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The Effectiveness of Corporate Governance on Increasing Profit Quality in the Transportation Sector of the Indonesian Stock Exchange

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Abstract

This study investigates how corporate governance mechanisms, particularly institutional and managerial ownership, affect the earnings quality of companies in the transportation industry listed on the Indonesia Stock Exchange from 2018 to 2022. The analysis was conducted using secondary data from financial statements, and multiple linear regressions conducted using SPSS 23. The results show that managerial ownership has a significant positive impact on earnings quality, while institutional ownership has a significant negative impact on earnings quality. These findings suggest the need for transportation companies to improve communication with institutional shareholders to manage short-term pressures that can lead to earnings manipulation. In addition, increasing managerial ownership can drive sustainable earnings quality and company performance. For investors, this emphasizes the importance of monitoring corporate governance practices and management performance as potential indicators of earnings manipulation. Recommendations for further research include further exploration of corporate governance variables, expanding the study period, covering more industry sectors, and also utilizing other alternative methods for a more comprehensive evaluation of earnings quality. Overall, this study emphasizes the crucial role of effective corporate governance in improving transparency and accuracy in corporate financial reporting.

Keywords: *Corporate Governance*, Earnings Quality, Institutional Ownership and Managerial Ownership

INTRODUCTION

The current global economic situation is facing complex and dynamic challenges with various factors influencing it. For example, the COVID-19 pandemic has disrupted economies around the world, including in Indonesia. Geopolitical uncertainty and technological advances have also changed the economy and business dynamics. In this context, the transportation sector in Indonesia has shown significant resilience and growth despite facing increasingly fierce competition.

Transportation companies play a huge role in a country's economy. They not only provide essential logistics and mobility services, but also contribute to economic expansion and job creation. As a result, the financial performance and earnings quality of these companies are of primary concern to investors, stakeholders and policymakers.

High earnings indicate the true economic performance of the company, and can be a strong basis

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for investors and other stakeholders to make decisions. However, earnings quality is often affected by accounting practices and earnings management that can hide or manipulate true financial information. As a result, understanding the components that can affect earnings quality is very important (Fadison et al., 2024; Iskamto et al., 2019; Priscilia & Rudyanto, 2024).

An important method to improve the caliber of corporate earnings is corporate governance. Corporate governance includes the mechanisms and protocols used to manage the company. The expectation is that the company can minimize the involvement of earnings management practices and produce more good financial reports through the implementation of corporate governance. Corporate management is one of the elements that reflects corporate governance. Two aspects that describe effective corporate management mechanisms are institutional ownership and ownership by managers (Prihastuti et al., 2022; Soesetio, 2023).

Institutional ownership refers to the ownership of shares by entities such as insurance companies, pension fund management companies, and other financial institutions. Managerial ownership refers to the ownership of shares by a company's management team.

This study attempts to empirically test the influence of both corporate governance systems on earnings quality. The rationale for selecting the subject of this study is based on the importance of the transportation sector in the Indonesian economy.

This study also offers an element of novelty by evaluating the correlation between corporate governance mechanisms and earnings quality in the context of the transportation sector in Indonesia, which to date has received little attention in the literature.

The main difference between this study and previous studies lies in the focus of the sectors studied and the time period used, which provides a new and relevant context for stakeholders in the transportation sector.

LITERATURE REVIEW (if any)

Corporate Governance and Profit Quality

Profit quality refers to the sustainability, reliability, and transparency of earnings reported by a company. High-quality profits are those derived from core business operations and reflect the company's real financial performance rather than being inflated by accounting manipulations or non-recurring items. Research by Dechow, Ge, and Schrand (2010) emphasized that strong governance mechanisms reduce earnings management and enhance profit quality. Corporate governance is a corporate governance structure, used to manage and oversee a company effectively, ensuring a harmonious balance between the company's influence and control in its interactions with shareholders, management, consumers, suppliers, finance, government, and society.

The principles of corporate governance include the main principles of transparency, accountability, independence, and equality. All of which are intended to ensure reliable and trustworthy management or methods that are effective for all parties (Iskamto et al., 2024; Musa & Ismail, 2023; Soesetio et al., 2022).

The importance of corporate governance is reflected in various studies that show how corporate governance mechanisms can influence various aspects of company performance, including earnings quality.

Governance Mechanisms in the Indonesian Context

In Indonesia, corporate governance practices have been evolving, especially since the Asian Financial Crisis of 1997. The Indonesian Financial Services Authority (OJK) and IDX have mandated the implementation of corporate governance principles, including board structure, transparency, audit committees, and risk management. Studies (e.g., Hermawan, 2009; Nuraini & Wahyudi, 2018) have shown that firms with more independent boards and active audit committees are less prone to earnings manipulation.

