

## THE EFFECT OF CORPORATE GOVERNANCE ON EARNINGS MANAGEMENT

**Denis Tiffany**

Business School, University Pelita Harapan  
denistiffany@gmail.com

**Hanna Wijaya**

Business School, University Pelita Harapan  
hanna.wijaya@uph.edu

### Abstrak

Penelitian ini dilakukan untuk menguji pengaruh tata kelola perusahaan terhadap manajemen laba. Variabel yang digunakan dalam penelitian ini meliputi manajemen laba berbasis akrual (diproksikan oleh akrual diskresioner), manajemen laba riil (diproksikan oleh arus kas operasi abnormal dan produksi berlebih abnormal), dan mekanisme tata kelola perusahaan dari keahlian komite audit, ukuran komite audit, kepemilikan manajerial, kepemilikan institusional, dan kepemilikan asing. Dengan menggunakan metode pengambilan sampel purposive, penelitian ini menggunakan total 318 pengamatan perusahaan tahun dari perusahaan manufaktur yang terdaftar di Bursa Efek Indonesia selama periode 2015-2017. Analisis regresi linear berganda OLS melalui SPSS 19 digunakan untuk menganalisis data untuk tujuan pengujian hipotesis. Hasil dari penelitian ini menunjukkan bahwa mekanisme tata kelola perusahaan terutama, kepemilikan institusional memiliki efek negatif terhadap manajemen laba berbasis akrual. Di sisi lain, mekanisme tata kelola perusahaan, terutama kepemilikan institusional dan kepemilikan asing memiliki efek negatif terhadap manajemen laba riil.

**Kata kunci:** *manajemen laba berbasis akrual, manajemen laba riil, tata kelola perusahaan, karakteristik komite audit, struktur kepemilikan*

### Research Background

Earnings according to Tabassum et al. (2015) are “the most vital entity which demonstrate the financial stability and strength of any firm.” It is the main indicator of stock prices. With that, organization will have a target amount of earnings to be attained. In order to achieve that target, managers will use what we call earnings management. Earnings management occurs when managers modify financial report through financial reporting judgement or chances in some business activities in order to deceive stakeholders about the company financial performance. This deceit is brought about by ensuring profit and earnings reaches its expected target (Susanto and Pradipta, 2016). Profit defined by Susanto and Pradipta (2016) as “the excess of the revenue with the cost within a certain period cannot be separated from management performance” is a measure of success of the company. Thus, earnings are manipulated through earnings management for the sake of the company’s going concern.

According to Sohn (2016) “earnings can be managed in two different ways”, either accrual-based earnings management or real earnings management. Accrual-based earnings management occurs through manipulating discretionary accrual choices allowed under accounting standards, usually towards the end of reporting period (Sohn, 2016). Whereas, real earnings management is executed by real activities adjustments such as timing scale of sales and production (Sohn, 2016). Finally, intentional action by managers to alter optimal business practices to change earnings in a direction is called real earnings management.

Most research uses accrual-based earnings manipulation as their earnings management proxy (Enomoto et al., 2015). Therefore, this research would address both real earnings management and accrual-based earnings management, as there has been a shift in the usage of accrual-based earnings management to real earnings management (Susanto and Pradipta, 2016). Examining only one technique of earnings management would not be able to explain the overall effect of the earnings management activities. Additionally, Gunny et al. (2014) and

Enomoto et al. (2015) found that accrual-based earnings management are more prone to auditors and regulators inspection and observation rather than real earnings management. Accrual-based earnings management is also proven to be riskier as companies do not have that much flexibility in altering accruals. Ratmono (2010) and Sohn (2016) proved that real earnings management hard to be detected or proved by auditors and regulators, even those with expertise and experience.

Real earnings management is the alteration of normal operation of company into something abnormal that is led by the desire to deceive shareholders (Susanto and Pradipta, 2016). Whereas, accrual-based earnings management is the alteration in accounting method or estimates within the presentation of financial statements (Zang, 2012). The issues above are agency problems. The motivation of this research is to study how corporate governance minimize both accrual-based earnings management and real earnings management, thus reducing this agency problem. This research modifies Susanto and Pradipta (2016), the study of corporate governance to real earnings management, by adding accrual-based earnings management and several other components of corporate governance.

Corporate governance according to Man et al. (2013) is “an internal system encompassing policies, processes, and people that serves the needs of shareholders and other stakeholders by directing and controlling management activities with business practices, objectivity, and integrity.” This topic has been an important tool in mitigating earnings management (Man et al., 2013). Thus, this research will discuss about how corporate governance in terms of audit committee expertise, audit committee size, managerial ownership, institutional ownership and foreign ownership are negatively influence earnings management.

Based on the condition that has been discussed above, the problems formulated in this research are: (1) Does audit committee expertise have a negative effect on accrual-based earnings management? (2) Does audit committee expertise have a negative effect on real earnings management? (3) Does audit committee size have a negative effect on accrualbased earnings management? (4) Does audit committee size have a negative effect on real earnings management? (5) Does managerial ownership have a negative effect on accrualbased earnings management? (6) Does managerial ownership have a negative effect on real earnings management? (7) Does institutional ownership have a negative effect on accrualbased earnings management? (8) Does institutional ownership have a negative effect on real earnings management? (9) Does foreign ownership have a negative effect on accrual-based earnings management? (10) Does foreign ownership have a negative effect on real earnings management?

## Agency Theory

Agency theory involves an agency relationship where the principal entrusts a task to the agent in the form of a contract. This contract is created with the consideration of both the principal's behavior of seeking cost minimization and agent's behavior on reward maximization and reducing principal's control (Fayezi et al., 2012). Thus, Delbufalo (2018) mentioned agency theory “explicitly addresses under which contractual arrangements the relationship between principal and agent operates most efficiently.” Consequently, without the existence of the consideration added in the contract, agency problem might arise.

Agency problems arises from the asymmetry of information obtained by the agent (the management) and the principal (shareholders). With the asymmetry of information, the principal is unable to fully observe the manager's(agent's) work and therefore, contract cannot make a condition from it, instead contract to measure the level of work put into by the manager is measured using observable and verified quantity such as profit (Black et al., 2017). Another factor which give rise to agency problem would be conflict of interest, as agent and principal do not share the same interest. As per contract, manager (agent) are to gain incentives by fulfilling specific quantified target as of the year, making it a short-term achievement. Principal (shareholders), made this target in order to maximize return in a longterm, for the sake of the growth of the company. The agent however, would sacrifice the long-term investment gains for short-term benefits in order to receive huge incentives. Not to mention, the information asymmetry mentioned above, managers have more information internally compared to the shareholders, and

shareholders do not have a mean to ensure that managers are acting in accordance with their expectation (Susanto & Pradipta, 2016). That being said, the financial statement produced by the management might be misleading as they might use different means in order to achieve their targeted amount, possibly through both accrual-based earnings management and real earnings management.

