firm value [18].

H4: Investment decisions affect the firm value

III. RESEARCH METHODOLOGY

A. Research Variables

1) Dependent variables: Firm value is measured using Tobin's Q. Tobin's Calculation 'Q = (equity market value + total debt) / (total debt + total equity).

2) Independent variables

- Profit management is calculated using the Discretionary accruals formula.
- Independent commissioners are calculated by the number of independent commissioners / total board of commissioners.

- Institutional ownership is calculated by the number of shares owned by the institution against the number of shares outstanding.
- Investment decisions are calculated by adding fixed assets from the previous year to total assets.

B. Sample Determination

The population in this study are hotel, restaurant, and tourism sector companies that have gone public and are listed on the Indonesia Stock Exchange (IDX) in 2013-2017, totaling 24 companies.

| TABLE I. | CRITERIA OF SAMPLE DETERMINATION |
|----------|----------------------------------|
| Description | Total |
| Companies in the hotel, restaurant, and tourism sector in 2017 | 24 |
| Companies that IPO in the period of 2013-2017 | (3) |
| Companies that suffered losses in the period of 2013-2017 | (11) |
| Companies that do not have an independent board of commissioners in the period of 2013-2017 | (1) |
| Companies that do not have institutional ownership in the period of 2013-2017 | (1) |
| Total | 8 |
| Period of Research | 5 years |
| Company Total Samples | 40 |

C. Analysis Method

Hypothesis testing is done by multivariate analysis with multiple regression as follows:

\[ \text{TBQ} = \alpha + \beta_1 \text{ML} + \beta_2 \text{DKI} + \beta_3 \text{KIN} + \beta_4 \text{KI} + e \]

Description:

- TBQ = Company value measured by Tobin’s Q
- ML = Profit management is measured by Discretionary accruals
- DKI = Independent Board of Commissioners is measured by the percentage of independent commissioners with total independent commissioners
- KIN = Institutional ownership is measured by the percentage of institutional ownership with the total outstanding shares
- KI = Investment Decision is measured by the CAP / BVA Ratio

IV. FINDINGS AND RESULTS

A. Descriptive Statistics Test

| TABLE II. | DESCRIPTIVE STATISTICS TEST RESULT |
|-----------|-----------------------------------|
| Descriptive Statistics | |

| TBQ   | N    | Minimum | Maximum  | Mean    | Std. Deviation |
|-------|------|---------|----------|---------|----------------|
| ML    | 40   | .4437   | 2.4513   | 1.042759| .4843580       |
| KIN   | 40   | .5963   | .9775    | .829320 | .1249311       |
| KI    | 40   | .0737   | .1605    | .017345 | .0438717       |

Valid N (listwise) | 40 |
B. Classical Assumption Test

1) Normality test

The results of the normality test using the Kolmogorov-Smirnov non-parametric statistical test, it can be seen that the Kolmogorov-Smirnov value is 1.235 with a significant Asymp. Sig. (2-Tailed) of 0.095. This value shows above a significant value that is 0.095 > 0.05 and it can be concluded that the data is normally distributed. Looking at the results of the Kolmogorov-Smirnov Test, it shows that the regression model is feasible to use and has met the assumptions of normality.

2) Multicollinearity test

The results of the multicollinearity test in table 4 show that there is no tolerance on the independent variables which have values less than 0.10 and VIF that are not more than 10. This shows that there is no multicollinearity between independent variables in the multiple regression model.

3) Heteroscedasticity test

From the results of heteroscedasticity test in Figure 1 above, it can be seen that the points spread randomly, do not form a clear pattern, and are spread both above and below the number 0 (zero) on the Y-axis. This can be concluded that there is no heteroscedasticity in the model regression so that a decent regression model is used to predict Y.

4) Autocorrelation test

In table 5, the DW value is 1.543 by using 40 and 4 explanatory variables, the critical value of DW at the 95% significance level (α = 0.05) is known dl = 1.338 and du = 1.658 then the value of 4 -du = 2.334. Because the value of Durbin Watson (d) is greater than the lower limit value (dl) of 1.338, while the DW value of 1.543 also shows smaller than 4-dw of 2.334, so it can be concluded that the test does not occur autocorrelation problem.

C. Hypothesis Test

1) Determination coefficient test ($R^2$)

In table 6 shows that the coefficient of determination shows the Adjusted R Square value of 0.252 or 25.2% the firm value
variable can be explained by the variable profit management, independent board of commissioners, institutional ownership and investment decisions. While the rest (100% - 25.2% = 74.8%) is explained by other reasons outside the model.

2) Simultaneous test F

Based on the results of the simultaneous significance test (F test) in table 7 above, it can be seen that the results of the F test with probability (sig value) 0.006 <0.05. Then it can be concluded that the regression model for the variables K1, KIN, ML, and DKI jointly has a significant effect on TBQ.

