Volume 6, Number 7, July 2025
e-ISSN: 2797-6068 and p-ISSN: 2777-0915

DEVOTION
Journal of Research and Community Service

The Role of the Good Corporate Gorvernance Mechanism in Mitigating Profit Management Practices

Sabrina Khoirunnisa, Amin Wijoyo
Universitas Tarumanagara, Indonesia
Email: sabrina.125239225@stu.untar.ac.id, aminw@fe.untar.ac.id

KEYWORDS
Audit Committee, Institutional Ownership, Independent Commissioners, Earnings Management, Energy Sector

ARTICLE INFO
Accepted:
Revised:
Approved:

ABSTRACT
This study aims to examine the influence of audit committees, institutional ownership, and independent commissioners as part of good corporate governance on earnings management practices in energy sector companies listed on the Indonesia Stock Exchange during the 2019–2023 period. The research sample consists of 57 energy companies selected through purposive sampling. Earnings management is measured using the Modified Jones Model, while the independent variables are assessed using indices and ratios. The data were analyzed using panel data multiple regression with EViews 12 software. The results indicate that the audit committee has a significant negative effect on earnings management, institutional ownership has a significant positive effect, while the independent commissioners have a negative but statistically insignificant effect. These findings underscore the need to strengthen corporate governance substantively, particularly by enhancing the active role of institutional investors and improving the independence and competence of board members. These results suggest that the effectiveness of GCG mechanisms in curbing earnings management varies across different governance components.

INTRODUCTION

Public companies have a strategic role in supporting the national economy, both through job creation, contribution to state revenue, and as a means of public investment (Johan, 2024; Ummah et al., 2023). Status as a public company requires the company to comply with *capital market* regulations, including the obligation to prepare and submit financial statements in a transparent and accurate manner (Law No. 8 of 1995; Law No. 4 of 2023). Financial statements are the main representation of the company's performance conditions that are a reference for investors, creditors, regulators, and other stakeholders in economic decision-making (Otoritas Jasa Keuangan, 2017; Republik Indonesia, 2023; Scott, 2015).

In practice, strong market pressure to maintain stock prices or meet profit targets is often an impetus for management to undertake *earnings management* or *profit management* (Hosen & Afriyenti, 2024). Healy and Wahlen (1999) define *profit management* as the action of managers in using accounting discretion in the financial reporting process, with the aim of influencing the profit figures presented, both to maximize personal incentives and adjust market expectations (Mardana & Ratnawati, 2024; Siregar & Junidwan, 2022). This practice is not necessarily illegal, but it can lead to the reporting of misleading information and potentially undermining public trust (Scott, 2015; Wijaya & Firmansyah, 2021).

This condition is a serious spotlight in the context of *good corporate governance* (*GCG*) (Wien, 2010; Zubaidah et al., 2021). *GCG* plays an important role in controlling managerial behavior through internal and external oversight mechanisms, such as the existence of audit committees, independent commissioners, and institutional ownership (Septiyani and Aminah, 2023). These three elements are believed to be able to minimize conflicts of interest and ensure accountable decision-making (Wijaya & Firmansyah, 2021). However, the effectiveness of *GCG* in suppressing *profit management* still raises debate due to the inconsistent results of previous research (Siregar & Junidwan, 2022; Premier, 2019; Fionita & Fitra, 2021). This uncertainty becomes increasingly crucial when associated with the energy sector, which has a strategic position in *Indonesia*'s economic structure due to its significant contribution to the Gross Domestic Product (*GDP*), state revenue, and central role in export activities (Hermawan et al., 2025). On the other hand, this sector is also one of the industries most vulnerable to fraudulent practices, as revealed in the *Occupational Fraud 2024* report by the Association of Certified Fraud Examiners (*ACFE*), which states that the mining industry recorded the highest median loss value due to financial fraud (ACFE, 2024).

