ABSTRACT

THE EFFECT OF MANAJERIAL OWNERSHIP, INSTITUTIONAL OWNERSHIP, THE NUMBER OF INDEPENDENT BOARD OF COMMISSIONERS, AND AUDIT COMMITTEE ON EARNINGS MANAGEMENT PRACTICES

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Manajerial ownership, institusional ownership, board of commisioner, and audit committee existence are elements of good corporate governance. Good Corporate Governance is needed in for the company to have advanced aspects of transparency, independence, accountability, responsibility, and fairness of the actions taken by management to raise or lower the gain in earnings management practices. The aim of this study is to examine the impact of independent variabel such as manajerial ownership, institusional ownership, the number of independent board of commissioners, and audit committee on dependent variabel earnings management practices by using multiple and simple linear regression method to gain the related coefficients. This study uses 63 sample manufacture financial statement from 2013 until 2015 enlist in BEI. The result from this study shows that there are negative significant independent variable such as manajerial ownership and the number of board of independent commissioner with dependent variable on earnings management. However, both of the institusional ownership and the number of Audit Commitee are insignificant with earnings management. Subsequently, The data result shows that independent variable such as manajerial ownership, institusional ownership, the number of board of independent commissioner and the number of Audit Commitee are insignificant with earnings management by using multiple linear regression.

Keywords : earnings management, manajerial ownership, institusional ownership, the number of board independent of commisioner, and the number of audit committee.

1. INTRODUCTION

The management of the company may affect its’ profitability and performance outcome. To achieve high profitability, management is required to meet the targets as expected by the shareholders. However, this situation raises a lot of problems (agency problem) caused by different interests of related parties to achieve their goals. This is related to the manager in maximizing the welfare of the company. Earnings management is the actions taken by the management to raise or lower the reported income of the unit which may pose a good impact for the company. In this case, management tends to take action to provide
an attractive financial statements to attract investors. Thus, good corporate governance mechanism is needed to drive the company to advanced and to be more transparent, independent, accountable, responsible, and fair in providing financial reports to stakeholders. Mechanisms for Good Corporate Governance is characterized by the existence of institutional ownership, management ownership, existence of audit committee and independent directors.

Companies that have good quality will give investor the confidence and sense of security to invest in the company. Moreover, Good Corporate Governance (GCG) may enhance the success of the business and corporate accountability. Büyüksalvarcı and Abdioglu (2010) and Messier et al (2008) stated that "Corporate Governance has been described as the system by the which organization are directed and controlled". It is intended that the GCG shows the company's system of targeted and controlled to create value for shareholders and stakeholders.

Managerial ownership is the percentage of shares held by the board of directors or board of directors. As the concrete data for 2015 at PT. Canindo Pelangi Indah Tbk, shareholding composition of Commissioners and the Board of Directors is set at 76.2%. The Board of Commissaries (BOC) directors review the report indicates good results. This proved that the Board of Directors is managed to maintain the growth of the company and maintain the company's position as the market leader in metal packaging industry (Idx.co.id).

Institutional Ownership can boost a more optimal enterprise performance management. Reportedly, there are variations and dynamics of ownership of shares by non-bank institutions, which are companies from the financial sector such as insurance companies, investment banks, pension funds.

Number of Independent Commissioners and the Audit Committee have been set in Bapepam-LK. Attachment Decision of the Chairman of Bapepam-LK No. KEP-643/BL/2012 dated December 7, 2012 describes the formation and implementation of the guidelines for the work of the Audit Committee, Independent Commissioner, and members of the Board of Commissioners. Moreover, the law as regulate the requirement for people working or having authority and responsibility for planning, directing, controlling or supervising activities of the company within the last six months. These rules have been followed properly by some companies.

The Audit Committee plays an important role in the company to ensure that the company always maintain the highest possible standards of compliance in accordance with the requirements of the Financial Services Authority and the Indonesia Stock Exchange. In addition, the Audit Committee also provides opinions and suggestions on the results of audits of the company's performance to the Board of Commissioners. With such mechanism the values of transparency, accountability, independence, responsibility, and fairness and equity the company can be realized. The implementation of good corporate governance is to ensure wellbeing of the institution; therefore, some companies have formed Audit Committee.