### **Accrual-based Earnings Management**

Zang (2012) explain accrual-based earnings management as an earnings management that is “achieved by changing the accounting methods or estimates used when presenting a given transaction in the financial statements.” For example, change in depreciation method for fixed asset and the estimate for provision for doubtful accounts. This type of earnings management does change the amount of accounting accruals, it does not have any effect on the cash flow (Sohn, 2016). Man et al. (2013) mentioned that earnings that are managed by discretionary accruals can be done by “using provision for credit losses, warranty cost, inventory values, and the timing and number of unusual items.” Chen and Tsai (2010) said that the most commonly used earnings management method would be the manipulation of discretionary accruals analysis due to the low manipulation cost, easy application, and not so easy detection. However, it seems that as more researches are being made on discretionary accruals earnings management, it became more increasingly easy to detect such earnings management. Which is the reason why most companies now are not using discretionary accrual earnings management as their method, but instead are turning to another earnings management by manipulation of real activities known as, real earnings management (Chen and Tsai, 2010).

### **Real Earnings Management**

According to Tabassum et al. (2015), real earnings management means changing business activities in order to accelerate earnings. For example, manipulation of R&D expenses, overproduction, manipulation in advertising expense and sales manipulation. According to Huang et al (2017), “Real earnings management is defined as management operational activities to alter reported earnings in a particular direction, which is achieved by overproducing inventory to lower the cost of goods sold (COGS) or cutting discretionary expenses (i.e. advertising expenditures, research and development expenditures, selling, general and administrative expenditures) to improve reported margin.” Conversely, it is the manipulation of earnings through accounting sleight of hand used by managers to meet earnings expectations. The following earnings management is done through manipulation of cash flow from operating activities and working capital (Chen and Tsai, 2010). Therefore, contrasting with accrual-based earnings management, real earnings management according to Sohn (2016) “has direct consequences on current and future cash flow.” It is also found that real earnings management has a negative impact on the firm future value, due to its effect on the cash flow and other part of the financial statements (Enomoto et al., 2015).

### **Corporate Governance**

Corporate governance is defined by Black et al. (2017) as “the processes, both formal and informal, through which a corporation is administered and managed” including legal requirements and policies adopted by the corporation, and informal culture implemented. It is the embodiment of interaction of stakeholders such as regulators, managers, directors and customers. The mechanism of corporate governance ensures investors that adequate returns will be obtained from their investments (Mansor et al., 2013). Madden (2010) claimed that “a requisite for effective corporate governance is a system view of wealth creation that provides directors with clarity as to how to execute their responsibilities.” With adequate guidance proposed through corporate governance, agent would understand and corporate in the interest of the principal, that is with incentives. And the principal would understand the interest of the agent and reward them appropriately. Thus, an effective corporate governance would be able to reduce agency cost (Susanto & Pradipta, 2016).

### **Audit Committee Expertise**

Audit committee members have the responsibilities to monitor internal control and financial reporting of the company, therefore they should possess adequate expertise in that specific field (Bedard et al, 2004). The SEC required public company have an audit committee financial expert what serves in their audit committee, this rule is implement under SarbanesOxley section 407 (Afterman, 2016). According to the SEC, audit committee financial expert must have: "(1) an understanding of GAAP and financial statements; (2) the ability to assess the general application of GAAP to accounting for estimates, accruals, and reserves; (3) experience preparing, auditing, analyzing, or evaluating financial statements of a breadth and level of accounting comparable to that expected to be present in the company's financial statements (or experience actively supervising activities); (4) an understanding of internal control over financial reporting; and (5) an understanding of audit committee functions" (Afterman, 2016). Furthermore, to qualify as an audit committee financial expert they must obtain: (1) education and experience in a position as a principal financial or accounting officer, controller, public accountant or auditor; (2) experience in actively supervising a principal financial or accounting officer, controller, public accountant or auditor; (3) experience in overseeing or assessing companies or public accountants in the preparation, auditing, or evaluation of financial statements; or (4) other relevant experience (Afterman, 2016).

### **Audit Committee Size**

The Blue Ribbon Committee known as BRC, recommends public companies to have at least three audit committee member, of which one of them should be an audit committee financial expert. Surat Edaran Bapepam Number. SE-03/PM/2000 states that audit committee of a public company in Indonesia requires at least 3 members that is led by an independent commissioner with 2 independent external parties (Marsha and Ghozali, 2017). The purpose of the recommendation was to improve the status of audit committee in a similar fashion as to increase the reputation of internal audit, as the Abbott et al. (2004) explain that the goal and objectives of audit committee and internal audit intertwined. Larger audit committee would be more relevant in the eye of the board of directors and therefore more meaningful as the authoritative internal and external audit function.

### **Managerial Ownership**

Managerial ownership according to Alzoubi (2016) is when a manager owns shares within the company they work in. In hand with agency theory, managers that do not own a portion of stock which they manage will increase decision making due to self-interest which do not have improving company net worth in mind (Alzoubi, 2016). Man et al. (2013) also implied that firms with higher concentration of dispersed ownership would have less earnings management as there will be no one with majority control over the firm, as well as lesser personal benefits from controlling the firm, therefore, the manager's(agent) interest would be able to align with the owners (principal). Guna and Herawaty (2010) found that managerial ownership would restrict the ability of manager to engage in earnings management as they would likely align their interest with the shareholders. Hence, making the supervision of the company more effective and efficient. Agustia (2013) discovered that in Indonesia, managerial ownership average falls below 5%, a very small number. Susanto and Pradipta (2016) mentioned that those managers that owns shares of the firm they work for would make a policy for themselves when managing earnings for the sake and interest of the investors.

### **Institutional Ownership**

The effectiveness of institutional investor monitoring strongly influence the ability of executives to myopically engage in earnings management (Lemma et al., 2018). This is because institutional investors have the resources, ability to monitor, opportunities, discipline and influence the managers of the companies. Institutional investors role is estimated through their level of participation on governance mechanism (Alzoubi, 2016). Thus, institutional investors with large shareholdings would help reduce the information asymmetry between management (agent) and

outside shareholders (principal). Reasons being institutional investors have much more to lose by being passive and much more gains for being active, even more than monitoring cost (Lemma et al., 2018). Therefore, institutional investors with larger shareholdings will have the ability to reduce myopic managerial behavior.

