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Research Paper

The Influence of Good Corporate Governance, Leverage, and Profitability on Earning Management with Firm Size as Moderating Variable in the Banking Companies Listed In Indonesia Stock Exchange in the Period of 2012-2016

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ABSTRACT

The objective of the research was to know the effect of Good Corporate Governance, leverage, profitability on earnings management with firm size as a moderating variable. The research used associative causal method. The population was 30 banking companies listed in BEI (the Indonesia Stock Exchange) in the period of 2012-2016. The samples were 30 observational data, taken by using census sampling technique. The hypothesis was tested by using semPLS analysis. The result of the research showed that, institutional ownership and managerial ownership had negative and significant influence on earnings management, while independent board of commissioners and audit committee had positive but insignificant influence on earnings management. Leverage had negative and insignificant influence on earnings management. Profitability positive and significant influence on earnings management. Firm size as moderating variable could not moderate the correlation of Good Corporate Governance, leverage, profitability on earnings management.
Keywords: Earnings Management, Good Corporate Governance, Leverage, Profitability, Firm Size

INTRODUCTION

The company is one of the business entities that carry out its activities to be able to obtain returns on investment returns. The four main activities of the company are planning, funding, investment and operations activities. Of course no company wants to suffer losses, instead they expect maximum profits. After the company carries out activities in a period, the company will make financial statements. Financial statements are information tools that connect companies with interested parties that show the company's financial health and company performance (Hery, 2012). Financial reports are the main tools of managers to demonstrate the effectiveness of achieving goals and to carry out the functions of accountability in the organization. According to financial accounting standards the purpose of financial statements is to provide information concerning financial position, performance and changes in the financial position of a company that is beneficial to a large number of users in making economic decisions. Information in financial statements can help owners or other parties such as creditors and investors to assess the company's strength in generating profits in the future. Therefore the management tends to take various actions in order to produce the best financial reports for the company owner. The company's financial statements

are expected to provide information for potential investors and prospective creditors to make decisions related to their investment funds. Although the financial statements have been based on accruals, but it does not rule out the possibility of still giving the manager the opportunity to modify the financial statements to produce the expected amount of earnings. The Indonesian Accounting Association (2012) states that the profit reported in the financial statements are profit generated by the accrual method. The accrual basis is chosen because it is more rational and fair in reflecting the company's financial condition in real terms, but on the other hand the use of this accrual basis can provide management with flexibility in choosing the accounting method to be used as long as it does not deviate from the applicable financial accounting standards. The flexibility in choosing the accounting method allows earnings management by company management (Subramanyam, 1996).

The financial statements presented by the management can be engineered to produce the desired level of profit in achieving certain objectives that can mislead owners, shareholders or potential investors who use the financial statements. Earnings management is carried out so that profit seems to have good and stable quality, with the expectation of earnings reported to receive a positive response by the market. Earnings management is interesting to study because it can provide an overview of the behavior of managers in reporting their business activities in a certain period, namely the existence of certain motivational interests reported. According to Healy and Wahlen (1999), earnings management occurs when managers use judgment in financial reporting and preparation of transactions to change financial statements, with the aim of manipulating the magnitude of profits to several stakeholders about the company's economic performance or to influence the outcome of the agreement. (contract) which depends on the accounting numbers reported. Earnings management arises as an impact of agency problems that occur because of an inconsistency of interest between the owner (principal) and company management (agent) or what is called the agency conflict. As agents, managers are morally responsible for optimizing the profits of the owners, but on the other hand managers also have an interest in maximizing their welfare, so that there is a high probability that agents do not always act in the best interests of the principal (Jansen and Meckling, 1976). To minimize the occurrence of earnings management actions and improve the quality of financial statements, the company needs to implement the Good Corporate Governance mechanism in the company's control and management system. Good Corporate Governance is an effort made by all parties with an interest in the company to run its business well in accordance with their respective rights and obligations (Arifin, 2005). The principle of corporate governance that is applied consistently can be a barrier to performance engineering activities which results in the financial statements not describing the fundamental value of the company Chtourou et al. (2001).

The application of corporate governance can be done through a monitoring mechanism to harmonize various interests, including: (1) Increasing the company's share ownership by managerial ownership (Jensen and Meckling, 1976), so that the interests of the owner or shareholders can be aligned with the interests of managers. (2) Ownership of shares by institutional investors. Midiastuty and Mahfoedz (2003) state that institutional investors are parties who can monitor agents with large ownership. (3) Through the role of monitoring by the board of directors. Dechow et al. (1996) and Beasley (1996) found a significant relationship between the role of the board of commissioners and financial reporting. They found that the size and independence of the board of directors affected their ability to monitor the financial

reporting process. (4) Establish an audit committee as a company supervisor. The audit committee is a party that assists the commissioners in the framework of improving the quality of financial reports and increasing the effectiveness of external and internal audits (Sulistyanto, 2008). Factors that influence earnings management are profitability. Profitability is the company's ability to generate profits. Profit is often a measure of company performance, where when a company has a high profit means it can be concluded that the company's performance is good and vice versa. In relation to earnings management, profitability can affect managers to make earnings management. Because if the profitability obtained by the company is low, generally managers will take earnings management actions to save their performance in the eyes of the owner.

Another factor that is thought to affect earnings management is leverage. Leverage is the ratio between total liabilities and total assets of a company. This ratio shows the amount of assets owned by a company that is financed by debt. The leverage ratio describes the source of operating funds used by the company. The leverage ratio also shows the risks faced by the company, the greater the risk faced by the company, the uncertainty to generate future profits will also increase and also to predict the possible benefits that can be obtained by investors if investing in a company. In relation to leverage, one alternative source of funds for the company besides selling shares in the capital market is through external sources of debt in the form of debt. Earnings management can also be influenced by Firm Size. Firm Size is the level of identification of the small or the size of the company. According to Hilmi and Ali (2008) the size of the company can be determined based on the amount of labor, market capitalization, total sales, total asset value, and so on, the greater the market capitalization indicates the more money circulation, and the greater the assets indicate the more invested capital.