Some research regarding the effect of the importance of managerial ownership, institutional ownership, the number of Board of Commissioners and the Audit Committee within the company are reported as follows. Margaret Weber (2006) found that the high corporate governance with lower profit management showed no significant effect of straight, but the share of ownership from the mechanisms of earnings management practices have a significant effect. Dirgantara (2010) obtained the results, that the variable independent board negatively affect and significantly related to earnings management practices and prove that the more commissioners who come from outside the company, the supervisory process that is done by the commissioners more effective and capable of lowering actions earnings management. Furthermore, Al-Thuneibat et al (2014) informs that company size influences the effectiveness of the supervisory board in making decisions, but there is negative and
significant relationship between firm size and debt management, cash conversion cycle, and the level of earnings management. Vincentia (2016) found that the independent variables that have an impact on the variable earnings management practices only institutional ownership variable and the Independent Audit Committee. Variable managerial ownership, the Board of Independent Commissioners, and the size of the company does not have an influence on the variable earnings management practices.

Based on the data related to the development of companies and report these results can be interpreted that the factor of managerial ownership, institutional ownership, the number of commissioners, the number of audit committee, and earnings management are an important element of the company. On the other hand the results of research that has been done is generally partial, still focused on the relationship and influence between the factors of ownership and earnings management, the effect of the Board of Independent Commissioners and earnings management, the effect of firm size and debt management, Cash Conversion Cycle, and the level of earnings management, and the latter, on the institutional ownership and the Independent Audit Committee to earnings management. Therefore, to test the simultaneous existence of which element is more dominant in determining earnings management among these four factors, then further research is needed on how much influence the managerial ownership, institutional, the number of commissioners, and the audit committee of the earnings management.

2. LITERATURE REVIEW

2.1 Agency Theory

According to M. Jensen & Meckling, (1976) Theory of the Agency exist on the agency relationship. It is where one group (board of directors) was sent and handed over their power to another job (agent / representative), which create the workprocess. This relates to the reaction of the target management in the interests of shareholders that demand offers the performance of management in increasing profits. In the interest of shareholders, the company is required to be able to optimize the benefits and responsible of the risk posed.

Holmstrom (1979) showed an important result in this case. The presence of additional expenditures signal acts as contract. In this case, Holmstrom shows that, where the choice of agent-spending and actions are separated, the additional information space up. Development of Pareto if and only if the signal delivered some information on measures include only spending measures. In other words, all the signals are using the example of a state contract informative; The signal to convey information in connection with the agent's action.

2.2 Good Corporate Governance (GCG)

According to Brown and Gorgens (2009), the structure of the corporate governance affects several aspects business model, including the state of company objectivity and how some objectivity can be achieved, as well as supervision and examination of risk and performance optimization. Meanwhile, according Büyüksalvarcı and Abdioğlu (2010), corporate governance should show a company run, be directed and supervised. The detailed explanation for corporate governance structure is distributing rights and responsibilities for different interests in an organization (such as the board, managers, shareholders, and stakeholders) and implement the rules and procedures for decision making. Some objectivity describes the pillars of corporate governance. The pillars depict broadly and pointed out the need of the interests of all groups. Conflicts of interest (Agency Problem) is then used to adjust the economic entities through the power of the company in
In order to benefit the interests of each group. Thus, the important role of governance mechanisms is used to govern the company through the use of earnings management. In other words, those who have interest to charge regulation to deal with conflict and protect the interests of each group by publishing and forcing them through corporate governance mechanisms. This can be done by the company to hold regular meetings to discuss the Company's performance related to the implementation of strategic and work plans of the Company.

2.3 Managerial Ownership

One of the structures contained in the good corporate governance is managerial ownership. Managerial ownership is the percentage of common stock owned by the management. According Rachmawati et al. (2007), managerial ownership is the percentage of shares owned by directors and officers who participated in the decision. Percentage of ownership will show enterprise management performance towards decisions related to the company. Jensen and Meckling (1976) in Listyani (2003) also stated that the increase in managerial ownership in the company encourages managers to do optimal performance for the company and motivate managers to act carefully, because they bear the consequences of his actions.