### Foreign Ownership

Foreign ownership is shares owned by foreign parties either institutional or individuals (Laksmi et al., 2018). Alzoubi (2016) argues that with foreign ownership, those foreign investors would have more superior analysis compared to those local investors, and thus, will produce better economic benefits. However, there would be information asymmetry as it is not easy for the foreign investors to gain the same information as the local investors regarding the firm that is invested in, making it hard for them to analyse the company financial reporting process (Alzoubi, 2016). Studies also suggests that foreign investors do not make as much profit as domestic investors.

### Hypotheses Development

Based on the explanations above, the researcher composes the hypotheses as follows:

H1: Audit Committee Expertise has a negative impact on accrual-based earnings management.

H2: Audit Committee Expertise has a negative impact on real earnings management.

H3: Audit committee size has a negative impact on accrual-based earnings management.

H4: Audit committee size has a negative impact on real earnings management.

H5: Managerial Ownership has a negative impact on accrual-based earnings management

H6: Managerial Ownership has a negative impact on real earnings management

H7: Institutional Ownership has a negative impact on accrual-based earnings management.

H8: Institutional Ownership has a negative impact on real earnings management.

H9: Foreign Ownership has a negative impact on accrual-based earnings management.

H10: Foreign Ownership has a negative impact on real earnings management.

### Population and Sample

The population of the data is listed manufacturing companies in Indonesia Stock Exchange for the period 2015 – 2017. The sample is selected by using purposive sampling method which criteria as follows: (a) The company is manufacturing company listed in Indonesia Stock Exchange in the period of observation, which is period 2015 – 2017. (b) The company never delisted from Indonesia Stock Exchange (IDX), discontinued activities, and never changes the industry sector during the research period. (c) The company published its financial statements and audited annual report each year, especially in the observation period beginning with fiscal year ended at December 31, 2015 through fiscal year ended at December 31, 2017. (d) Published financial statements and annual reports of companies observed use Rupiah (Rp) as its currency. (e) The financial statements and annual report published by the company contain information necessary for the research.

### Empirical Model

There are 3 models used to examine the impact of corporate governance on earnings management. Model 1 is used to examine the impact of corporate governance on accrualbased earnings management (DA). Model 2 is used to examine the impact of corporate governance on real earnings management whose proxy is abnormal cash flow from operations (CFO). Model 3 examine the impact of corporate governance on real earnings management whose proxy is abnormal overproduction (PROD). These models are shown below:

$$1: DA_{it} = \beta_0 + \beta_1 ACE_{it} + \beta_2 ACS_{it} + \beta_3 MO_{it} + \beta_4 IO_{it} + \beta_5 FO_{it} + \beta_6 LEV_{it} + \beta_7 Size_{it} + \epsilon$$

2: $CFO_{it} = \beta_0 + \beta_1 ACE_{it} + \beta_2 ACS_{it} + \beta_3 MO_{it} + \beta_4 IO_{it} + \beta_5 FO_{it} + \beta_6 LEV_{it} + \beta_7 Size_{it} + \epsilon$
3: $PROD = \beta_0 + \beta_1 ACE_{it} + \beta_2 ACS_{it} + \beta_3 MO_{it} + \beta_4 IO_{it} + \beta_5 FO_{it} + \beta_6 LEV_{it} + \beta_7 Size_{it} + \epsilon$

Where:

- $\beta_0$  = constant
- $\beta_i$  = coefficient of independent variable
- DA = discretionary accrual-based earnings management using Dechow et al. (1995) Modified Jones Model where discretionary accruals were calculated as follows:  

$$(TA_{it}/ASSETS_{it-1}) = \alpha + \beta_1(1/ASSETS_{it-1}) + \beta_2((\Delta SALES_{it} - \Delta AR_{it})/ASSETS_{it-1}) + \beta_3(PPE_{it}/ASSETS_{it-1}) + e_{it}$$
- PROD = real earnings management proxied by overproduction developed by Roychowdhury (2006) as follows:  

$$(PROD_{it}/ASSETS_{it-1}) = \alpha + \beta_1(1/ASSETS_{it-1}) + \beta_2(SALES_{it}/ASSETS_{it-1}) + \beta_3(\Delta SALES_{it}/ASSETS_{it-1}) + e_{it}$$
- CFO = real earnings management proxied by abnormal cash from operations developed by Roychowdhury (2006) as follows:  

$$(CFO_{it}/ASSETS_{it-1}) = \alpha + \beta_1(1/ASSETS_{it-1}) + \beta_2(SALES_{it}/ASSETS_{it-1}) + \beta_3(\Delta SALES_{it}/ASSETS_{it-1}) + e_{it}$$
- ACE = audit committee expertise
- ACS = audit committee size
- MO = managerial ownership
- IO = institutional ownership
- FO = foreign ownership
- LEV = leverage
- SIZE = firm size
- $\epsilon$  = error term

**Results and Discussion Analysis**

This study takes population of all companies listed in Indonesia Stock Exchange for the period of 2015 – 2017. Based on the data gathered from IDX, there are 613 companies, equivalent to 1839 firm-year within the population, researcher has gathered 106 companies, equivalent to 318 firm-year based on the criteria given on previous. From the total population of 613 companies, researcher reduced 20 companies from agricultural sector, 47 companies from mining sector, 71 companies from property, real estate and construction sector, 71 companies from transportation, infrastructure and utilities sector, 91 companies from the financial sector, 149 companies from trade, service and investment sector, and the other 58 companies for not satisfying the sample criteria. Observation of 106 companies within the period of 2015 – 2017, 3 years equivalent to 318 firm-year was found though purposive sampling, however after taking out the outliers, 286 firm-year remains for each model.

**Coefficient of Determination (R<sup>2</sup>)**

Coefficient of determination analysis is test of goodness of fit of the model. Coefficient of determination is represented by R<sup>2</sup>, and in this research, adjusted R<sup>2</sup> value will be used as, it is a more accurate representation of R<sup>2</sup>. Table 1 below shows the results of adjusted R<sup>2</sup>:

Table 1. Adjusted R<sup>2</sup> results

	Model 1	Model 2	Model 3
Adjusted R <sup>2</sup>	0.050	0.126	0.032

Source: SPSS output modified by Researcher, 2018

Based on the table above, Model 1 which has the dependent variable of discretionary accruals earnings management (DA), has an adjusted  $R^2$  value of 0.050, which suggest that, the independent variables in the model could explain 5% of the behavior of dependent variable, DA. Additionally, the other 95% could be explain by other variables that is not included in this research. Model 2, with dependent variable of cash flow from operation proxy of real earnings management (CFO), has an adjusted  $R^2$  value of 0.126, which indicates that the independent variables, audit committee expertise, audit committee size, managerial ownership, institutional ownership, and foreign ownership can explain 12.6% of the dependent variable CFO. Moreover, there will be another 87.4% that could be explained by variables other than the ones used in this research. Model 3, with dependent variable of abnormal overproduction proxy of real earnings management (PROD), has an adjusted  $R^2$  value of 0.032, which means that independent variables of audit committee expertise, audit committee size, managerial ownership, institutional ownership and foreign ownership can explain or can affect 3.2% of the dependent variable PROD. There is 96.8% effect that could be explain by other variables that are not used in these variables.