One of the cases that highlights the weaknesses of the internal supervision system is the alleged corruption at *PT Timah Tbk*. In the investigation process, it was revealed that there were smelter rental transactions worth Rp1.9 trillion that were not recorded in the company's financial system. This transaction should have generated a profit of IDR 223 billion, but it was not accountably documented (Tempo, 2024). In addition, the Head of the Accounting Division of *PT Timah* for the 2017–2019 period revealed that revenue from tin metal sales accounted for around *80–90%* of consolidated revenue, but was not fully reflected in the financial statements (Ellwood & García-Lacalle, 2016; Song & Bannister, 2020). This shows that the gap in financial reporting is still wide open, especially in companies that face high performance pressures such as in the energy sector. *PT Timah*'s case reflects the challenges of maintaining transparency in financial statements, especially in the energy sector which has high external pressures, operational complexity, and the potential for great conflicts of interest.

Previous research has examined the relationship between *Good Corporate Governance* (*GCG*) mechanisms and *profit management* practices, but the results are still inconsistent. Pratomo and Alma (2020) found that institutional ownership and an independent board of commissioners negatively affect *profit management* in the mining sector, while Septiyani and Aminah (2023) show that an effective audit committee can reduce profit manipulation, although institutional ownership has the potential to increase such practices due to short-term pressures. In addition, Fionita and Fitra's (2021) research revealed the inconsistency of the role of independent commissioners, especially in sectors with high operational complexity such as energy. The gaps in this study lie in the inconsistency of the findings, the limited focus of the sector (especially energy), and the methodological approach that has not considered the variables of moderation or mediation.

This research is here to fill this gap by making a new contribution through a focus on the energy sector in *Indonesia*, which is vulnerable to commodity price volatility and performance pressures. In addition, this study integrates agency theory with local *GCG* practices to explain the effectiveness of supervisory mechanisms in an immature governance environment. The data used also covers the current period *(2019–2023)*, including the impact of the pandemic and economic recovery, thus providing strong empirical relevance. The purpose of this study is to analyze the influence of audit committees, institutional ownership, and independent commissioners on *profit management*, as well as provide policy recommendations for regulators and practitioners in strengthening corporate governance in strategic sectors such as energy.

Departing from this phenomenon, it is important to conduct empirical testing of how the role of key elements in corporate governance structures, especially audit committees, institutional ownership, and independent commissioners, in suppressing *profit management* practices. This research focuses on energy sector companies listed on the *Indonesia* Stock Exchange during the *2019–2023* period. This focus was chosen because companies in the energy sector have great potential to perform *profit management* due to pressure to maintain financial stability amid commodity price volatility and high global dynamics.

The results of this research are expected to make an important contribution, both theoretically and practically. Theoretically, this research can enrich the literature on the effectiveness of *GCG* in the context of developing countries with governance characteristics that are not yet fully established. Practically, the findings of this study are expected to be a reference for regulators, company management, and investors in strengthening the supervisory system and increasing the transparency of financial statements in *Indonesia*'s energy sector.

METHOD RESEARCH

This study uses a quantitative causality design with secondary data collected through the *Indonesia Stock Exchange* or the websites of each company in the *2019–2023* period. The sample is an energy sector company that is determined using the *purposive sampling* method with the following criteria: listed on the *IDX*, not subject to sector change, not delisted, publication of financial statements and complete annual reports, and has been audited during the *2019–2023* period. The number of valid data analyzed was 57 companies with 285 annual data. The analysis technique used is multiple linear regression of panel data. Data processing is carried out using *EViews* version 12 and *Microsoft Excel*.

Profit management variables are measured through the discretionary accruals approach as in the research of Pratomo and Alma (2020), the audit committee through the audit committee's effectiveness score developed by Hermawan (2011) and used by Rahmatika et al. (2019). In the study, *institutional ownership* is calculated through the comparison of the shares owned by the institution with the total outstanding shares of the company, as well as *independent commissioners* which are calculated through the comparison of independent commissioners with the number of outstanding shares of the board of commissioners (Pratomo and Alma, 2020).