The purpose of this study is to find out the effects of: 1. Institutional ownership affects earnings management, 2. Managerial ownership affects earnings management, 3. The board of commissioners influences earnings management, 4. The audit committee influences earnings management. 5. Leverage affects earnings management, 6. Profitability affects earnings management, 7. Company size moderates the effect of institutional ownership on earnings management, 8. Company size moderates the effect of managerial ownership on earnings management, 9. The size of the company moderates the influence of the independent board of directors on earnings management, 10. Company size moderates the influence between audit committees on earnings management, 11. Company size moderates the effect of leverage on earnings management, 12. Firm size moderates the effect of profitability on earnings management.

LITERATURE REVIEW

Agency Theory

In order to understand earnings management, the agency concept is used. Agency theory concept is based on the relationship between principal and agent. The principal employs agents to carry out duties for partial interests, including delegating authorization to decision making from the principal to the agent. In companies whose capital consists of shares, shareholders act as principal, and CEO (Chief Executive Officer) as their agent. Shareholders employ CEOs to act in accordance with the principal's interests (Jeffrio, 2011).

Jeffrio (2011) assumes that each individual is motivated by his own interests so that it can cause conflict between the principal and agent. Motivated principals contract to improve themselves with ever-increasing profitability, while agents are motivated to maximize their economic and psychological needs. Based on the assumption of human nature, managers as human beings will most likely act on the

basis of opportunistic nature, namely prioritizing their personal interests (Jeffrio, 2011). Managers as company managers know more about the internal information and prospects of the company in the future than the owners (shareholders). Managers are obliged to provide a signal regarding the condition of the company to the owner. The signals given can be made through the disclosure of accounting information such as financial statements. Asymmetry between management (agent) and owner (principal) can provide managers with the opportunity to make earnings management in order to mislead owners (shareholders) regarding company performance (Ujiyhanto and Bambang, 2007).

Agency theory analyzes and seeks solutions to two problems that arise in the relationship between principals (owners / shareholders) and their agents (management). Based on these conditions, a good corporate governance system called Good Corporate Governance (GCG) is needed.

Earning management

Sulistyanto (2008) explains that earnings management is an attempt by company managers to influence information in financial statements with the aim of tricking stakeholders into wanting to know the company's performance and conditions. Earnings management is one of the factors that can reduce the credibility of financial statements and increase bias in financial statements

Factors Affecting Earnings Management

1. Good Corporate Governance

Understanding of corporate governance is very diverse. Basically it can be interpreted as governance related to the community. Cadbury Committee (2003) defines corporate governance as a regulation that regulates the relationship between holders, managers (managers) of companies, creditors, government, employees, and other internal and external interests related to their rights and obligations. According to Surya and Yustiavandana (2008), corporate governance is a process of structures used by state-owned organs to increase business success and corporate accountability in order to realize long-term shareholder value while taking into account the interests of other stakeholders, based on laws and ethical values. . By definition, Good Corporate Governance is defined as a system that regulates and controls a company so that the company creates added value for all its stakeholders. For that there are two things that are emphasized in this concept, namely the rights of shareholders that must be fulfilled by the company and the obligations that must be carried out by the company. Shareholders have the right to obtain all information accurately and on time (Sulistyanto, 2008).

2. Leverage

Leverage is the use of assets or funds where for the use of the company must cover fixed costs or pay a flat fee (Riyanto, 2010). Leverage is the ratio between total liabilities and total assets of a company. This ratio shows the amount of assets owned by a company that is financed by debt. The higher the leverage value, the higher the risk that will be faced by investors and investors will ask for greater profits. Leverage is the use of fixed costs in an effort to increase profitability. Leverage is a double-edged sword which, if the company's profit can be enlarged, so does the loss. In other words, the use of leverage in a company can increase company profits, but if something happens that is not in line with expectations, then the company can reduce losses equal to the expected percentage of profits, maybe even bigger (Van Horne, 2007)

3. Profitability

According to Fahmi (2011) the profitability ratio measures management effectiveness as a whole which is addressed by the size of the profit level obtained in relation to sales and investment. The better the profitability ratio, the better it is to describe the ability of the company's high profit.

According to Kasmir (2008), explained that the purpose and benefits of using

profitability ratios for companies and for parties outside the company are:
- To measure or calculate the profits earned by a company in a certain period.
- To assess the company's profit position the previous year with the current year.
- To assess the development of profits over time.
- To assess the amount of net income after tax with own capital.
- To measure the productivity of all company funds used both loan capital and own capital.
- To measure the productivity of all company funds that are used both own capital.

MATERIALS & METHODS

This research includes types in causal associative research (causal), namely research conducted in order to determine the influence of two or more variables (Lubis, 2012). This study attempts to explain the influence of institutional ownership (X1), managerial ownership (X2), board of commissioners (X3), audit committee (X4), leverage (X5), Profitability (X6) as independent variables and firm size (Z) as moderating variables, towards disclosure of corporate social responsibility (Y) as the dependent variable. This research is a research using secondary data where the scope of the research used is all banking companies listed on the Indonesia Stock Exchange. Data is taken from the auditing report of the 2012-2016 period and obtained from the Business and Economic Data Center of UGM, Indonesia Stock Exchange, and Indonesia Capital Market Directory (ICMD), namely in the form of company financial statements. The population in this study are all banking companies listed on the Indonesia Stock Exchange from 2012-2016. A total of 30 banking companies listed on the IDX. The sample according to Sugiyono (2013) is part of the number and characteristics taken by the population. Determination of the sample is done by census method, where the entire population is sampled.

Dependent Variables

Earning management

Earnings management is a management effort to maximize or minimize profits including income smoothing in accordance with management's wishes. Earnings management is measured using the Jones model. Dechow et al (1995) stated that this model provides high statistical power to detect earnings manipulation. In this model discretionary accruals are used as a proxy of earnings management.