However, empirical studies specific to the transportation sector remain limited. Transportation companies often face volatility in revenue due to fuel prices, regulatory changes, and infrastructure investments, making profit quality analysis more complex. Still, companies with robust governance structures are more likely to manage these uncertainties effectively and maintain profit quality (Siregar & Utama, 2008).Earnings quality is concerned with the degree to which reported profitability accurately represents economic profits and offers valuable information to readers of financial statements, used for decision-making purposes. High-quality earnings refer to earnings that are not compromised in terms of their superiority or superiority influenced by earnings management practices and reflect the true economic performance of the company.Various studies have shown that efficient corporate governance processes have the potential to improve the quality of corporate earnings. For example, research by Martinus and Kusumawati (2021) shows that ownership by managers can reduce earnings management, which means managers can improve earnings quality by utilizing their dual roles. This means that good earnings quality is not only important for the accuracy of financial reporting but also for investor confidence and market stability.

Audit Committees and Transparency

One of the most widely studied governance mechanisms is the role of audit committees. Effective audit committees serve as a check on financial reporting and internal control systems. In the Indonesian context, Prasastinah (2015) found that firms with active, independent audit committees tend to have more reliable financial reports and higher earnings quality.

Managerial Ownership

Board composition—particularly the ratio of independent commissioners—has also been linked to profit quality. Research by Utama and Rohman (2019) suggests that a higher proportion of independent board members correlates with reduced earnings management in Indonesian firms. Furthermore, managerial ownership, when aligned with shareholders' interests, can increase accountability and improve earnings transparency (Wijaya & Wicaksana, 2020).

Sector-Specific Considerations in Transportation

Transportation companies often deal with long-term contracts, depreciation-heavy assets, and project-based revenues, which can complicate earnings recognition. Good governance ensures these challenges are managed with transparency. For example, Tanjung and Kusumaningtias (2021) observed that transportation firms on IDX with robust governance practices report less volatile earnings and exhibit stronger financial performance consistency.

While general studies on corporate governance and earnings quality in Indonesia are abundant, specific research focusing on the transportation sector is sparse. There's a need for sector-focused studies that account for the unique operational characteristics and regulatory frameworks affecting profit quality. Further, comparative studies across sectors may help in identifying governance practices that are particularly effective in transportation.

Institutional ownership can help improve earnings quality by minimizing earnings management practices. Nisa and Rahmawati's (2023) research found that institutional ownership has a major impact on earnings quality. Institutional ownership can function as an efficient control mechanism in this case improving the quality of the company's financial statements.
Another study by Sari (2021) shows that effective corporate governance helps reduce earnings management techniques that can threaten the integrity of reported earnings. With the implementation of effective corporate governance practices, organizations can ensure the accuracy and reliability of their financial reports. They reflect actual economic performance, thus offering more accurate and valuable information to stakeholders. This confirms that strong corporate governance can provide accurate and reliable financial information. This financial information is very useful, not only for investors, but also for other related parties who rely on it. The Effectiveness of Corporate Governance on Increasing Profit Quality in the Transportation Sector of the Indonesian Stock Exchange. Corporate governance (CG) plays a crucial role in shaping the financial integrity and sustainability of publicly listed companies. In the context of the transportation sector on the Indonesian Stock Exchange (IDX), the significance of good governance becomes even more critical due to the capital-intensive and regulation-sensitive nature of the industry.

METHOD

The research objects to be studied are transportation companies listed on the IDX in 2018 to 2022. The sampling method used is purposive sampling. Based on Paramita, et al. (2021:64), purposive sampling is used for the purpose of selecting samples that meet certain objectives or criteria that have been set. The requirements that have been set for this study include:

Table 1 Criteria Until

Criteria	Amount
Number of transportation subsector companies listed on the Indonesia Stock Exchange	14
Transportation subsector companies that showed irregular listing patterns on the Indonesia Stock Exchange between 2018-2022	(3)
Transportation companies that use currencies other than the rupiah to report their finances	(1)
Companies in the transportation subsector that do not provide complete information regarding the variables required by researchers	(1)
Total company	9
Total sample (total companies x 5 years)	45

Source: Processed data (2024)

The data on Table 1 were analyzed using multiple linear regression, used to evaluate the influence of independent variables on dependent variables. The data analysis approach includes descriptive statistical analysis, evaluation of the truth of classical assumptions, and utilization of statistical hypothesis testing.

The investigation will examine the following hypotheses:

H1: The level of institutional ownership has a significant impact on earnings quality.

H2: The level of managerial ownership has a major impact on earnings quality.

RESULT AND DISCUSSION

The investigation was conducted on transportation sub-sector corporations, which have been officially listed on the Indonesia Stock Exchange (IDX) and through periodic online platforms, providing their financial reports from 2018 to 2022. From a total of 14 companies, nine companies were selected as samples through a selective sampling procedure.

The 9 issuer codes of the company are ASSA, BIRD, BPTR, CMPP, HELI, LRNA, SAFE, TAXI and WEH.

After collecting data from 2018 to 2022, it resulted in 45 pooled data from 5 observation periods. The following are the results of several experiments conducted in this study.