2.4 Institutional Ownership

“Institutional ownership is stock owners by external parties whether in the form of institution, foundation or another group” (Marselina et al., 2013). Institutional ownership as control process of business performance management. A proper Institutional Ownership will bring optimal and intensive supervision, so that opportunist behavior of managers may be restrained, in which a condition where managers reports a profit opportunistically to maximize his personal gain (Jensen dan Meckling, 1976).

2.5 The Number of Independent Board of Commissioners

La Porta et al. (1999: 222-279) demonstrated the important role of shareholders and how positive market value is related to the increase of stock holding value. The key role of the board of directors is to supervise the manager's decision. Cadbury (1992) reported the identification of the board of directors responsibilities of as a tool for strategic objectives of the company, by providing leadership to make an impact on the company, by overseeing the business manager and reporting the results to manage workers to their shareholders.

The Board of Directors has can be measured by two typical characters. Board composition and size of the company. With both characters, there will be a trade-off state or a state where a person has to make a two or more decisions, compromising or losing a certain aspect to obtain other aspects with different quality as the choices that has to be made. Based on this theory, more information will take more effective decisions. It shows that in agency theory, independent commissioner (Non-Executive directors) may play a role as the supervisor of performance management plus independent board which will result in the reduction of fraud (fraud) activity and imprecision of resource scarcity.

2.6 Audit Committee

According to Williamson (1894: 1197-1230) because the manager has the advantage of strong information during the full status and of his knowledge, the board of directors can
easily become a tool manager, thus may sacrifice the interests of shareholders. Pincus et al (1989) noted that the audit committee, as a control mechanism, will be viewed by employees as voluntarily workers who take part in important situation of the agency in order to improve the quality of the information flow between the agent with the company. The company noted that the audit committee of the board of directors is to increase the capacity as managers of control by providing specific skills, understanding financial statements, and financial information published by another company. The existence of the audit committee is accepted as high quality indicator and should have a significant effect in reducing fraud in the financial statements.

2.7 Earnings Management

Scott (2000: 296) stated that the selection of accounting policies is done by manager for particular purpose called earnings management. Related to gaining information activity, Statement of Financial Accounting Concept (SFAC) No. 1 states that such information is a major concern for assessing the performance or accountability of management. Aside of earnings, information also helps users of financial statements in assessing the company's earnings power in the future. Therefore, management has a tendency to take action to provide attractive financial statements.

Earnings management has a certain pattern in practice Rahmawati (2012: 117), which are:
1. Taking a bath, it is done when an unprofitable state are occurred and cannot be avoided in the current period, by recognizing the costs in the upcoming periods and losses in the current period.
2. Income minimization, it is made when the company earned high profitability with no political aim. The policy can be taken to be the imposition of advertising expenditures, research and development of rapid and so forth. It is similar to taking a bath, but less extreme.
3. Income maximization, it is to maximize profit in order to obtain a larger bonus. Similarly, the company is approaching a breach of long-term debt contract, the company's managers will tend to maximize profit.
4. Income smoothing, it is a form of earnings Management and most often performed and most popular one. By income smoothing, the manager raised or lowered profits to reduce fluctuations in reported earnings so that the company remains stable and not at high risk.

2.8 Prior Research and Formulation of Hypothesis

According to the journal of the Al-Thuneibat et al (2014), from the effect of Corporate Governance on Earnings Management in Saudi Arabia, stated that the demands of corporate governance effectively impact the level of compliance, but the Corporate Governance has no significant effect on Earnings Management. Various Managerial Ownership, Board of Independent Commissioners, and the size of the company does not influence the Earnings Management practices variable. Previous researchers only focused on the effect of each variable using partial method. Moreover, they also used some of the elements in GCG. Therefore, researchers used different simultaneously methods to determine the Earnings Management among these all elements in GCG. Further research is needed to know on how much the Managerial Ownership, Institutional Ownership, Number Board of Commissioners and the Audit Committee influence the earnings management.
1. Managerial Ownership and Earnings Management

The Managerial ownership represents proportion of entities’ shares owned by management of the entities. Managers, as the shareholders of the entities, are motivated to increase enterprise values as well as to increase shareholders’ wealth. The different motivation can make earnings management become a problem. These different motivation can determine these individuals business, which are insiders and outsiders. This condition is similar to the types of Corporate Governance: First, the company is led by owner and manager. Second, the company is led by non-owner and Manager (Boediono, 2005).