3) Partial test (t-Test)

The Profit management variable has a significant probability value of 0.013 far less than 0.05. So that it can be concluded that Profit management has an influence on Company Values and can be seen the results of the hypothesis is H1 accepted.

Thus it can be concluded that profit management (ML) in this study has a significant positive effect on firm value. This means that the company whose management is indicated to do profit management does not make the company's value decline. Managers in making profit management that uses considerations in financial reporting and preparation of transactions to change financial statements about the organization's economic performance or to influence the results as expected. So that the management performance reported through the financial statements looked good in the eyes of the principal and this attracted the attention of the principals, causing the company's value to increase.

The results of this study are consistent with the research conducted by Herawaty [7] and Indriani et al., [15] which states that profit management affects the firm value, because in conducting profit management, managers do profit management in accordance with generally accepted rules in boundaries of generally accepted accounting principles.

The Independent Board of Commissioners variable has a significant probability value of 0.045, far less than 0.05. So it can be concluded that the Independent Board of Commissioners has an influence on Company Values and it can be seen the results of the hypothesis are H2 accepted.

Thus it can be concluded that the independent board of commissioners in this study has a significant negative effect on firm value. This means that companies that have a large number of independent commissioners actually make the firm value decline. This is because there are still many independent boards of commissioners who have a term of more than two periods. The term of office that exceeds two periods is feared to make them no longer independent. Because independent commissioners who have served too long can influence their independence in the results of this study are consistent with the research conducted by Herawaty [7], Lestari and Pamudji [17] which states that independent commissioners influence the firm value because the presence of independent commissioners in the company can minimize fraudulent actions carried out by managers and will affect the firm value.

Institutional Ownership Variables have a significant probability value of 0.022 far smaller than 0.05. So that it can be concluded that Institutional Ownership has an influence on Company Values and it can be seen that the hypothesis is that H3 is accepted.

Thus it can be concluded that institutional ownership in this study has a significant positive effect on firm value. This means that companies that have large amounts of institutional ownership make the firm value increase. Institutional ownership in companies can monitor management policies that have an impact on increasing company value. The greater the institutional ownership, the more efficient the utilization of company assets and is expected to also be able to act as a deterrent to the waste and manipulation of profits made by management so that it will increase the firm value.

The results of this study are consistent with the research conducted by Herawaty [7], which states that institutional ownership is related to company values relating to institutional ownership in the company can help fund reduction actions carried out by managers and will be related to firm value.

The Investment Decision variable has a significant probability value of 0.592 far greater than 0.05. Rejected can be approved by the Investment Decision not approved against the Company Value and it can be estimated that the result of the hypothesis is H4 is rejected.

Thus it can be concluded from the investment decisions in this study that it is not approved of the firm value. Companies that make investment decisions are not proven to increase company value. This is due to the lack of proper investment decisions made by managers. In addition, the growth of assets resulting from investment only compares the assets of the current year with the assets of the previous year. However, assets for the current year will be calculated that will not be guaranteed the following year assets will also be returned or canceled. Do this not too much attention for investors if they invest. If investors consider the company to have good prospects, investors will continue to invest.

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**TABLE VII. SIMULTANEOUS TEST F RESULT (UH F)**

| Model | Sum of Squares | df | Mean Square | Sig. | F |
|-------|----------------|----|-------------|------|---|
| Regression | 3,011 | 4 | .753 | .006 | 4.291 |
| Residual | 6,139 | 35 | .175 |
| Total | 9,150 | 39 | |

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**TABLE VIII. PARTIAL TEST (T-TEST)**

| Model | Unstandardized Coefficients | Standardized Coefficients | T | Sig. |
|-------|-----------------------------|---------------------------|---|------|
|       | B | Std. Error | Beta |       |     |
| 1 (Constant) | -3.053 | 1.281 | -2.384 | .023 |
| ML | .145 | .055 | .390 | 2.612 | .013 |
| DKI | -1.993 | .958 | -.392 | -2.080 | .045 |
| KIN | 1.693 | .705 | .437 | 2.403 | .022 |
| KI | -.934 | 1.725 | -.085 | .541 | .592 |

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\* Dependent Variable: TBQ

\( ^{a} \) Predictors (Constant): K1, KIN, ML, DKI
The results of this study are consistent with the research conducted by Setiani, that determines investment decisions not related to company valuations that are not taken decisions taken by management in making investment decisions that require investment in the form of fixed assets [7].

V. CONCLUSION

- Profit management has a positive effect on firm value
- Independent commissioners have a negative influence on firm value
- Institutional ownership has a positive effect on firm value
- Investment decisions do not affect the firm value

VI. LIMITATIONS

There are several limitations in this study, including:

- The period used is only 5 years, namely 2013-2017 obtained only 8 companies out of a total of 24 companies incorporated in the Hospitality, Restaurant and Tourism company because companies that included sample criteria there were only 40 samples.
- This study only uses company internal factors, namely profit management, independent board of commissioners, institutional ownership and investment decisions as independent variables to explain their influence on firm value.

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