Measuring total accruals by using the Jones model by Dechow.

a. Total Accrual (TAC) = NI – CFO

Information;

NI : net income after tax (net income)

CFO : operating cash flow (cash flow from operating)

b. Calculates the accruals estimated by the OLS regression equation (Ordinary Least Square) : $TACt/TAt\text{-}1 = \beta0(1/Tat\text{-}1) + \beta1(\Delta REVt\text{-}\Delta RECt)/Tat\text{-}1) + \beta2(PPEt/Tat\text{-}1) + e$

Information;

TACt : Total company accruals i in period t

TAt-1 : total assets for the sample of company i at the end of year t-1

REVt : changes in company income i from year t-1 to year t

RECt : changes in company receivables i from year t-1 to year t

PPEt : yearly gross property plant and equipment tMenghitungnin discretionary accruals model (NDACC) are as follows :

$NDACt = \beta0(1/TAt\text{-}1) + \beta1(\Delta REVt\text{-}\Delta RECt)/TAt\text{-}1) + \beta2(PPEt/TAt\text{-}1)$

Information;

NDACt : nondiscretionary accruals in year t

β : fitted coefficient obtained from the regression results on the calculation of total accruals

Calculating discretionary accruals

$DACt = (TACt/Tat\text{-}1) – NDACt$

Information;

DACt : discretionary accruals of company i in period t

Independent variable

Good Corporate Governance

According to the National Committee on Governance Policy (KNKG, 2004) defines corporate governance as a process and structure that is used by 36 corporate organs to provide added value to the company on a long-term, sustainable basis for shareholders while taking into account the interests of other stakeholders based on legislation and applicable norms. The mechanism for implementing GCG in this study can be seen from four aspects namely institutional ownership, board of commissioners, managerial ownership and audit committee.

Institutional Ownership

Institutional ownership in this study is proxied by the percentage of the number of shares owned by other institutions of the total number of shares of the company in circulation. With the following equation:

$$\text{Institutional ownership} = \frac{\text{the number of shares owned by investors}}{\text{total outstanding shares}} \times 100\%$$

Managerial ownership

The managerial ownership variable in this study is proxied by the percentage of the number of shares owned by the management of the total number of shares of the company in circulation. With the following equation:

$$\text{Managerial ownership} = \frac{\text{the number of shares owned by management}}{\text{total outstandin g shares}} \times 100\%$$

Independent Board of Commissioners

According to Widjaja (2009) the measurement of the independent board of directors is as follows: The independent board of directors is measured by the ratio or (%) between the number of independent commissioners compared to the total number of members of the board of commissioners. Based on the description above, the formula for calculating the independent board is as follows:

$$\text{Independent Board of Commissioners} = \frac{\sum \text{independent board member}}{\sum \text{board member}} \times 100\%$$

Audit Committee

The audit committee is measured by the number of audit committee members in the company. Based on this description, the audit committee calculation formula is as follows:

Audit Committee= $\sum$ Audit Committee member in the company

Leverage

The leverage ratio describes the source of operating funds used by the company. The leverage ratio also shows the risks faced by the company. The greater the risk faced by the company, the uncertainty to generate profits in the future will also increase. Foster (1986) revealed that there is a relationship between leverage ratio and firm return. This means that debt can be used to predict possible profits that can be obtained for investors if investing in a company. Mathematically DER can be formulated as follows (Ang, 2004):

$$\textit{Debt to Equity Ratio} = \frac{\text{Total Amoun of debt}}{\text{Total Assets}} \times 100\%$$

Profitability

Profitability is a financial ratio to measure a company's ability to make a profit. In this study the profitability ratio used is ROA (Return On Asset) which shows the company's ability to generate profits from assets owned by the company.

$$\textit{Return On Asset} = \frac{\text{earning after tax}}{\text{total equity}} \times 100\%$$

Firm Size (Variable Moderating)

Firm Size is a scale where the size of the company can be classified. According to Mardiyah (2001) basically the size of the company is divided into 3 categories: large firms, medium firms, small firms. According to Ghozali (2006) reveals that the size of a company can use a measure of total assets. In this study, researchers used the proxy of total assets, this was intended to reduce excessive data fluctuations. If the value of total assets is directly used then the variable value will be very large, even

billion. Because the company's total assets are of great value, this can be simplified by transforming them into natural logarithms, without changing the proportion of the actual original value.

Firm Size = Ln (Total Asset)

Statistical Analysis

Data analysis used in this research is SEM (Structural Equation Model) analysis technique. SEM (Structural Equation Model) is a statistical technique that is able to analyze the pattern of relationships between latent constructs and indicators, latent one to another construct, and direct measurement errors. SEM is a family of multivariate dependent statistics; SEM allows direct analysis between several dependent and independent variables (Yamin and Kurniawan, 2009). SEM which is based on component or variance is an alternative to covariance with a component based approach with PLS which is intended as a prediction. The latent variable is defined as the number of indicators. Ghozali (2008) PLS is a powerful analytical method, because it is not based on many assumptions. Data also does not have to be multivariate normally distributed (indicators with category scale, ordinal, interval until the ratio can be used on the same model), the sample does not have to be large. In addition to confirming theory, PLS also explains whether or not there is a relationship between latent variables so that in the framework of PLS prediction-based research it is more suitable for analyzing data.

The reason for using PLS in this study is: first, PLS is a method of data analysis based on the assumption that the sample does not have to be large. Second, PLS can be used to analyze theories that are still said to be weak, because PLS can be used for prediction. Third, all constructs do not have to be normally distributed.

RESULT

Data Description

Descriptive statistical analysis is used to find out the description of a data which is seen from the value of frequency distribution and percentage, as well as the maximum, minimum, and mean value, from the variables of institutional ownership, managerial ownership, independent board of directors, audit committee, leverage, profitability, earnings management and Firm Size.

Table 1. Descriptive Statistics of Institutional Ownership, Managerial Ownership, Independent Board of Commissioners, Audit Committee, Leverage, Profitability, Earning management, and Firm Size

Descriptive	Min	Max	Mean	SD
Institutional Ownership (X1)	0.20	53.35	25.31	16.16
Managerial ownership (X2)	24.31	95.92	59.69	20.05
Independent Board of Commissioners (X3)	0.27	0.88	0.53	0.12
Audit Committee (X4)	3.00	6.40	3.89	0.95
Leverage (X5)	0.88	11.70	7.35	2.41
Profitability (X6)	-3.57	3.18	0.89	1.67
Earning management (Y)	-18.56	100.47	8.04	25.53
Firm Size (Z)	6.60	8.92	7.65	0.68