Shleifer and Vishny (1997) stated that a large stake in terms of economic value of the incentives to monitor. Ownership has significantly negative effect on earnings management (Pujiastuti, 2009), and it also supported by other researcher such as Siallagan and Machfoedz (2006), Ujiyantho and Pramuka (2007). Based on the previous discussion, the researcher formulate the following hypothesis:

**H1:** Managerial Ownership affect earnings management.

2. Institutional Ownership and Earnings Management

Institutional ownership is the ownership of company shares by institutions such as insurance companies, banks, pension funds, and investment banking (Siregar and Main, 2005). Furthermore, according to Bushee (1998), the percentage of shares held by institutions can influence the process of preparing financial statements and does not rule out the accrued interest of the management (Boediono, 2005). Furthermore, Hashim and Devi (2008) mentioned that with the increasing role of corporate governance in the company, the role of institutional investors will be very important. Similarly, Jensen and Meckling (1976) proved that high institutional ownership limit manager to manage earnings. Likewise, Midiastuty and Machfoeds (2003) have found that the institutional ownership is negatively related to earnings management. While, the non-controlling large shareholders that collude with controlling shareholders tend to expropriate minority shareholders and lower firm value. Based on the previous argument, the researcher formulates the following hypothesis:

**H2:** Institutional Ownership affects earnings management.

3. Number of BOC Independent and Earnings Management

Commissioner is an independent commissioner who is not affiliated with the management, board members other and shareholders. They are free from the business relationship and other relationships which may affect its ability to act independently or act solely in the interest of the company (the National Committee of the policy of Good Corporate Governance, 2004). According to Nasution and Setiawan (2007), Liu and Lu (2007), as well as Cornet et al. (2009), the proportion of board members who come from outside the company is negatively related to earning management for commissioners from outside can improve control measures.

Wilopo (2004) analyzes the relationship of independent board of commissioners, audit committee, corporate performance and discretionary accruals. Chtourou, Bedard, and Courteau (2001) also stated the same thing as Yu (2006), but in their study this occurs only in cases where earnings management is done with decreasing income, while for the opposite case (income increasing earnings Management) results are not significant. Meanwhile, research conducted by Zhou and Chen (2004) showed that the size of the board of commissioners in commercial banks has no effect on earnings management as measured by using loan loss provisions. Furthermore, Zhou and Chen (2004) also split the high and low
earnings management criteria and tested them separately. While, Xie, Davidson, and Dadalt (2003) also stated the same thing that the more board of commissioners, the limitation on earnings management behavior can be done more effectively. The results are in line with (Yermack, 1996), (Eisenberg, Sundgren, and Wells 1998), and Jensen 1993 include Beasley (1996) who reported that the effect of the size of the board of commissioners on fraud in financial reporting is positively significant. For this reason, this study supports that the board of commissioners is more less effective in controlling the management. Based on the previous argument, the researcher formulate the following hypothesis:

H3: number of Independent Commissioners affect earnings management.

4. Number of Audit Committee and Earnings Management

According to Kep. 29 / PM / 2004 the quota of audit committee is formed by the board of commissioners to perform supervisory tasks of corporate management. The Audit Committee serves to provide a view relation to matters related to financial policies, accounting and internal control. In addition, the function of the audit committee is to assist the board of commissioners to oversee the management in preparing the financial statements (Barry, 2004). Furthermore, Xie et al. (2001) and Lin et al. (2009) found that the number of audit committee meetings is negatively related to earnings management.