The Operational and measurement variables used are:

Table 1. Operational and Measurement Variables

No.	Variable	Size	Scale	Reference
1.	Profit Management	$DA = \frac{TAC_{it}}{A_{it-1}} - NDAC$	Ratio	Pratomo and Alma, 2020

No.	Variable	Size	Scale	Reference
2.	Audit Committee	$Efektivitas\ Komite\ Audit = \frac{\sum Skor\ yang\ diperoleh}{33}\ x\ 100\%$	Ratio	Rahmatika et al., 2019
3.	Institutional Ownership	$Kepemilikan\ Institusional = \frac{\sum Saham\ institusi}{\sum Saham\ beredar}\ x\ 100\%$	Ratio	Pratomo and Alma, 2020
4.	Independent Commissioner	$Komisaris\ Independen = \frac{\sum Komisaris\ Independen}{\sum Dewan\ Komisaris}\ x\ 100\%$	Ratio	Pratomo and Alma, 2020

RESULT AND DISCUSSION

Descriptive statistical analysis aims to provide an initial overview of the data characteristics of each of the variables of this study by presenting the mean, maximum, minimum, and standard deviation values. The results of the analysis showed that the Audit Committee variable (X1) had an average value of 0.908559 which showed that in general the proportion of the audit committee's effectiveness was close to ideal. Institutional Ownership (X2) is known to have an average of 0.773857, which generally indicates that the majority of shareholding is controlled by institutions. The average Independent Commissioner (X3) shows a figure of 0.438590, which means that the average company has a composition of independent commissioners that exceeds the minimum regulatory limit of 30%. Meanwhile, the dependent variable, namely Profit Management (Y), has an average of -0.047483 which indicates a tendency for companies to manage profits towards income decreasing.

Before conducting the regression analysis, an estimate was carried out to select a panel data regression estimation model and test of classical assumptions. Based on the model selection, it is carried out in stages, starting with the Chow test and continuing with the Hausman test. Both show that the Fixed Effect Model is more suitable for use in this study. Furthermore, in the classical assumption, it is known that the results of the normality test conducted using the Shapiro-wilk method produced a probability value of 0.111596 (> 0.05), indicating that the data is distributed normally. The results of the multicollinearity test on the correlation coefficient between variables showed a number below 0.85, so it can be concluded that there are no symptoms of multicollinearity in the model. The heteroscedasticity test was carried out using the Glejser method, and showed a probability value of all variables above 0.05, which indicates that the regression equation model did not experience heteroscedasticity. The last classical assumption test, the autocorrelation test, which was carried out using the Wooldridge method, showed a prob value of > F of 0.5590 (>0.05) with the conclusion that there was no autocorrelation in the regression model. Thus, the entire classic test has passed.

Hypothesis testing is carried out using various statistical tests to analyze the relationship between independent variables and dependent variables.

Table 2. Statistical Test Results

Root MSE	0.097575	R-squared	0.410673
Mean dependent var	-0.047483	Adjusted R-squared	0.256138
S.D. dependent var	0.127327	S.E. of regression	0.109817
Akaike info criterion	-1.395346	Sum squared resid	2.713431

Schwarz criterion	-0.626401	Log likelihood	258.8368
Hannan-Quinn criter.	-1.087095	F-statistic	2.657480
Durbin-Watson stat	2.300714	Prob(F-statistic)	0.000000

Source: Data processed (2025)

The determination coefficient test (Adjusted R Square) showed a result of 0.256138. This value implies that the three independent variables are able to explain the Profit Management (Y) variable of 25.6138%, while the remaining 74.3862% is explained by other variables that are not included in this study model.

The statistical test F shows the calculated F value of 2.657480 > F table 2.637 or the Prob value. 0.000000 < 0.05 which means that all three variables simultaneously and significantly affect the variables of profit management practices. Next, a statistical test t was carried out using criteria based on a comparison of probability values (ρ) produced by each independent variable.

Table 3. Statistical Test Results t

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	0.087007	0.139437	0.623984	0.5333
X1	-0.329653	0.120566	-2.734204	0.0068
X2	0.241470	0.098059	2.462488	0.0145
X3	-0.049805	0.096137	-0.518057	0.6049

Source: Data processed (2025)

Based on the results of the t-test, the probability of the Audit Committee (X1) was known to be 0.0068 (< 0.05) with a negative coefficient value of -0.329653. This can be interpreted that partially, the audit committee contributes to mitigating the occurrence of profit management practices, so that H1 is accepted. Institutional Ownership (X2) has a probability value of 0.0145 (< 0.05), and the value of the coefficient is known to have a positive value of 0.241470. The results of this test show that institutional ownership partially affects profit management in a positive and significant relationship direction, which makes H2 rejected. The probability variable of the Independent Commissioner (X3) is known to be 0.6049 (> 0.05), and the coefficient value is negative of -0.049805. This suggests that independent commissioners partially have an effect on reduced profit management practices but not significantly, so H3 is rejected (Izazi et al., 2021; Perdana, 2019).