Based on Table 1, it is known that the average value of institutional ownership is 25.31 and the standard deviation value of institutional ownership is 16.16. While the minimum value of institutional ownership is 0.20 found in Bank J Trusrt Indonesia and the maximum value of institutional ownership is 53.35 located at Bank Central Asia. The average value of managerial ownership is 59.69 and the standard deviation of managerial ownership is 20.05. While the minimum value of managerial ownership is 24.31 found in Bank Capital Indonesia and the maximum value of managerial ownership is 95.92 found in Bank CIMB Niaga. The average value of the independent board of directors is 0.53 and the standard deviation value of the independent board is 0.12. While the minimum value of the independent board of

directors is 0.27 in the Indonesian Association of Brothers and the maximum value of the independent board is 0.88 in the International MNC Bank. It is known that the average value of the audit committee is 3.89 and the standard deviation value of the audit committee is 0.95. While the minimum value of the audit committee is 3.00 found in Bank BRI Agro Niaga, Bank Capital Indonesia, Bank Central Asia, Bank Nusantara Parahyangan, Bank QNB Indonesia Bank, Bank Bumi Artha, Bank od India Indonesia, Bank Mayapada International, Bank China Constraction, Bank Mega and the maximum value of the audit committee are 6.40 found at CIMB Niaga Bank. The average value of leverage is 7.35 and the standard deviation value of leverage is 2.41. While the minimum value of leverage is 0.88 found on the International MNC Bank and the maximum value of leverage is 11.70 found in J Trust Indonesia Bank. The average value of profitability is 0.89 and the standard deviation value of profitability is 1.67. While the minimum value of profitability is -3.57 found in Bank J Trust Indonesia and the maximum value of profitability is 3.18 found in Bank Rakyat Indonesia. It is known that the average value of earnings management is 8.04 and the standard deviation value from earnings management is 25.53. While the minimum value of earnings management is -18.56 found at Bank Victoria International and the maximum value of earnings management is 100.47 found in Bank OCBC. The average value of the Firm Size is 7.65 and the standard deviation value of the Firm Size is 0.68. While the minimum value of the Firm Size is 6.60 found in the bank of India Indonesia and the maximum value of the Firm Size is 8.92 found in Bank Mandiri.

Graph Analysis and Pearson Linear Correlation

Furthermore, the data distribution analysis method and Pearson linear correlation are used to see and measure the relationship between independent variables (institutional ownership, managerial ownership, independent board of directors, audit committee, leverage and profitability) to dependence (earnings management). The following is a graph of data distribution between institutional ownership and earnings management.

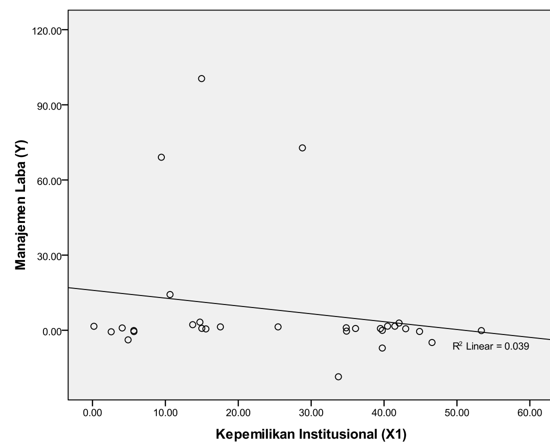


Figure 1. Data Distribution between Institutional Ownership and Profit Management

Based on Figure 1, it is known that the data distribution between institutional ownership and earnings management tends to spread from the top left to the bottom right, which tends to decrease. This can mean that there is a negative correlation or relationship between managerial ownership and earnings management. In other words, institutional ownership is increasing; there is a tendency for earnings management to decline. The following is a graph of data distribution between managerial ownership and earnings management.

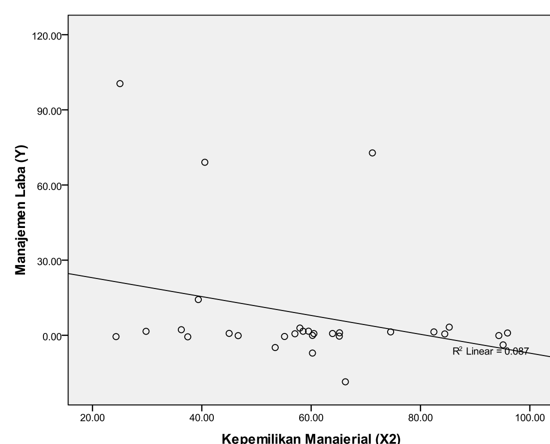
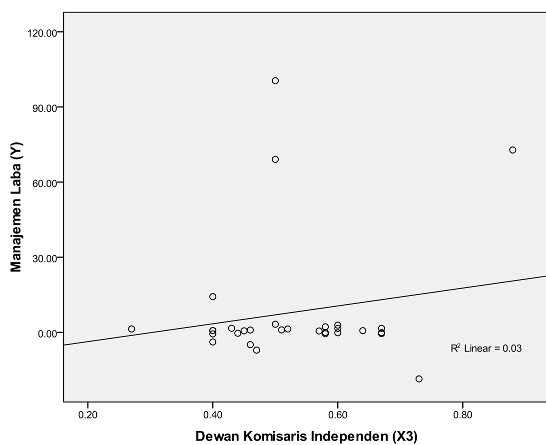
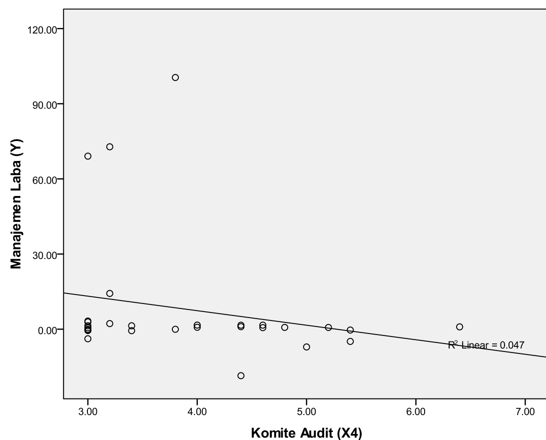


Figure 2 Data Distribution between Managerial Ownership and Profit Management

Based on Figure 2, it is known that the data distribution between managerial ownership and earnings management tends to spread from the top left to the bottom right, which tends to decrease. This can mean that there is a negative correlation or relationship between managerial ownership and earnings management. In other words, managerial ownership is increasing; there is a tendency for earnings management to decline. The following is a graph of data distribution between the independent board of directors and earnings management.