In additional, the audit committee is responsible for overseeing the financial reporting, external audit and internal control systems including internal audit. Moreover, audit is a process to reduce dissonance information contained on manager and shareholders by using outsiders to give approval to the financial statements (Meutia, 2004). The professional auditors who are qualified will audit the quality as well. Carcello et al. (2006) and Xie, Davidson, and Dadalt (2003) examined the effectiveness of audit committees in reducing earnings management by management. Carcello et al. (2006), Suaryana (2005), Utama and Leonardo (2006) investigate the relationship between audit committee expertise in finance and earnings management. The results of this study indicate that the expertise of an independent audit committee in the field of finance proves to effectively reduce earnings management and provide empirical evidence on the impact of audit committee composition and control of corporate managers. Based on the previous argument, the researcher formulate the following hypothesis:

H4: The number of Audit Committee effect on earnings management.

3. FINDINGS

4.1.1 Feasibility Testing Data

In testing the feasibility of data, the researcher uses several classic assumption test method. The results show:

a. Normality Test

The normality test for residue Y with SPSS ’20 facilities is to know whether in the multiple regression, the residue as interfer variable have normal distribution or not by normal probability plot test and one simple kolmogrov-smirnov test.

Figure 4.1: Normality test residue Y by SPSS 20
Based on the test results in Table 4.1 below, it shows that the Kolmogorov-Smirnov value is 0.760 with a significant probability value (Asymp. Sig) at 0.610. Because the value Asymp. Sig is > 0.05, it can be concluded that the data are normally distributed residuals.

### Table 4.1: Normality Test Result

<table>
<thead>
<tr>
<th>Parameter</th>
<th>Unstandardized Residual</th>
</tr>
</thead>
<tbody>
<tr>
<td>N</td>
<td>63</td>
</tr>
<tr>
<td>Normal Parameters&lt;sup&gt;a,b&lt;/sup&gt;</td>
<td>Mean: 0E-7</td>
</tr>
<tr>
<td></td>
<td>Std. Deviation: 0.78726661</td>
</tr>
<tr>
<td>Most Extreme Differences</td>
<td>Absolute: 0.96</td>
</tr>
<tr>
<td></td>
<td>Positive: 0.95</td>
</tr>
<tr>
<td></td>
<td>Negative: -0.96</td>
</tr>
<tr>
<td>Kolmogorov-Smirnov Z</td>
<td>0.760</td>
</tr>
<tr>
<td>Asymp. Sig. (2-tailed)</td>
<td>0.610</td>
</tr>
</tbody>
</table>

<sup>a</sup>. Test distribution is Normal.

<sup>b</sup>. Calculated from data.

### b. Multicollinearity Test

Multicollinearity test can be used to determine deviation in a linear relationship between the independent variables in the regression model. The results shown in Table 4.2. By looking at VIF (Variance Inflation factor) in the last column generated by all the variables, X is VIF = [1 / (1-r<sup>2</sup>)] <10, it indicates that the data is free from multicollinearity.

### Table 4.2: Multicollinearity Test Result

<table>
<thead>
<tr>
<th>Model</th>
<th>Correlations</th>
<th>Collinearity Statistics</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Zero-order</td>
<td>Partial</td>
</tr>
<tr>
<td>(Constant)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>X1</td>
<td>-.219</td>
<td>-.381</td>
</tr>
<tr>
<td>X2</td>
<td>.045</td>
<td>.017</td>
</tr>
<tr>
<td>X3</td>
<td>-.289</td>
<td>-.408</td>
</tr>
<tr>
<td>X4</td>
<td>.070</td>
<td>.175</td>
</tr>
</tbody>
</table>

### c. Heteroscedasticity Test

Heteroscedasticity test is used for testing the regression model. If there is inequality between the residual variance with the other. If the observations made between residue remain so called homoscedasticity, whereas if different called Heteroscedasticity. The results
of the data shown in Figure 4.2. Based on the data, it appears that the plot is shaped to have a clear pattern. In addition, the points spread above and below the number 0 on the y axis. From the pictures, it can be concluded that the data is free from heteroscedasticity.

**Autocorrelation Test**

Autocorrelation test is a test for the multiple linear regression model to see a correlation between spam error in period t with residue error in period t-1 (previous). This can be proven through the test of Durbin-Watson (DW test). The followings are the results of testing autocorrelation presented in Table 4.3.