## F – Statistics Tests

F-statistics test also known as F-test is used to determine whether the model is usable in the sense that all independent variable as an aggregate could significantly affect the dependent variable within the model. This test is determined based on the significance value of the ANOVA. This value can be seen in Table 2 below:

Table 2. F-test significance value result

	Model 1	Model 2	Model 3
Sig.	0.003	0.000	0.000

Source: SPSS output modified by researcher, 2018

Based on Table 2. above, Model 1 to 3 has the significant value ( $P > |F|$ ) less than 0.01. Therefore, model 1, model 2 and model 3 is deemed significant at 1% significant level. Thus, corporate governance, proxied by audit committee expertise, audit committee size, managerial ownership, institutional ownership, and foreign ownership significantly affect both discretionary accruals earnings management and real earnings management.

**t – Statistics Tests** t – statistics test is done to determine whether independent variable significantly effects its dependent variable individually. Independent variables used are audit committee expertise, audit committee size, managerial ownership, institutional ownership, and foreign ownership. And each model has a dependent variable of discretionary accruals earnings management (DA), abnormal cash flow from operations proxy of real earnings management (CFO), and abnormal overproduction proxy of real earnings management (PROD) respectively. The results used for t-test are shown in Table 3 below:

Table 3. t – test significance value results

	Model 1		Model 2		Model 3	
	t	Sig.	t	Sig.	t	Sig.
(Constant)	-0.806	0.421	-3.367	0.001	2.148	0.033
Leverage	-3.944	0.000	-4.277	0.000	5.529	0.000
Firm Size	1.140	0.255	3.599	0.000	-3.452	0.001
AC Expertise%	-0.305	0.760	0.859	0.391	-1.283	0.201
AC Size	0.178	0.859	0.817	0.415	1.485	0.139
Managerial Ownership	-0.408	0.684	0.982	0.327	-0.400	0.689
Institutional Ownership	2.636	0.009	-3.056	0.002	3.884	0.000

Foreign Ownership	-0.245	0.807	0.261	0.794	-2.456	0.015
-------------------	--------	-------	-------	-------	--------	-------

Source: SPSS output modified by researcher, 2018

Based on the above table, result of t-test can be seen. T-test is done by comparing the significant value of the t-score ( $P > |t|$ ) to the significant level of 10%, 5% and 1%. If the significant value of the t-score ( $P > |t|$ ) is below the significant level of 10%, 5% or 1%, the independent variable is said to have significant influence on the dependent variable. As seen in table 3, Model 1 independent variable that is considered to have significant influence on discretionary accrual earnings management (DA) is institutional ownership at 1% significant level. Other independent variables such as audit committee expertise, audit committee size, managerial ownership, and foreign ownership do not have significant influence on DA, as its significant value of the t-score ( $P > |t|$ ) exceeds even at 10% significant level. Control variable leverage is also deemed to be significant whereas, firm size is not.

Model 2 independent variable that is considered to have significant influence on abnormal cash flow from operations proxy of real earnings management is institutional ownership at 1% significant level. Other independent variables such as audit committee expertise, audit committee size, managerial ownership, and foreign ownership significant value of t-score ( $P > |t|$ ) far exceed significant level at even 10%. Therefore, those independent variables are insignificant. Control variables of this model, both leverage and firm size are significant.

Model 3, independent variables that are considered to have significant influence on abnormal overproduction proxy of real earnings management are institutional ownership at 1% significant level and foreign ownership at 5% significant level. Audit committee size is significant at 1-tail t-test 10% significant level as the significant value of t-score ( $P > t$ ) is 0.0695 (0.139/2). Other independent variables such as audit committee expertise, and managerial ownership does not have significant influence as its significant value of t-score ( $P > |t|$ ) exceeds even 10% significant level. Both control variable of leverage and firm size of this model is significant.

### Discussion of Hypothesis Test Results

Below are the summary of coefficient results derived from 3 research models:

**Table 4, Coefficient results**

	Unstandardized Coefficients		Unstandardized Coefficients		Unstandardized Coefficients	
	B	Sig.	B	Sig.	B	Sig.
	(Constant)	-0.395	0.421	-0.395	0.001	0.518
Leverage	-0.103	0.000	-0.103	0.000	0.272	0.000
Firm Size	0.014	0.255	0.014	0.000	-0.028	0.001
AC Expertise%	0.000	0.760	0.000	0.391	-0.001	0.201
AC Size	0.015	0.859	0.015	0.415	0.056	0.139
Managerial Ownership	0.067	0.684	0.067	0.327	-0.058	0.689
Institutional Ownership	-0.066	0.009	-0.066	0.002	0.172	0.000
Foreign Ownership	0.005	0.807	0.005	0.794	-0.094	0.015

Source: SPSS Output modified by Researcher, 2018



### **Corporate Governance on Accrual-Based Earnings Management (DA) The Effect of Audit Committee Expertise on Accrual-Based Earnings Management**

Table 4 shows that audit committee expertise does not have a significant effect on accrual-based earnings management with value of  $P > |t|$  by 0.760. This result is not consistent with the hypothesis that has been made (H<sub>1</sub>), as H<sub>1</sub> states that audit committee expertise has a negative effect on accrual-based earnings management. Thus, H<sub>1</sub> is rejected. This study is consistent with previous research by Badolato et al. (2014) and Siagian & Siregar (2018) who do not find significance in the effect of audit committee expertise on accrual-based earnings management. However, it is not consistent with research result done by Abbott et al. (2004), Bedard et al. (2004), Lo et al. (2010), Hossain et al. (2011) and Dhaliwal et al. (2010) who found negative effect of audit committee expertise on accrual-earnings management. The reason of the inconsistency with prior researches and the hypothesis (H<sub>1</sub>) lies on the probability that the establishment of audit committee in Indonesia are for compliance purposes instead of restricting opportunity behavior (Siagian & Siregar, 2018).