The interpretation of the linear regression model of the panel data was then carried out to estimate the influence of the three independent variables on the dependent variables. It is used to test the simultaneous and partial influence of independent variables on dependent variables. Based on the results of the analysis, the regression model used is as follows:

In this study, the value of the constant in the regression model was known to be 0.087007. This shows that if all independent variables are in a constant condition or have a value of zero, then the value of the dependent variable is estimated to be 0.087007, which is the cut-off point of the regression line (Janrosl & Lim, 2019; Otoritas Jasa Keuangan [OJK], 2015; Hermawan et al., 2025). The regression coefficient of the Audit Committee variable (X1) of -0.329653 shows that if the X1 variable increases by 1% while the other variables remain, then the Profit Management value (Y) will decrease by 0.329653%. On the other hand, Institutional Ownership (X2) has a regression coefficient of 0.241470, which means that when the proportion of institutional ownership increases by 1% and other variables do not change, then the indication of profit management will increase by 0.241470%. Meanwhile, the regression coefficient for the Independent Commissioner variable (X3) of -0.049805 indicates that if the proportion of independent commissioners in the corporate governance structure increases by 1%, while other variables remain the same, then profit management is predicted to decrease by 0.049805% (Septiyani & Aminah, 2023).

Based on the results of data analysis, the Audit Committee variable (X1) is proven that the existence and effectiveness of the audit committee contributes to reducing management's tendency to manipulate profits (Janrosl & Lim, 2019; Otoritas Jasa Keuangan [OJK], 2015; Hermawan et al., 2025). This strengthens the strategic role of the audit committee in suppressing opportunistic management behavior through monitoring the compliance, accuracy, and reliability of financial statements, consistent with agency theory (Izazi et al., 2021; Perdana, 2019). Contrary to the audit committee, the results of data analysis from the Institutional Ownership variable (X2) indicate that the existence of institutions as shareholders does not necessarily play a role as an effective supervisory mechanism, in fact the pressure to meet short-term profit expectations from institutional majority shareholders has the potential to encourage managers to take manipulative actions on financial statements (Septiyani and Aminah, 2023). In addition, research on Independent Commissioners (X3) shows that the existence of independent commissioners has a negative influence but is not effective enough in reducing profit management practices in Indonesian energy sector companies. These findings show the importance of strengthening the role and supervision of independent commissioners, because the mere formal existence of independent commissioners does not guarantee a reduction in profit management practices (Song & Bannister, 2020; Ramadhani et al., 2021; Zubaidah et al., 2021).

CONCLUSION

In relation to minimizing *profit management* practices, the existence of an effective audit committee can be used as a mitigation mechanism for the occurrence of *profit management* practices. However, the existence of institutional shareholders as majority investors and *independent commissioners* is not necessarily consistently able to carry out these supervisory functions optimally. This study has several limitations, including limited coverage only to the energy sector, the use of three *corporate governance* indicators (*audit committee*, *institutional ownership*, and *independent commissioners*) without considering other variables such as leverage or profitability, the use of secondary data that does not capture managerial qualitative aspects, and an analytical model that only tests the direct relationship between variables without considering the role of moderation or mediation. Therefore, it is recommended for future research to expand the scope of the sector, add other control variables, integrate quantitative and qualitative approaches, and develop models involving moderation or mediation variables to obtain more comprehensive and in-depth results.

REFERENCES

ACFE. (2024). Occupational fraud 2024: A report to the nations. Association of Certified Fraud Examiners. https://www.acfe.com/media/files/acfe/pdfs/rttn/2024-report-to-the-nations.pdf

Alexander, N. (2021). Effect of corporate governance on earnings management: Study on manufacturing companies listed in the Indonesia Stock Exchange. Review of Integrative Business and Economics Research, 10, 55-61.

Ali, S. A. H. M. (2022). The association between audit committee characteristics and earning management: Evidence from GCC stock markets. Information Sciences Letters, 11(1), 257-268.