Gambar 3. Sebaran Data antaraDewankomisaris Independendan Earning management



Gambar 4. Sebaran Data antaraKomite Audit dan Earning management

Based on Figure 3, it is known that the data distribution between the independent board and earning management tends to spread from the lower left to the right, which tends to rise. This can be interpreted as having a positive correlation or relationship between the independent board of directors and earnings management. In other words, the independent board of commissioners is increasing; there is an increasing trend in earning management. The following is a graph of data distribution between the audit committee and earnings management.

Based on Figure 4 it is known that the distribution of data between the audit committee and earnings management tends to spread from the top left to the bottom right, which tends to decrease. This means that there is a correlation or negative relationship between the audit committee and earnings management. In other words, the audit committee is increasing; there is a downward trend in earnings management. The following is a graph of data distribution between leverage and earnings management.

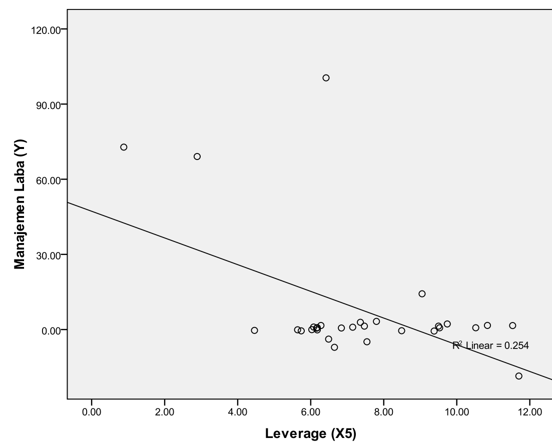


Figure 5. Data Distribution between Leverage and Profit Management

Based on Figure 5.5, it is known that the data distribution between leverage and earnings management tends to spread from the upper left to the lower right, which tends to decrease. This can mean that there is a negative correlation or relationship between leverage and earnings management. In other words, increasing leverage, there is a tendency to decrease earnings management. The following is a graph of data distribution between profitability and earnings management.

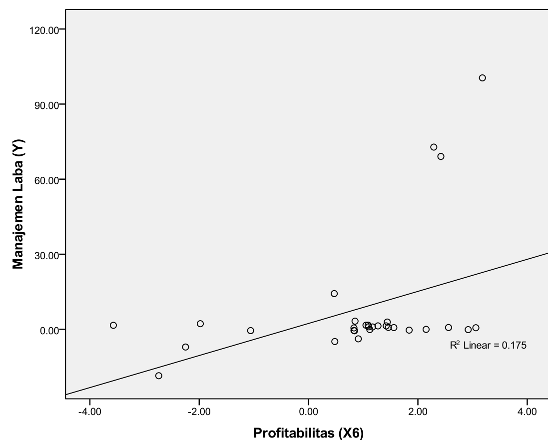


Figure 6. Data Distribution between Profitability and Profit Management

Based on Figure 6, it is known that the data distribution between profitability and earnings management tends to spread from the bottom left to the right, which tends to rise. This means that there is a positive correlation or relationship between profitability and earnings management. In other words, increasing profitability, there is a tendency for earnings management to increase. The following are Pearson correlation values between independent variables (institutional ownership, managerial ownership, independent board of directors, audit committee, leverage, and profitability) on the dependent variable (earnings management).

Table 2. Pearson Correlation between Independent Variables and Dependent Variables

Correlations								
		Institutional Ownership (X1)	Managerial ownership (X2)	Independent Board of Commissioners (X3)	Audit Committee (X4)	Leverage (X5)	Profitability (X6)	Earning management (Y)
Earning management (Y)	Pearson Correlation	-.198	-.295	.174	-.216	-.504**	.419*	1
	Sig. (2-tailed)	.294	.113	.358	.251	.005	.021	
	N	30	30	30	30	30	30	30
**. Correlation is significant at the 0.01 level (2-tailed).								
*. Correlation is significant at the 0.05 level (2-tailed).								

Based on Table 2, it is known:

- Pear Pearson Correlation (Pearson Correlation) between institutional ownership on earnings management is -0.198, which is negative, which means there is a negative correlation / relationship between institutional ownership on earnings management.
- Pear Pearson Correlation (Pearson Correlation) between managerial ownership and earning management is -0.295, which is negative, which means there is a negative correlation / relationship between managerial ownership and earnings management.
- Pear Pearson Correlation (Pearson Correlation) between the independent board of commissioners on earnings management is 0.174, which is positive, which means there is a positive correlation / relationship between the independent board of commissioners on earnings management.
- Pear Pearson Correlation (Pearson Correlation) between the audit committee on earning management is -0.216, which is negative, which means there is a correlation / negative relationship between the audit committee on earnings management.
- Pear Pearson Correlation (Pearson Correlation) between leverage on earnings management is -0.504, which is negative, which means there is a negative correlation / relationship between leverage on earnings management.
- Pear Pearson Correlation (Pearson Correlation) between profitability and earnings management is 0.419, which is positive, which means there is a positive correlation / relationship between profitability and earnings management

Determination Coefficient Analysis

Determination Coefficient (R^2) is a value (proportion value) that measures how much the ability of the independent variables used in the regression equation, in explaining the variation of the dependent variable.