### **The Effect of Audit Committee Size on Accrual-Based Earnings Management**

Table 4 shows that audit committee size does not have a significant effect on accrual-based earnings management with value of  $P > |t|$  by 0.859. This result is not consistent with the hypothesis that has been made (H<sub>3</sub>), as H<sub>3</sub> states that audit committee expertise has a negative effect on accrual-based earnings management. Thus, H<sub>3</sub> is rejected. This study is consistent with previous research by Abbott et al. (2004), Hamdan et al. (2013), Visvanathan (2008) and Bedard et al. (2004) who do not find significance in the effect of audit committee size on accrual-based earnings management. However, it is not consistent with research results done by Marsha and Ghazali (2017), Mishra and Malhtra (2016), and Wahid (2013) who found negative effect on audit committee size on accrual-based earnings management. The reason for the inconsistency with prior researcher and hypothesis (H<sub>3</sub>) lies on the probability that any number of audit committee member are able to ensure appropriate monitoring (Bedard et al., 2004) as well as the probability that the establishment of audit committee is merely for compliance purposes.

### **The Effect of Managerial Ownership on Accrual-Based Earnings Management**

Table 4 shows that managerial ownership does not have a significant effect on accrualbased earnings management with value of  $P > |t|$  by 0.684. This result is not consistent with the hypothesis that has been made (H<sub>5</sub>), as H<sub>5</sub> states that managerial ownership has a negative effect on accrual-based earnings management. Thus, H<sub>5</sub> is rejected. This study is consistent with previous researches done by Habbash (2010) and O'Callaghan et al. (2018) who do not find significance in the effect of managerial ownership on accrual-based earnings management. However, it is not consistent with research done by Gracia-Meca and SánchezBallesta (2009), Teshima and Shuto (2008) and Alzoubi (2016). The reason for the inconsistency with prior researchers and hypothesis (H<sub>5</sub>) lies on the probability that agency theory predictions are not true, instead, with stewardship perspective, there were never any conflict between the managers and owners (Habbash, 2010).

### **The Effect of Institutional Ownership on Accrual-Based Earnings Management**

Table 4 shows that institutional ownership has a significant effect on accrual-based earnings management at 1% significant level with value of  $P > |t|$  by 0.009. Based on Table 4 institutional ownership have a coefficient of -0.066 which shows that institutional ownership has a negative effect on accrual-based earnings management, consistent with this research 7th hypothesis (H<sub>7</sub>). Thus, H<sub>7</sub> is accepted. This study is consistent with previous research done by Alzoubi (2016) and Hossain et al. (2011) who found significant negative effect of institutional ownership on accrual-based earnings management. However, it is not consistent with research done by Marsha and Ghazali (2017), Agustia (2013) and Habbash (2010) who found no significant effect of institutional ownership on accrual-based earnings management. This result is also not consistent with researches done by Gracia-Meca and Sánchez-Ballesta (2009) and Lemma et al. (2018) who found positive significant effect of institutional ownership on accrual-based earnings management. As the result is consistent with several prior researches and the hypothesis (H<sub>7</sub>), assumptions that

institutional investors will actively monitor management's decision, therefore, they will be more capable to detect earnings management (Lemma et al., 2018).

### **The Effect of Foreign Ownership on Accrual-Based Earnings Managements**

Table 4 shows that foreign ownership does not have a significant effect on accrual-based earnings management with value of  $P > |t|$  by 0.807. This result is not consistent with the hypothesis that has been made ( $H_9$ ), as  $H_9$  states that foreign ownership has a negative effect on accrual-based earnings management. Thus,  $H_9$  is rejected. This study is consistent with previous research by Ji et al. (2015), and Lai and Tam (2017) who do not find significance in the effect of foreign ownership on accrual-based earnings management. However, it is not consistent with research result done by Guo et al. (2015), and Alzoubi (2016) who found negative effect of foreign ownership on accrual-based earnings management. The reason for this inconsistency with prior researches and the hypothesis ( $H_9$ ) lies on the probability that the distance would result to information asymmetry. And due to the information abuse, foreign investors would have lower trading performance compared to domestic performance. This is because foreign investors tend to buy foreign assets as soon as its revenue increases and sell them as soon as its revenue decreases (Alzoubi, 2016).

### **Corporate Governance on Real Earnings Management (CFO & PROD) The Effect of Audit Committee Expertise on Real Earnings Management**

Table 4 shows that audit committee expertise does not have a significant effect on real earning management by both abnormal cash flow from operation and abnormal overproduction proxy with the value of  $P > |t|$  by 0.391 and 0.201 respectively. This result is not consistent with the hypothesis that has been made ( $H_2$ ), as  $H_2$  states that audit committee expertise has a negative effect on real earnings management. Thus,  $H_2$  is rejected. This study is consistent with previous research by Susanto and Pradipta (2016), Garven (2015), Kang and Kim (2012), Sun et al. (2014), Susanto (2014), and Pamudji and Trihartati (2010) who do not find significance in the effect of audit committee expertise on real earnings management. However, it is not consistent with research result done by Inaam and Khamoussi (2016) who found negative effect of audit committee expertise on real earnings management. The reason for the inconsistency with prior research and hypothesis ( $H_2$ ) lies on the probability that again the establishment of audit committee in Indonesia are for compliance purposes instead of restricting opportunity behavior (Siagian & Siregar, 2018).

### **The Effect of Audit Committee Size on Real Earnings Management**

Table 4 shows that audit committee size does not have a significant effect on real earnings management by abnormal cash flow from operation proxy and a significant effect on real earnings management by abnormal overproduction proxy with the value of  $P > t$  by 0.2075 and 0.0695 respectively, by using one-tailed t test. Based on table 4.9, audit committee size has a coefficient of 0.056, which shows a positive effect on real earnings management by abnormal overproduction proxy. This result is not consistent with the hypothesis that has been made ( $H_4$ ), as  $H_4$  states that audit committee size has a negative effect on real earnings management.

This study is consistent with previous research by Indrawati and Yulianti (2010), Agustia (2013), Susanto and Pradipta (2016), Sun et al, (2014), Visvanathan (2008) and Garven (2015) who found no significance in the effect of audit committee size on real earnings management. This result is also consistent with research done by Ibrahim et al. (2015), Inaam et al. (2012) and Kang and Kim (2012) who found positive effect of audit committee size on real earnings management. However, it is not consistent with research result done by Inaam and Khamoussi (2016) who found a negative effect of audit committee size on real earnings management. The reason for the inconsistency with prior researches and hypothesis ( $H_4$ ) lies on the probability that any number of audit committee member are able to ensure appropriate monitoring (Bedard et al., 2004) as well as the probability that the establishment of audit committee is merely for compliance purposes. Also, it is probable that positive significance is obtained due to the inefficiency that comes with the increase in number of audit committee member as it would be a waste in cost and there will be clash is work (Hamdan et al., 2013).