Based on the output results in Table 4.3 above, the values significant level is 5% or 0.05. Then, the data result number is DF1 = 4 and DF2 = 58. It can be compared in the table in Annex V. By looking at the table, the values are dL = 1.4335 and dU = 1.7259.

Because the value of DW (Durbin-Watson) is = 2.059> 1.7259 and above 4-d (4-2059 = 1,941)>DU (1.7259), it can be concluded that there is no autocorrelation. In all of classical assumption showed that the 63 manufacturing enterprises results are eligible for regression test.

<table>
<thead>
<tr>
<th>Change Statistics</th>
<th>Durbin-Watson</th>
</tr>
</thead>
<tbody>
<tr>
<td>R Square Change</td>
<td>0.222</td>
</tr>
<tr>
<td>F Change</td>
<td>4.130</td>
</tr>
<tr>
<td>df1</td>
<td>4</td>
</tr>
<tr>
<td>df2</td>
<td>58</td>
</tr>
<tr>
<td>Sig. F Change</td>
<td>0.005</td>
</tr>
<tr>
<td></td>
<td>2.059</td>
</tr>
</tbody>
</table>

**4.1.2 Regression Analysis Test**

By using the facilities SPSS’20, then X and Y are contained in Annex IIIc. After the multiple regression analysis is done on the sample data 63 manufacturing companies in 3 years (2013-2015). The results of the analysis are shown as Table 4.4. Based on the table, then the multiple linear regression equation with four independent variables X1, X2, X3 and X4 to Y can be expressed in the following form:

\[
Y = \beta_0 + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + \beta_4 X_4 + e \\
Y = \beta_0 + \beta_1 X_1 + \beta_2 K + \beta_3 JKI + \beta_4 JKA + e \\
Y = 1,776–3,867 X_1 + 0.050 X_2 – 6.183X_3 + 1.399X_4 + e.
\]
Table 4.4: Statistics Regression Analysis

<table>
<thead>
<tr>
<th>Model</th>
<th>Unstandardized Coefficients</th>
<th>Standardized Coefficients</th>
<th>t</th>
<th>Sig.</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>B</td>
<td>Std. Error</td>
<td>Beta</td>
<td></td>
</tr>
<tr>
<td>(Constant)</td>
<td>1.776</td>
<td>.946</td>
<td></td>
<td></td>
</tr>
<tr>
<td>X1</td>
<td>-3.867</td>
<td>1.233</td>
<td>-.403</td>
<td>-3.135</td>
</tr>
<tr>
<td>X2</td>
<td>.050</td>
<td>.390</td>
<td>.015</td>
<td>.128</td>
</tr>
<tr>
<td>X3</td>
<td>-6.183</td>
<td>1.819</td>
<td>-.420</td>
<td>-3.399</td>
</tr>
<tr>
<td>X4</td>
<td>1.399</td>
<td>1.032</td>
<td>.164</td>
<td>1.356</td>
</tr>
</tbody>
</table>

d. T Test

T tests were used to show how much variation influence of each independent variable X individually against the dependent variable Y. Value t statistic / count obtained will be compared with the value t table. Based on the calculation t test statistics / arithmetic presented in Table 4.5. The Effect of Managerial Ownership and number of Independent Commissioners (JKI) variables (KM) of the Earnings Management Practice showed a significance. Otherwise, institutional ownership variable (KI) and the Number of Audit Committee (JKA) has no effect on Earnings Management Practices.

Table 4.5: T test Result

<table>
<thead>
<tr>
<th>Model</th>
<th>T</th>
<th>Sig.</th>
</tr>
</thead>
<tbody>
<tr>
<td>(Constant)</td>
<td>1.878</td>
<td>.065</td>
</tr>
<tr>
<td>X1</td>
<td>-3.135</td>
<td>.003</td>
</tr>
<tr>
<td>X2</td>
<td>.128</td>
<td>.899</td>
</tr>
<tr>
<td>X3</td>
<td>-3.399</td>
<td>.001</td>
</tr>
<tr>
<td>X4</td>
<td>1.356</td>
<td>.180</td>
</tr>
</tbody>
</table>

a. F Test

F test is a test on the independent variables included in the model that has an effect on the dependent variable and the influence of all independent variables together on the value of the dependent variable. The result of F test calculations are presented in Table 4.6.