Arens, A. A., Elder, R. J., & Beasley, M. S. (2018). Auditing and assurance services: An integrated approach. Pearson.

Bhakti, I. D., & Widodo, U. P. W. (2024). Peranan Pengendalian Internal Dalam Meningkatkan Kualitas Audit Internal. Jurnal Ilmiah Ekonomi, Manajemen, Bisnis Dan Akuntansi, 1(2), 750-758.

Darsani, R. (2021). Manajemen Laba dan Tata Kelola Perusahaan. Jakarta: Gramedia.

Ellwood, S., & García-Lacalle, J. (2016). Examining audit committees in the corporate governance of public bodies. Public Management Review, 18(8), 1138-1162. https://doi.org/10.1080/14719037.2015.1088566

Fionita, Y., & Fitra, H. (2021). Pengaruh kepemilikan institusional, komisaris independen, komite audit, pertumbuhan penjualan, dan leverage terhadap manajemen laba. Jurnal Eksplorasi Akuntansi, 3(4), 893-907.

Hermawan, A. A. (2011). The influence of effective board of commissioners and audit committee on the informativeness of earnings: evidence from Indonesian listed firms. Asia Pacific Journal of Accounting and Finance, 2(1), 1-38.

Hermawan, M. S., Judijanto, L., Kusumastuti, S. Y., Purnamaningrum, T. K., Suparyati, A., Pracoyo, A., ... & Ilma, A. F. N. (2025). Pengantar Ekonomi Indonesia: Perkembangan dan Tantangan Perekonomian dalam Rangka Percepatan Pembangunan Nasional Menuju Indonesia Emas 2045. PT. Sonpedia Publishing Indonesia.

Hosen, R., & Afriyenti, M. (2024). Pengaruh Fraud Hexagon terhadap Manajemen Laba Berdasarkan M-score yang Dimodifikasi. Jurnal Eksplorasi Akuntansi (JEA), 6 (3), 1034-1049.

Izazi, M., Afrizal, A., & Yustien, R. (2021). Pengaruh Komisaris Independen, Kepemilikan Manajerial, Kepemilikan Institusional, Komite Audit, Leverage Dan Kompensasi Bonus Terhadap Manajemen Laba (Pada Perusahaan Pertambangan Yang Terdaftar Di Bursa Efek Indonesia Periode Tahun 2016-2019). Jambi Accounting Review (JAR), 2(3), 333-352.

Janrosl, V. S. E., & Lim, J. (2019). Analisis pengaruh good corporate governance terhadap manajemen laba pada perusahaan perbankan yang terdaftar di BEI. Owner: Riset dan Jurnal Akuntansi, 3(2), 226-238.

Johan, S. (2024). Independent commissioners: How independent? JHBBC. https://doi.org/10.30996/jhbbc.v7i2.10895

Ningrum, A. S., Yusroni, N., & Irhamni, R. (2024). Pengaruh Komite Audit, Kepemilikan Institusional, Komisaris Independen, dan Leverage Terhadap Manajemen Laba Pada Perusahaan Manufaktur Di Bursa Efek Indonesia. Jurnal Ekonomi Akuntansi Manajemen Agribisnis, 2(1), 19-28.

Otoritas Jasa Keuangan (OJK). (2015). Peraturan OJK No. 55/POJK.04/2015 tentang Pembentukan dan Pedoman Pelaksanaan Kerja Komite Audit. Jakarta: OJK.

Otoritas Jasa Keuangan (OJK). (2017). Peraturan OJK No. 57/POJK.04/2017 tentang Penerapan Tata Kelola Perusahaan Efek yang Melakukan Kegiatan Usaha sebagai Penjamin Emisi Efek dan Perantara Pedagang Efek. Jakarta: OJK.

Perdana, A. A. (2019). Pengaruh Kepemilikan Institusional, Leverage, dan Komite Audit Terhadap Manajemen Laba Pada Perusahaan Yang Terdaftar di PT Bursa Efek Indonesia (Studi Empiris Pada Perusahaan Yang Terdaftar Di PT Bursa Efek Indonesia Dari Tahun 2015–2017). Jurnal Ekonomi Sakti (JES), 8(1), 1-19.