### **The Effect of Managerial Ownership on Real Earnings Management**

Table 4 shows that managerial ownership does not have a significant effect on real earnings management by both abnormal cash flow from operation and abnormal overproduction proxy with the value of  $P > |t|$  by 0.327 and 0.689 respectively. This result is not consistent with the hypothesis that has been made ( $H_6$ ), as  $H_6$  states that managerial ownership has a negative effect on real earnings management. This study is consistent with previous research by Indrawati and Yulianti (2010), Agustia (2013), Handayani and Rachadi (2009), Jao and Pagulung (2011), Hsu (2015), Susanto and Pradipta (2016) and Shayan-Nia et al. (2017) who found no significance in the effect of managerial ownership on real earnings management. However, it is not consistent with research done by Guna and Herawaty (2010), Midiastuty and Machfoed (2013), Chaefeddine et al. (2013) and Niri et al. (2014) who found negative effect of managerial ownership on real earnings management. The reason for the inconsistency with prior researchers and hypothesis ( $H_6$ ) lies on the probability that companies such as family managed companies, which usually owns high managerial ownership do not have difficulties to transfer real wealth from company to its management, therefore it is not necessary to manager real earnings (Shayan-Nia et al., 2017).

### **The Effect of Institutional Ownership on Real Earnings Management**

Table 4 shows that institutional ownership has a significant effect on real earnings management by both abnormal cash flow from operation and abnormal overproduction proxy at 1% significant level with the value of  $P > |t|$  by 0.002 and

0.000 respectively. Based on Table 4.9 institutional ownership have a coefficient of 0.066 and 0.172 respectively, which shows that a negative effect on real earnings management by abnormal cash flow from operation proxy, and a positive effect on real earnings management by abnormal overproduction proxy. The result of this study is partially consistent with the 8th hypothesis ( $H_8$ ). Thus,  $H_8$  is partially accepted. This study is consistent with previous research done by Lemma et al. (2018), Susanto and Pradipta (2016), Sakaki et al. (2016) and Nuryaman (2016) who found negative significant effect of institutional ownership on real earnings management. It is also consistent with findings of Hsu (2015) who found positive significant effect of institutional ownership on real earnings management. However, there is inconsistency with the findings of Niri et al. (2014), Fakkfakh and Nasfi (2012), Indrawati and Yulianti (2010), Agustia (2013) and Shayan-Nia et al. (2017) who found no significant effect of institutional ownership on real earnings management. As result is partially consistent with several prior researches and the hypothesis ( $H_8$ ), assumptions that institutional investors are more capable in detecting earnings management due to their familiarity is true for model 2 with real earnings management proxy of abnormal cash flow from operations. However, as model 3 with real earnings management proxy of abnormal overproduction is positively affected by institutional ownership. This contradicts the assumptions mentioned in hypothesis development. The reason for this inconsistency lies on the probability that real earnings management is used to offset the decrease in accrual-based earnings management, additionally as Zang (2012) mentioned accrual-based earnings management is negatively related to real earnings management, as both are substitutes.

### **The Effect of Foreign Ownership on Real Earnings Management**

Table 4 shows that foreign ownership does not have a significant effect on real earnings management by abnormal cash flow from operations proxy (Model 2) with the value of  $P > |t|$  of 0.794, whereas a significant effect of foreign ownership on real earnings management by abnormal overproduction proxy at 5% significant level with the value of  $P > |t|$  by 0.015 was also found. Based on table 4.9 foreign ownership have a coefficient of -0.094, which shows that a negative effect on real earnings management by abnormal overproduction proxy. This result is partially consistent with the hypothesis made ( $H_{10}$ ), as  $H_{10}$  states that foreign ownership has a negative effect on real earnings management. This study is consistent with previous research by Hsu (2015) and Guo et al. (2015) who found negative significant effect of foreign ownership on real earnings management. it is also consistent with findings of Shayan-Nia et al. (2017) who do not find any significant effect of foreign ownership on real earnings management. As result is

partially consistent with several prior researches and the hypothesis ( $H_{10}$ ), assumptions that foreign investors have a more enhanced knowledge and produces a more noteworthy economic benefit, which allow the companies owned by foreign investors to come up with creative ideas to how to manage and earn earnings rather than rely on earnings management is true for model 3 with real earnings management proxy of abnormal overproduction. However, as model 2 with real earnings management proxy of abnormal cash flow from operation is not significantly affected by foreign ownership. This contradicts the assumptions mentioned in hypothesis development. The reason for this inconsistency lies on the probability that the belief of foreign investors that real activities such as cash flow from operations to be critical for long-term solvency, rather than managing its working capital (Shayan-Nia et al., 2017).

## Conclusion

This study analyzes the effect of corporate governance on earnings management on public listed companies in manufacturing sector for the period 2015 – 2017. There are two types of earnings management used in this study, accrual-based earnings management and real earnings management, which is proxied by abnormal cash flow from operations and abnormal overproduction respectively. The independent variable of corporate governance is proxied by five components of corporate governance, which includes audit committee expertise, audit committee size, managerial ownership, institutional ownership, and foreign ownership. Additionally, this study also uses some control variables of leverage and firm size.

The result of this study shows that independent variable of institutional ownership negatively effects accrual-based earnings management. This result is consistent with the study of by Indrawati and Yulianti (2010), Agustia (2013), Handayani and Rachadi (2009), Jao and Pagulung (2011), Hsu (2015) Susanto and Pradipta (2016) and Shayan-Nia et al. (2017). Whereas, other independent variables such as, audit committee expertise, audit committee size, managerial ownership and foreign ownership do not have negative significant effect on accrual-based earnings management. Which are supported by the study done by Badolato et al. (2014), Siagian and Siregar (2018), Abbott et al. (2004), Hamdan et al. (2013), Visvanathan (2008), Bedard et al. (2004), Habbash (2010), O'Callaghan et al. (2018), Ji et al. (2015) and Lai and Tam (2017).

The result of this study also concludes that independent variables of institutional ownership, foreign ownership to have negative effect on real earnings management. This result of consistent with the findings of Indrawati and Yulianti (2010), Agustia (2013), Susanto and Pradipta (2016), Sun et al. (2014), Visvanathan (2008), Garven (2009), Ibrahim et al. (2015), Kang and Kim (2012),

Inaam et al. (2012), Lemma et al. (2018), Sakaki (2016), Nuryaman (2016), Hsu (2015), Guo et al. (2015), and Shayan-Nia et al. (2017). Whereas, audit committee expertise, audit committee size and managerial ownership do not have negative significant effect on real earnings management. And this result is consistent with the findings of Indrawati and Yulianti (2010), Agustia (2013), Handayani and Rachadi (2009), Jao and Pagulung (2011), Hsu (2015) Susanto and Pradipta (2016), Shayan-Nia et al. (2017), Garven (2009), Kang and Kim (2011), Sun et al. (2014), Susanto (2014), and Pamudji and Trihartati (2010).