The table 4.6 showed that f is = 4,130 with the probability significant at 0.005. Whereas, the value of df1= 4 and df2 = 58 so F = 2.53. Therefore, F count>F table (4,130> 2.53). Subsequently, the variables managerial ownership, institutional ownership, the number of independent board of commissioners, and audit committee as independent variables simultaneously affect earnings management practices as dependent variable.

Table 4.6: F Test - Regression Analysis

ANOVA*
4.2 Discussion

In general, manufacturing companies in Indonesia have been widely established. There are at least 143 companies that have joined the Indonesia Stock Exchange with diverse patterns of management and management of varying quality levels. From 249 companies from 2013 to 2015, the aspects of managerial ownership, institutional ownership, the establishment of independent board, audit committee and management earnings (including profit and loss) are still low. This means that from 429 enterprise data, available, there is only about 17% (72 of corporate data) or the company that have a reasonable information is about 15% i.e. 63 corporate data.

4.2.1 The Effect of Managerial Ownership (KM) of Earnings Management Practice

The test results on the effect of variable Managerial Ownership (KM) of the Income Management Practice shows that t value is -3.135 with a significance value at 0.003. The result concluded that KM has significant negative effect on Earnings Management Practices. Thus, with increasing managerial ownership can reduce the amount of earnings management practices. These results support previous researches by Jensen and Meckling (1976) and Ali et al (2008). This indicates that by increasing the managerial ownership, it will coordinate or unify the interests of managers and shareholders in reducing opportunistic behavior. The manager will also benefit from the decision and bear the losses as a consequence of making the wrong decision.

This finding research is supported by several previous researches by Adi et al (2008), Novrianto (2008), Werdhiwiyanti (2008), and Respiningsih (2009) that the earnings management practice is largely determined by the manager's motivation in managing the company. The amount of earnings management practice will be different depending on the motivation of the management. The existence of ownership share by the management will lead to a monitoring of those policies. Several research resultsalso prove the effect of managerial ownership on the practice of earnings management and indicates the existence of agency problems. The emergence of this agency problem could be due to proportion ownership by management which is very small. This condition encourages managers to take actions that are beneficial to themselves and do not maximize the value of the company when making decisions.

4.2.2 The influence of institutional ownership (KI) of Earnings Management Practice

In addition, a managerial ownership variable as an element of good corporate government, institutional ownership (KI) can also be used as an indicator of managers in implementing earnings management practices in order to meet shareholders objectives. Thus, it was important to examine the influence of KI on Earnings Management Practices. The results show that the significance value is 0.899 with a t value at 0.128. T value is less than
2.00030 t table indicates that institutional ownership variable (KI) is positive and does not significantly affect Earnings Management Practices. Scott (2015, 445:450) noted that the manager has considerable discretion to manage reported the net income. While it is easy to determine the change in account balances, and it can be as reasons for the change are typically unknown to the investor. The other category is discretionary accruals, such as provision for credit losses, warranty costs, and reduce the usefulness of financial statement. Thus, the positives value can increase discretionary accruals (earnings management) by these factors.

Several previous researchers such as Ujiyantho and Pramuka (2007), Adi et al (2008), Novrianto (2008), Astuti (2004) and Pujiastruti (2009) found that Earnings management practices can indicate the existence an imbalance in determining the direction of company policy and will ultimately only benefit the shareholders (institutional ownership). If earnings management can be efficient then institutional ownership will improve earnings management (positively related). Otherwise, if Earnings management by the company is opportunistic then Institutional ownership will reduce earnings management (negatively related) (Siregar and Main, 2005). Test results shows that the direction of positive influence on the Indonesian capital market that high institutional ownership can result in efficient earnings management mechanisms, resulting in institutional ownership, and improving the practice of earnings management.