Pratomo, D., & Alma, N. (2020). Pengaruh dewan komisaris independen, kepemilikan institusional, kepemilikan manajerial, dan kepemilikan asing terhadap manajemen laba (Studi kasus pada perusahaan sektor pertambangan yang terdaftar di Bursa Efek Indonesia Periode 2014-2018). Jurnal Akuntansi Keuangan Dan Bisnis, 13(2), 98-107.

Rahmatika, M. W., Widarjo, W., & Payamta. (2019). Peran Komisaris Independen dan Komite Audit Dalam Meningkatkan Kinerja Keuangan Perusahaan Wholesale dan Retail Trade di Indonesia. Jurnal Akuntansi Dan Bisnis, 19(1), 54–65.

Ramadhani, S., Thamrin, H., & Basmalah, B. (2021). Pengaruh Kepemilikan Institusional, Komposisi Dewan Komisaris, Komite Audit, dan Leverage terhadap Manajemen Laba pada Perusahaan Perbankan yang Terdaftar di Bursa Efek Indonesia. Jurnal Inovasi Penelitian, 2(7), 2169-2182.

Ramalingegowda, S., Utke, S., & Yu, Y. (2021). Common institutional ownership and earnings management. Contemporary Accounting Research, 38(1), 208-241.

Republik Indonesia. (2023). Undang-Undang Nomor 4 Tahun 2023 tentang Pengembangan dan Penguatan Sektor Keuangan. Lembaran Negara Republik Indonesia Tahun 2023 Nomor 4. Jakarta: Sekretariat Negara.

Scott, W. R. (2015). Financial accounting theory, seventh edition. (7th ed.). Pearson Canada.

Septiyani, R., & Aminah, A. (2023). Pengaruh Good Corporate Governance Terhadap Manajemen Laba Pada Perusahaan Asuransi Yang Terdaftar di BEI. Jurnal Mirai Management, 8(1), 231-239.

Siregar, O. K., & Junidwan, A. D. (2022, December). The Effect of Good Corporate Governance on Profit Management (Case Study: Transportation Companies Listed on the IDX). Proceeding of The International Conference on Economics and Business (Vol. 1, No. 2, pp. 495-507).

Song, X., & Bannister, J. (2020). Accounting standards, reporting incentives, and earnings management. Accounting and Finance Research, 9(2), 60. https://doi.org/10.5430/afr.v9n2p60

Tempo. (2024, Oktober 14). Sidang Korupsi Timah, Direktur Keuangan PT Timah Ungkap Sistem Pencatatan Laporan Keuangan Perusahaan. Tempo. https://www.tempo.co/hukum/sidang-korupsi-timah-direktur-keuangan-pt-timah-ungkap-sistem-pencatatan-laporan-keuangan-perusahaan-81214. Diakses pada 18 Maret 2025.

Ummah, S., Trunojoyo, U., Madura, E. D., & Aini, N. (2023). Keberadaan komisaris independen dalam menerapkan good corporate governance pada perseroan terbatas. Jurnal Hukum dan Sosial Politik. https://doi.org/10.59581/jhsp-widyakarya.v2i1.2116

Wien, L. (2010). The Role of Institutional Ownership in Corporate Governance. Journal of Business and Management, 5(3), 22-35.

Wijaya, D. B., & Firmansyah, A. (2021). Apakah pengungkapan tata kelola perusahaan dapat mereduksi manajemen laba pada perusahaan perbankan di Indonesia? Keberlanjutan: Jurnal Manajemen Dan Jurnal Akuntansi, 6(1), 27–41. https://doi.org/10.32493/keberlanjutan.v6i1.y2021.p27-41

Zubaidah, S., Irawan, D., Sumarwijaya, Widyastuti, A., & Arisanti, I. (2021). Gender Diversity, Institutional Ownership and Earning Management: Case on Distribution Industry in Indonesia. Journal of Distribution Science, 19(11), 17-25.

Copyright holders:
Sabrina Khoirunnisa, Amin Wijoyo (2025)

First publication right:
Devotion - Journal of Research and Community Service

This article is licensed under a [Creative Commons Attribution-ShareAlike 4.0 International]