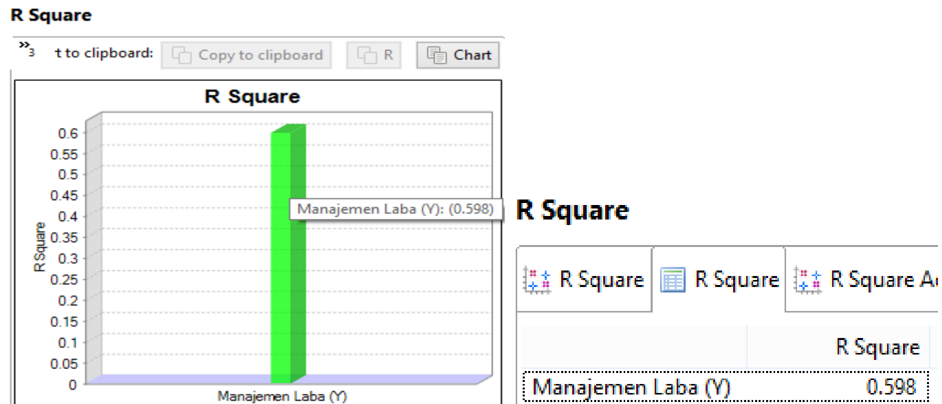
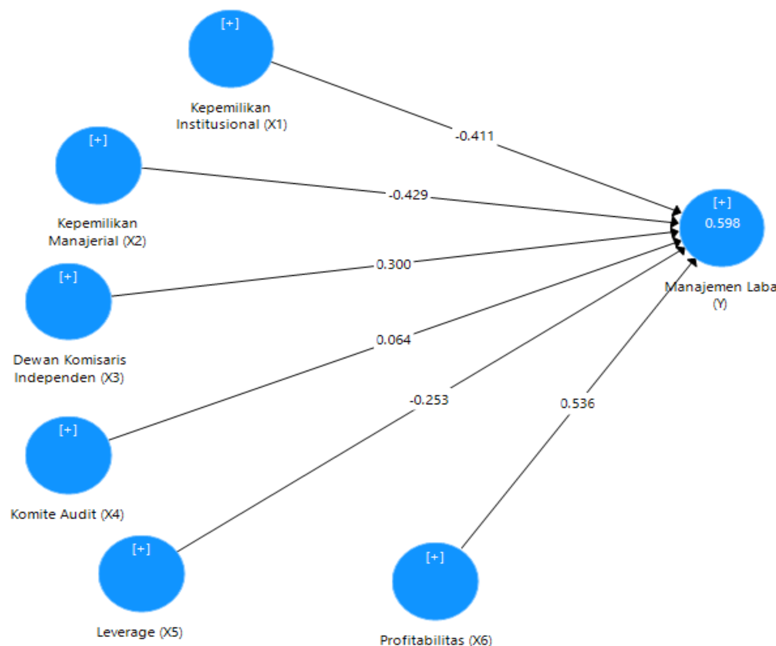


Figure 7 Coefficient of Determination

Based on the results in Figure 7, it is known that the coefficient of determination is 0.598, which means that variables of institutional ownership, managerial ownership, independent board of directors, audit committee, leverage, and profitability together can affect earnings management by 59.8% while the remaining 40, 2% is influenced by other factors not examined in this study.

Significance Test (Bootstrapping Approach)

Furthermore, to find out whether the influence of each independent variable (institutional ownership, managerial ownership, independent board of directors, audit committee, leverage, and profitability) is significant or not on the dependent variable earnings management, bootstrapping testing is performed using SmartPLS software. The following results from bootstrapping testing.



Path Coefficients

Mean, STDEV, T-Values, P-Values | Confidence Intervals | Confidence Intervals Bias Correc... | Samples | Export to clipboard: | Copy to c

	Original Sample (O)	Sample Mean (M)	Standard Deviation (STDEV)	T Statistics (|O/STDEV|)	P Values
Dewan Komisa...	0.300	0.293	0.192	1.562	0.119
Kepemilikan In...	-0.411	-0.422	0.192	2.137	0.033
Kepemilikan M...	-0.429	-0.432	0.173	2.474	0.014
Komite Audit (...	0.064	0.031	0.135	0.470	0.638
Leverage (X5) -...	-0.253	-0.234	0.222	1.138	0.256
Profitabilitas (X...	0.536	0.554	0.229	2.342	0.020

Figure 8. Testing Significance with Bootstrapping (SmartPLS)

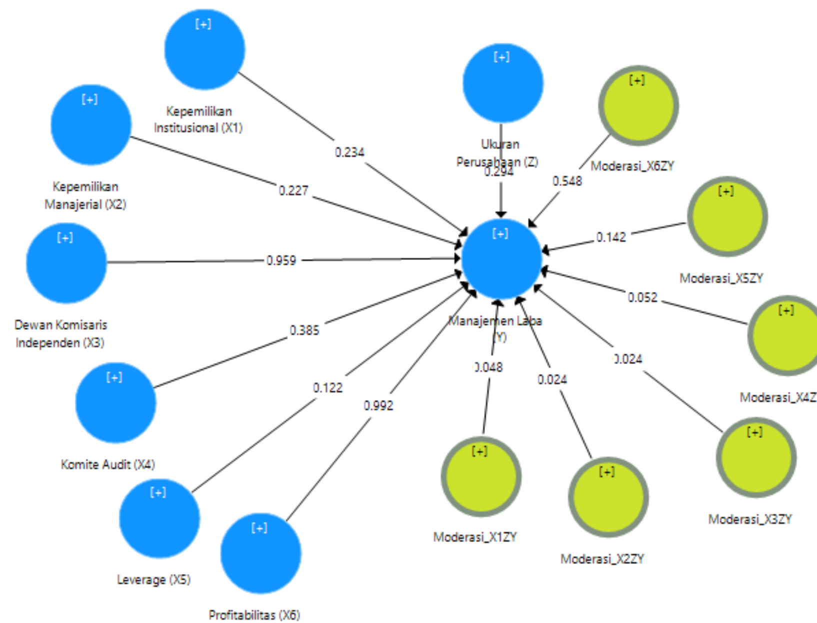
Based on the results of the bootstrapping test in Figure 5.8, the following model or equation is obtained:

Y = -0,411 X1 – 0,429 X2 + 0,3 X3 + 0,064 X4 – 0,253 X5 + 0,536 X6

- The coefficient of institutional ownership on earnings management is -0.411 (original sample column), which is negative. This value can be interpreted as institutional ownership negatively influences earnings management. It is known that the P-value of institutional ownership is 0.033 <0.05, so institutional ownership has a negative and significant effect on earnings management.
- The coefficient of managerial ownership on earnings management is -0.492 (original sample column), which is negative. This value can be interpreted as managerial ownership negatively affecting earnings management. It is known that the P-Value of managerial ownership is 0.014 <0.05, so managerial ownership has a negative and significant effect on earnings management.
- The coefficient value of the independent commissioner on earning management is 0.300 (original sample column), which is positive. This value can be interpreted as an independent board of directors positively influencing earning management. It is known that the P-Value value of the independent board of directors is 0.119> 0.05, so the independent board of directors has a positive effect, but not significant on earnings management.
- Audit committee coefficient on earning management is 0.064 (original sample column), which is positive. This value can be interpreted as an audit committee that has a positive effect on earnings management. It is known that the P-Value value of the audit committee is 0.638> 0.05, so the audit committee has a positive effect, but not significant on earnings management.
- The coefficient of leverage on earnings management is -0.253 (original sample column), which is negative. This value can be interpreted as a negative influence on earnings management. It is known that the P-Value value of leverage is 0.256> 0.05, so leverage has a negative effect, but not significant on earnings management.
- The profitability coefficient on earning management is 0.536 (original sample column), which is positive. This value can be interpreted as profitability has a positive effect on earnings management. It is known that the P-Value value of profitability is 0.020 <0.05, then profitability has a positive and significant effect on earnings management.

Moderation Test

Further testing the significance of firm size in moderating the relationship between institutional ownership, managerial ownership, independent board of directors, audit committee, leverage, and profitability of company size. The following are the results of moderation testing



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	Original Sampl...	Sample Mean (...	Standard Devia...	T Statistics (|O...	P Values
Dewan Komisaris Independen (X3) -> Manajemen Laba (Y)	0.406	0.348	0.423	0.959	0.338
Kepemilikan Institusional (X1) -> Manajemen Laba (Y)	-0.495	-0.549	2.116	0.234	0.815
Kepemilikan Manajerial (X2) -> Manajemen Laba (Y)	-0.599	-0.748	2.641	0.227	0.821
Komite Audit (X4) -> Manajemen Laba (Y)	0.190	0.103	0.493	0.385	0.700
Leverage (X5) -> Manajemen Laba (Y)	-0.054	-0.043	0.442	0.122	0.903
Moderasi_X1ZY -> Manajemen Laba (Y)	0.088	0.194	1.834	0.048	0.962
Moderasi_X2ZY -> Manajemen Laba (Y)	0.052	0.135	2.135	0.024	0.981
Moderasi_X3ZY -> Manajemen Laba (Y)	0.013	0.067	0.555	0.024	0.981
Moderasi_X4ZY -> Manajemen Laba (Y)	-0.060	-0.059	1.144	0.052	0.958
Moderasi_X5ZY -> Manajemen Laba (Y)	-0.185	-0.034	1.309	0.142	0.887
Moderasi_X6ZY -> Manajemen Laba (Y)	-0.470	-0.458	0.858	0.548	0.584
Profitabilitas (X6) -> Manajemen Laba (Y)	0.856	0.733	0.863	0.992	0.322
Ukuran Perusahaan (Z) -> Manajemen Laba (Y)	-0.300	-0.232	1.021	0.294	0.769

Figure 9. Test of Significance of Company Size in Moderating the Relationship Between Institutional Ownership, Managerial Ownership, Independent Board of Commissioners, Audit Committee, Leverage, Profitability to Earning Management

Based on the results of the moderation test in Figure 5.9, the following results are obtained.

Y= -0,495 X1 – 0,599 X2 + 0,406 X3 + 0,190 X4 - 0,054 X5 + 0,856 X6 + 0,008 X1Z + 0,052 X2Z + 0,013 X3Z – 0,060 X4Z – 0,185 X5Z – 0,470 X6Z

- The P-Values value of moderation_X1ZY is 0.962> 0.05, so the size of the company is not significant in moderating the relationship between institutional ownership and earnings management.
- The P-Values value of moderation_X2ZY is 0.981> 0.05, the size of the company is not significant in moderating the relationship between managerial ownership and earnings management.
- The P-Values value of moderation_X3ZY is 0.981> 0.05, so the size of the company is not significant in moderating the relationship between the independent board of commissioners on earnings management.
- The P-Values value of moderation_X4ZY is 0.958> 0.05, the size of the company is not significant in moderating the relationship between the audit committee on earnings management.
- The P-Values value of moderation_X5ZY is 0.887> 0.05, the size of the company is not significant in moderating the relationship between leverage and earnings management.
- The P-Values value of moderation_X6ZY is 0.322> 0.05, so the size of the company is not significant in moderating the

relationship between profitability and earnings management.

DISCUSSION

Effect of Institutional Ownership on Earning Management

Institutional ownership has a negative and significant effect on earning management in banking companies listed on the Indonesia Stock Exchange. This shows that the higher the value of institutional ownership in the company, the lower the opportunity for management to make earnings management. Institutional ownership is one way to monitor the manager's performance in managing the company so that ownership by other institutions is expected to reduce the earning management behavior of the manager.

The results of this study are in line with the results of Midiastuty and Mahfoedz (2003), Boediono (2005), and Mahiswari (2014) that institutional ownership has a negative and significant effect on earnings management. The presence of high institutional ownership can limit managers to earning management. But what needs attention is earning management can be efficient, not always opportunistic. If earnings management is efficient, high institutional ownership will actually increase earnings informativeness in communicating private information, but if the earning management carried out by the company is opportunistic, high institutional ownership will limit earnings management.

This research supports the idea that the presence of high institutional ownership limits managers to earning management. Institutional investors are able to reduce incentives for managerial opportunistic behavior by providing a higher degree of monitoring of managerial behavior compared to individual investors (Suranta and Midiastuty, 2006). Through the mechanism of institutional ownership, the effectiveness of management of company resources by management can be known from the information produced. Institutional ownership has the ability to control the management through an effective monitoring process that reduces management's actions to manage management.

Effect of Managerial Ownership on Earning Management

Managerial ownership has a negative and significant effect on earnings management in banking companies listed on the Indonesia Stock Exchange. This shows that the higher the value of managerial ownership in the company, the lower the chance of management to make earnings management. In addition to institutional ownership, managerial ownership is also considered capable of reducing the behavior of managers in earning management. If the manager has ownership in the company, the manager will act in accordance with the interests of the shareholders because the manager also has an interest in it.

This result proves that managerial ownership can be used as a means to reduce agency costs between owner and management. These results prove that by increasing share ownership by managers in the company will be able to create optimal company performance and motivate managers to act more carefully, because they share the consequences of every action they take.