## Reference List

- Abbott, L.J., Parker, S., & Peters, G.F. (2004). Audit Committee Characteristics and Restatements. *Auditing: A Journal of Practice & Theory*, 23(1), 69-87.
- Afterman, A.B. (2016). SEC, The Audit Committee Financial Expert: A Closer Look at What That Means. *The CPA Journal*, 86(6), 24-25.
- Agustia, D. (2013). Pengaruh Faktor Good Corporate Governance, Free Cash Flow, dan Leverage Terhadap Manajemen Laba. *Jurnal Akuntansi dan Keuangan*, 15(1), 27-42.
- Alzoubi, E.S.S. (2016). Ownership structure and earnings management: evidence from Jourdan. *International Journal of Accounting & Information Management*, 24(2), 135-161.
- Badolato, P.G., Donelson, D.C., & Ege, M. (2014). Audit committee financial expertise and earnings management: *The role of status*. *Journal of Accounting and Economics*, 58(23), 208-230.

- Bédard, J. & Gendron, Y. (2010) Strengthening the financial reporting system: Can audit committees deliver? *International Journal of Auditing*, 14, 174-210.
- Bedard, J., Chtourou, S.M., & Courteau, L. (2004). The Effect of Audit Committee Expertise, Independence, and Activity on Aggressive Earnings Management. *Auditing: A Journal of Practice & Theory*, 23(2), 13-35.
- Black, J., Hashimzade, N., & Myles, G. (2017). *Agency Theory. A Dictionary of Economics* (5th ed.). Oxford University Press. Retrieved from <http://www.oxfordreference.com>
- Black, J., Hashimzade, N., & Myles, G. (2017). *Corporate Governance. A Dictionary of Economics* (5th ed.). Oxford University Press. Retrieved from <http://www.oxfordreference.com>
- Chen, M., & Tsai, Y. (2010). Earnings Management Types and Motivation: A Study in Taiwan. *Social Behavior and Personality*, 38(7), 955-962.
- Dechow, P.M., Sloan, R.G., & Sweeney, A.P. (1995). Detecting Earnings Management. *The Accounting Review*, 70(2), 193-225.
- Delbufalo, E. (2018). *Agency Theory and Sustainability in the Global Supply Chain*. Rome, Italy: Springer.
- Dhaliwal, D., Naiker, V., & Navissi, F. (2010). The Association Between Accruals Quality and the Characteristics of Accounting Experts and Mix of Expertise on Audit Committees. *Contemporary Accounting Research*, 27(3), 787-827.
- Enomoto, M., Kimura, F., & Yamaguchi, T. (2015). Accrual-based and real earnings management: An international comparison for investor protection. *Journal of Contemporary Accounting & Economics*, 11(3), 183-198.
- Fayezi, S., O'Loughlin, A., & Zutshi, A. (2012). Agency theory and supply chain management: A structured literature review. *Supply Chain Management: An International Journal*, 17(5), 556-570.
- Garven, S. (2015). The Effect of Board and Audit Committee Characteristics on Real Earnings Management: Do Boards and Audit Committee Play A Role in Its Promotion or Constraint? *Academy of Accounting and Financial Studies Journal*, 19(1), 67-84.
- Gracia-Meca, E., & Sánchez-Ballesta, J.P. (2009). Corporate Governance and Earnings Management: A Meta-Analysis. *Corporate Governance: An International Review*, 17(5), 594-610.
- Guna, W.I., & Herawaty, A. (2010). Pengaruh Mekanisme Good Corporate Governance, Independensi Auditor, Kualitas Audit dan Faktor Lainnya Terhadap Manajemen Laba. *Jurnal Bisnis dan Akuntansi*, 12(1), 53-68.
- Gunny, K., & Zhang, T.C. (2014). Do Managers Use Meeting Analyst Forecast to Signal Private Information? Evidence from Patent Citations. *Journal of Business Finance & Accounting*, 41(7&8), 950-978.
- Guo, J., Huang, P., Zhang, Y., & Zhou, N. (2015). Foreign ownership and real earnings management: Evidence from Japan. *Journal of International Accounting Research*, 14(2), 185-213.
- Habbash, M. (2010). *The Effectiveness of Corporate Governance and External Audit on Constraining Earnings Management Practice in UK*, Durham University, Durham.
- Hamdan, A.M.M., Mushtaha, S.M.S., & Al-Sartawi, A.A.M. (2013). The Audit Committee Characteristics and Earnings Management: Evidence from Jourdan. *Australasian Accounting, Business and Finance Journal*, 7(4), 51-80.
- Handayani, S.R. & Rachadi, A.D. (2009). Pengaruh Ukuran Perusahaan Terhadap Manajemen Laba. *Jurnal Bisnis dan Akuntansi*, 11(1), 33-56.
- Hossain, M., Mitra, S., Rezaee, Z., & Sarath, B. (2011). Corporate Governance and Earnings Management in the Pre- and Post-Sarbanes-Oxley Act Regimes: Evidence from Implicated Option Backdating Findings. *Journal of Accounting, Auditing & Finance*, 26(2), 279-315.
- Hsu, M. (2015). The Influence of Institutional and Insider's Ownership on Accrual and Real Earnings Management. *International Research Journal of Applied Finance*, 6(4), 223249.
- Huang, X. & Sun, L. (2017). Managerial ability and real earnings management. *Advances in Accounting*, 39(17), 91-104.