Descriptive Statistical Test

Table 2 Results of Descriptive Statistical Tests

	N	Min	Max	Mean	Std Deviation
KI	45	28	99	.6747	.22497
KM	45	.0	.3	.049	.0649
Profit Quality	45	-6.0	.0	-.847	1.2899

Source: Processed data (2024)

According to Table 2 descriptive statistical analysis. The average discretionary accrual (DACC) used to measure earnings quality is -0.847 standard deviation 1.2899. The minimum value is -6.0 owned by Steady Safe Tbk and the maximum value is 0.9 by Express Trashindo Utama Tbk. The average value of the earnings quality variable is negative, indicating that the company has good earnings quality as assessed by discretionary accruals. The average level of institutional ownership is 0.67465 and has a standard deviation of 0.22497 with Blue Bird Tbk having the lowest value of 0.28370 and Air Asia Indonesia Tbk having the highest value of 0.98910, indicating that most of the shares are owned by institutions.

For managerial ownership, the Mean is 0.04909 with a standard deviation of 0.0649. Eka Sari Lorena Transport Tbk has the lowest value of 0.0000000628, while Steady Safe Tbk has the highest value of 0.26974. From the results of this descriptive analysis, it can be seen to what extent management share ownership is relatively low.

Classical Assumption Test

Normality Test

Table 3 Normality Test Results

Test Statistic Value	0.121
Sig	0.095
Conclusion	Normality Fulfilled

Source: Processed data (2024)

According to the results of Table 3 data analysis using the One Sample Kolmogorov-Smirnov test, the statistical value of the test obtained was 0.121 with a significance level of 0.095. Based on these results, the normality for the regression model has been met.

Multicollinearity Test

Table 4 Multicollinearity Test Results

Variables	Tolerance	VIF	Conclusion
KI	0.988	1,013	No Multicollinearity Occurs
KM	0.988	1,013	No Multicollinearity Occurs

Source: Processed data (2024)

Table 4 shows The purpose of the multicollinearity test is to assess the presence of significant correlation between independent variables in the regression model. Tolerance and Variance Inflation Factor (VIF) is a statistical measure used as an indicator to determine the presence of multicollinearity.

According to the data in Table 4, all independent variables show tolerances exceeding 0.1 and VIF values less than 10. Thus, it can be concluded that there is no indication of multicollinearity in the regression model.

Autocorrelation Test

Table 5 Autocorrelation Test Results

Durbin Watson	2.035
Du (DW-Table)	1,614
4-du	2.385
Conclusion	No autocorrelation occurs

Source: Processed data (2024)

Autocorrelation test is used to assess the relationship between the residual error in a period with the previous time interval in a linear regression model. Autocorrelation arises due to the interdependence of consecutive observations.

Based on Table 5 the results of the autocorrelation test, there is no relationship between the residual error of period t and the residual error of the previous period (t-1). The Durbin-Watson statistical value in Table 5 provides evidence of this which is in the range $0 < d < 4\text{-du}$.

Multiple Linear Regression Test

Table 6 Regression Test Results

Variables	**Coefficient β**	***Sig.***	**Conclusion**
Constants	-1,448		
KI	1,667	0.019	Positive influence
KM	-10,653	0,000	Negative influence

Source: Processed data (2024)

The significant values are shown in Table 4. institutional ownership and management ownership The results are 0.019 and 0.000 respectively. Both readings fall below the threshold of 0.05. This indicates that both variables have a significant influence on profit quality.

The regression equation obtained based on the computational results is presented in table 4.

DAC:-1,448+1,667 KI-10,653 KM

The regression equation above can be explained as follows:

The constant equation of -1.488 shows that when the level of institutional ownership (INST) and managerial ownership (MAN) has a value of 0, then the earnings quality will have a value of -1.488.

The coefficient of institutional ownership is 1.667. This means that every one point increase in institutional ownership will increase discretionary accrual by 1.667, indicating a decrease in earnings quality by the same amount. This means that the first hypothesis (H1) which states that institutional ownership has a large impact on earnings quality can be accepted.

The coefficient of managerial ownership value of -10.653 indicates that every one point increase in managerial ownership will reduce discretionary accrual by 10.488, a decrease in discretionary accrual indicates an increase in earnings quality. This means that the second hypothesis (H2) states that managerial ownership has a large influence on the quality of earnings that can be accepted.

CONCLUSION

Based on research on the influence of corporate governance on the profitability of companies in the transportation sector, several things can be concluded. First, institutional ownership has a significant positive influence on discretionary accrual, which shows that the higher the institutional ownership, the lower the quality of the company's earnings. This may be due to the short-term focus of institutions that can encourage management to manipulate earnings. Furthermore, managerial ownership has a significant negative influence related to discretionary accruals, research shows a negative correlation between the level of share ownership by management and the amount of accrual. This illustrates that managerial ownership can increase the validity of the company's income. This is because management has an incentive not to manipulate earnings for personal gain.

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