Jensen &Meckling (1976) stated that managerial ownership succeeded in becoming a mechanism to reduce agency problems from managers by aligning the interests of managers with shareholders. Agency issues can be minimized by increasing managerial ownership so that management will tend to try to improve its performance for the benefit of shareholders. This will affect the earning management and company value.

Influence of the Independent Board of Commissioners on Earning management

The Independent Board of Commissioners has a positive but not significant effect on earning management in banking companies listed on the Indonesia Stock Exchange. This shows that the more the board of commissioners of the company,

the higher the chances of management to make earnings management. This indicates that the large size of the board of commissioners is not effective in reducing earnings management practices. Companies that have a large number of commissioners, the actions of Earning Management by the company are also increasing. This condition can be caused by the difficulty of coordination between the members of the board and this hampers the supervision process which should be the responsibility of the board of commissioners

Fulfillment of an independent board of commissioners conducted by banks is only to fulfill the regulations governing the proportion of the board of commissioners in each bank, and the function of the board of commissioners is as supervisor and advisor and not acting as an operational decision maker. So this causes independent commissioners to not be able to work optimally to reduce earnings management.

Board of Commissioners from outside the company in this study proved to be ineffective in reducing earnings management. Regardless of the number of commissioners in the company, it does not affect the behavior of managers in earning management practices. This is nothing but because of information asymmetry in which the management is better informed about company information compared to the board of commissioners who speak more about control issues and company policies..

The influence of the Audit Committee on Earning management

The Audit Committee has a positive but not significant effect on earning management in banking companies listed on the Indonesia Stock Exchange. This shows that the more the audit committee of the company, the higher the chances of management to make earnings management. This is due to the mandatory regulation of Bapepam, so that the objectives of the company to form its main audit committee are only to avoid punishment. Therefore, the performance of the audit committee is less effective and optimal in developing and implementing a supervisory process to minimize the practice of earnings management. Because the establishment of an audit committee by the company is only mandatory to the existing regulations. In addition there are still many audit committees that have not been effective in carrying out their duties and responsibilities so that their roles and functions in the company are very ineffective and have not yet achieved success.

This study proves that the Audit Committee in the company as one of the mechanisms of Good Corporate Governance is not able to reduce earnings management by management, because of that the existence of an audit committee in a company is not able to reduce earnings manipulation by management, this is because remembering weak practice of Good Corporate Governance in Indonesia.

The Influence of Leverage on Earning Management

Leverage has a negative effect but not significant on earning management in banking companies listed on the Indonesia Stock Exchange. This shows that the higher the leverage value in the company, the more likely the manager will make earnings management. Companies that have a high leverage ratio due to the large amount of debt compared to assets owned by the company, are suspected of earning management because the company is threatened with default, namely unable to meet debt repayment obligations on time. The company will try to avoid it by making policies that can increase both income and profit, thereby giving a relatively better position of approval in negotiations or rescheduling of company debt. Saiful (2012) explained that a high level of liability makes it difficult for company management to make predictions about the future course of the company. The greater the debt that the company has, the tighter the supervision carried out by the creditors, so that the management's flexibility to make earning management decreases. This indicates that earnings management is negatively

correlated with the ratio of debt to total assets.

Effect of Profitability on Earning Management

Profitability has a positive and significant effect on earning management in banking companies listed on the Indonesia Stock Exchange. This shows the greater the value of profitability, the manager's ability to make earnings management is also higher, whereas the lower the profitability, the lower the earnings management. This is in line with research conducted by Widyastuti (2009) which states that ROA has a positive and significant effect on earnings management.

Perdana (2012) states that the greater the change in profitability shows the greater fluctuations in management's ability to generate profits. This affects investors in predicting earnings and predicting risks in investment so as to have an impact on investor confidence in the company. In connection with that, management is motivated to conduct earnings management so that reported earnings do not fluctuate so as to increase investor confidence.

The effectiveness of companies in generating profits through the operation of assets owned to be a benchmark of company performance can also motivate earnings management actions in a company. The greater the Return on Assets (ROA) as the profitability ratio of a company, the more efficient use of assets will increase profits. ROA is an important measure to assess whether a company is healthy or not, which affects investors because the company has a higher rate of return. In other words, the higher this ratio, the better the productivity of assets in obtaining net profits. So that ROA motivates management to make earnings management.

Company Size Moderates the Effect between Institutional Ownership, Managerial Ownership, Independent Board of Commissioners, Audit Committee on Earning Management

Based on moderation testing on company size, the results showed that the size of the company cannot moderate the influence between institutional ownership, managerial ownership, independent board of directors, audit committee, leverage, profitability on earnings management with a significance value above 0.05. This shows that with the moderating variable, the size of the company may not weaken or strengthen the possibility of earning management. Because the size of the company is not a determining factor in the effectiveness of supervision of company management. However, the effectiveness of the control mechanism depends on the values, norms and beliefs received in an organization in controlling activities against management. This means that the larger or smaller the size of the company does not cause earnings management.

Small, large and medium companies are not proven to be more aggressive in earning management, both to avoid earnings losses and earnings decreases. Like the size hypothesis, that the larger the company will tend to reduce earning management practices, because large companies are politically more attentive to government institutions than small companies. Likewise with small companies that also tend to be more careful in carrying out financial reporting. Because small companies are often considered to practice earning management so that managers are more effective in reporting the company's financial statements so that investors are interested in investing in the company. Thus the size of the company cannot strengthen or weaken the influence between institutional ownership, managerial ownership, independent board of directors, leverage, profitability on earnings management.

CONCLUSION

From the results of the research and testing, the following conclusions have been drawn:

1. Institutional ownership has a negative and significant effect on earnings management.

2. Managerial ownership has a negative and significant effect on earnings management.
3. The independent board of directors has a positive and insignificant effect on earnings management.
4. The audit committee has a positive but not significant effect on earnings management.
5. The leverage variable with the Deb Equity Ratio (DER) proxy has a negative but not significant effect on earnings management.
6. Profitability variables with a Return on Asset (ROA) proxy have a positive and significant effect on earnings management.

Moderating variables company size cannot moderate the influence between institutional ownership, managerial ownership, independent board of directors, audit committee, leverage, profitability on earnings management with insignificant value

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