- Ibrahim, G., Bello, A., & Kargi, H.S. (2015). Audit committee attributes and real activities manipulation of the listed manufacturing firms in Nigeria. *International Journal of Development and Sustainability*, 4(9), 963-976.
- Inaam, Z., & Khamoussi, H. (2016). Audit committee effectiveness, audit quality and earnings management: a meta-analysis. *International Journal of Law and Management*, 58(2), 179-196.
- Inaam, Z., Khamoussi, H., & Fatma, Z. (2012). The Effect of Audit Committee Characteristics on Real Activities Manipulation in the Tunisian Context. *International Journal of Multidisciplinary Research*, 2(2), 1-15.
- Indrawati, N., & Yulianti, L. (2010). Mekanisme Corporate Governance dan Kualitas Laba. *Pekbis Jurnal*, 2, 283-291.
- Jao, R. & Pagalung, G. (2011). Corporate Governance, Ukuran Perusahaan dan Leverage Terhadap Manajemen Laba Perusahaan Manufaktur Indonesia. *Jurnal Akuntansi dan Auditing*, 8(1), 43-54.
- Ji, X., Ahmed, K., & Lu, W. (2015). The impact of corporate governance and ownership structure reforms on earnings quality in China. *International Journal of Accounting & Information Management*, 23(2), 169-198.
- Jones, J.J. (1991). Earnings Management During Import Relief Investigations. *Journal of Accounting Research*, 29(2), 193-228.
- Kang, S., & Kim, Y. (2012). Effect of Corporate Governance on Real Activity-Based Earnings Management: Evidence from Korea. *Journal of Business Economics and Management*, 13(1), 29-52.
- Lai, L., & Tam, H. (2017). Corporate governance, ownership structure and managing earnings to meet critical threshold among Chinese listed firms. *Review of Quantitative Finance and Accounting*, 48(2), 789-818.
- Laksmi, A.C., & Kamila, Z. (2018). The effect of good corporate governance and earnings management to corporate social responsibility disclosure. *Academy of Accounting and Financial Studies*, 22(1), 1-16.
- Lemma, T.T., Negash, M., Miilo, M., & Lulseged, A. (2018). Institutional ownership, product market competition, and earnings management: Some evidence from international data. *Journal of Business Research*, 90(14), 151-163.
- Lo, A.W.Y., Wong, R.M.K., & Firth, M. (2010). Can corporate governance deter management from manipulating earnings? Evidence from related-party sales transactions in China. *Journal of Corporate Governance*, 16(2), 225-235.
- Madden, B.J. (2010). *Chapter 7: Corporate Governance. Wealth Creation: A System Mindset for Building and Investing in Business for the Long Term*. Abstract retrieved from RMIT Library database.
- Man, C., & Wong, B. (2013). Corporate Governance and Earnings Management: A Survey. *The Journal of Applied Business Research*, 29(2), 391-418.
- Mansor, N., Che-Ahmad, A., Ahmad-Zaluki, N.A., & Osman, A.H. (2013). Corporate Governance and Earnings Management: A Study on the Malaysian Family and NonFamily Owned PLCs. *Procedia Economics and Finance*, 7(29), 221-229.
- Marsha, F., & Ghozali, I. (2017). Pengaruh Ukuran Komite Audit, Audit Eksternal, Jumlah Rapat Komite Audit, Jumlah Rapat Dewan Komisaris dan Kepemilikan Institutional Terhadap Manajemen Laba. *Diponegoro Journal of Economics*, 6(2), 1-12.
- Midiastuty, P.P., & Machfoedz, M. (2003). Analisis Hubungan Mekanisme Corporate Governance dan Indikasi Manajemen Laba. In *Simposium Nasional Akuntansi VI*, Surabaya.
- Mishra, M., & Malhotra, D.K. (2016). Audit committee characteristics and earnings management: evidence from India. *International Journal of Accounting and Financial Reporting*, 6(2), 247-273.
- Niri, N.N., Moeinaddin, M., & Heyrani, F. (2014). An Investigation of the Relationship between Type of Ownership, Audit Quality and Earnings Management of Listed Companies in Tehran Stock Exchange. *Interdisciplinary Journal of Contemporary Research Business*, 5(11), 202-210.

- Nuryaman, (2016). Earnings Management Through Real Activities Manipulation and Corporate Governance Mechanism Model. *International Information Institute (Tokyo)*, 19(7A), 2625-2630.
- O'Callaghan, S., Ashton, J., & Hodgkinson, L. (2018). Earnings management and managerial ownership in private firms. *Journal of Applied Accounting Research*, 19(4), 648-668.
- Pamudji, S.& Trihartati, A. (2010). Pengaruh Independensi dan Efektivitas Komite Audit Terhadap Manajemen Laba. *Jurnal Akuntansi*, 2(1), 21-29.
- Ratmono, D. (2010). Manajemen Laba Riil dan Berbasis Akrua: Dapatkah Auditor yang Berkualitas Mendeteksinya? In *Simposium Nasional Akuntansi XIII Purwokerto 2010*, Purwokerto, Indonesia. Retrieved from [https://www.academia.edu/11400302/MANAJEMEN\\_LABA\\_RIIL\\_DAN\\_BERBASIS\\_AKRUAL\\_DAPATKAH\\_AUDITOR\\_YANG\\_BERKUALITAS\\_MENDETEKSINYA?auto=download](https://www.academia.edu/11400302/MANAJEMEN_LABA_RIIL_DAN_BERBASIS_AKRUAL_DAPATKAH_AUDITOR_YANG_BERKUALITAS_MENDETEKSINYA?auto=download)
- Roychowdhury, S. (2006). Earnings management through real activities manipulation. *Journal of Accounting and Economics*, 42(3), 335-370.
- Sakaki, H., Jackson, D., & Jory, S. (2016). Institutional ownership stability and real earnings management. *Review Quantitative Finance and Accounting*, 49(1), 227-244.
- Shayan-Nia, M., Sinnadurai, P., Mohd-Sanusi, Z., & Anitawati, A. (2017). How efficient ownership structure monitors income manipulation? Evidence of real earnings management among Malaysian firms. *Research in International Business and Finance*, 41, 54-66.
- Siagian, D., & Siregar, V. (2018). The Effect of Audit Committee Financial Expertise and Relative Status on Earnings Management: Case of Indonesia. *Jurnal Akuntansi*, 22(3), 321-336.
- Sohn, B.C. (2016). The effect of accounting comparability on the accrual-based and real earnings management. *J. Account. Public Policy*, 35(5), 513-539.
- Sun, J., Lan, G., & Liu, G. (2014). Independent audit committee characteristics and real earnings management. *Managerial Auditing Journal*, 29(2), 152-172.
- Susanto, T.K. (2014). Audit Committees and Earnings Management: Evidence from Indonesia Manufacturing Industry. In *International Conference on Entrepreneurship and Business Management*, Penang, Malaysia.
- Susanto, Y.K., & Pradipta, A. (2016). Corporate Governance and Real Earnings Management. *International Journal of Business, Economics and Law*, 9 (1), 17- 23.
- Tabassum, N., Kaleem, A., & Nazir, M.S. (2015). Real Earnings Management and Future Performance. *Global Business Reviews*, 16(1), 21-34.
- Teshima, N., & Shuto, A. (2008). Managerial Ownership and Earnings Management: Theory and Empirical Evidence from Japan. *Journal of International Financial Management & Accounting*, 19(2), 107-132.
- Visvanathan, G. (2008). Corporate governance and real earnings management. *Academy of Accounting and Financial Studies Journal*, 12(1), 9-22.
- Wahid, N. (2013). *Pengaruh Komite Audit, Audit Internal, Dan Audit Eksternal Terhadap Manajemen Laba*. Retrieved from Universitas Diponegoro Database. <http://eprints.undip.ac.id/42169/1/WAHID.pdf>
- Zang, A.Y. (2012). Evidence on the Trade-Off between Real Activities Manipulation and Accrual-based Earnings Management. *The Ac*