4.2.3 The Effect of number of Independent Commissioners (JKI) on the Earnings Management Practices

Results of testing on the effect of a variable number on the earnings management practices which demonstrate the significant value is at 0.001 with a t value at 3.399. T value is greater than 1.670 t table which indicates that the variable is a significant negative effect on firm value. The results of this study support previous research conducted by Wedari (2004) and Wilopo (2004). This study found that independent commissioner has been effective in carrying out its responsibility in overseeing the quality of financial reporting in order to limit earnings management in the company. The supervisory process undertaken by this council is increasingly qualified. The number of independent parties within the company demand the transparency in corporate financial reporting.

The Board of Commissioner declares its commitment of its independency in performing its roles and responsibilities related to the company’s operation and finance. Such independency covers the actions which prevent any risk of conflicts of interest which may create negative impact on the company. These results are consistent with the research findings of Chtourou et al. (2001), Xie et al. (2001), Cornett et Al. (2006), Nasution and Setiawan (2007), Liu and Lu (2007), as well as Cornett et al (2009). It can be caused by the increase of independent board members, the board of the regulatory process that is more qualified to supervisory so enterprise transparency financial statements increase. In additional, The Board of Commissioners do meeting at least once in a month or at any timedetermined necessary by the PresidentCommissioner upon the recommendation of at least one third of the total number of the Commissioners or the written request of shareholders by saying the matters that will be discussed. It can give contribution the opinions in the meeting, both pros and cons or dissenting, the decision and conclusion of the meeting. These factors can be as the reason which is the Board of Commissioner can be effectively and sufficient to control and monitoring the company to fulfill the Good corporate Governance as well as claim in the 88/pmk.06/2015 contain about the Meeting of the Board of CommissionersArticle 22.
4.2.4 The Effect of Number of Audit Committee (JKA) on the Earnings Management Practices

The test results indicates the influence of audit committee number on the earnings management practices. It shows that the significance value is 0.180 with a t value of 1.356. Where the t value is smaller than t table which indicates that a variable number of the audit committee does not significantly affect earnings management practices.

The Audit Committee assists the Board of Commissioners in maintaining the effectiveness of internal control systems and effectiveness of the implementation of the tasks of the external auditor. Moreover, the internal auditor to carry out monitoring and evaluation of the planning and conduct of audits and monitoring of the follow-up results of the audit in order to assess the adequacy of internal controls to process of financial reporting. This phase is made due to the inability of auditors in detecting earnings management practices. The research finding is also supported by Veronica and Utama (2005) who examined the effect of audit committees in the company on earnings management. The results are consistent with Herni and Susanto (2008), Suranta and Midiastuty (2005), and Darmawati (2003) findings.

4. CONCLUSIONS AND RECOMMENDATIONS

Based on the results of the research and the research discussion in Chapter IV, it can be concluded that variable managerial ownership and the number of independent directors as measured by regression analysis have a significant influence on Earnings Management Practices. While other financial performance variables, namely institutional ownership and the number of audit committee does not have a significant influence on Earnings Management Practices on manufacturing companies listed in Indonesia Stock Exchange. The research finding is different with the Vincentia (2015) findings which independent variable has an influence on the variables of earnings management practice and only at institutional ownership and independent audit committee variable. The managerial ownership, independent board of commissioners, and firm size variables have no effect on the earnings management practice variable. Tests are conducted together on independent variables to the dependent variable and indicate that this research model can be used to make predictions or forecasting. Besides, the research finding is similar to Jao and Pagalung (2001) finding on the Implementation of corporate governance through Managerial ownership, board composition Independent commissioners, and number of meetings. The audit committee has a negative effect on earnings management. From the simultaneously test results, it showed that managerial ownership, institutional ownership, the number of independent directors, and audit committees have an influence on Earnings Management Practices on manufacturing companies listed in Indonesia Stock Exchange.

This research activity realized there are still some limitations. First, the data used is only three-year period, i.e in 2013, 2014 and 2015. The research focuses on the type of manufacturing by using only the modified Jones model analysis. Therefore, future researcher should develop other analytical models variation. Because aspects in managerial ownership, the increase in the number of audit committee and independent directors are very dominant in achieving optimal profit management practices, so that manufacturing companies can successfully obtaining a reasonable profit management practices. It is suggested to continuously and simultaneously improves managerial ownership, and increases the number of audit committee and the independent commissioner.
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