

IMPLEMENTATION OF CORPORATE GOVERNANCE MECHANISM AND EARNINGS MANAGEMENT ON JAKARTA ISLAMICS INDEX (JII) AND LQ-45 INDEX

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Abstract

The purpose of this study examines the impact of Corporate Governance mechanism i.e institutional ownership, managerial ownership, size of board committee, independence of board committee, and the audit committee to earnings management. The earnings management is measured by integrated model. The research samples are 271 companies listed in Sharia and Conventional Index during the periods 2004 - 2010. Descriptive qualitative used to measure the mean value of these proxies. The multiple linear regression analysis used to examine the impact of Corporate Governance mechanism and the type of index to earnings management. The results showed that Corporate Governance Mechanism has variation impact to earnings management. Independence of board committee, audit committee, and the type of index has an effect significantly to earnings management. In the future, researcher will continue this model by looking for the relationship earnings management with another variable such as the Corporate Governance perception index and relevance of accounting information should be used as Corporate Governance measurement for giving the results more accurate.

Key words: Corporate governance mechanism, earnings management, sharia index, LQ-45 index.

INTRODUCTION.

The earnings management has be done as a result of an information asymmetry between a manager and the owners. According to Schipper (1989), earnings management is a management intervention with the specific intent against external on financial reporting process to obtain some of personal profit. Encouragement for earnings management also occurs because the implementation of corporate governance is not efficient.

According to the Organization for Economic Co-operation and Development OECD (2004) and FCGI (2003) in (Effendi, 2009), the corporate governance is a set of regulations governing the relationship between shareholders, corporate managers, creditors, government, employees, and the other internal and external shareholders related to rights and obligations, or is a system that governs and controls the company.

In the perspective of agency theory, the earnings management can be minimized by controlling through the Corporate Governance. The mechanism of corporate governance is required to achieve a company management more transparently for all the users of financial statements (Nasution and Setiawan (2007). The mechanism of good corporate governance will reduce earnings management (Watfield et al. (1995), Gabrielsen et al. (1997), Wedari (2004), Midiastuty and Machfoedz (2003).

The implementation of good corporate governance is one way to monitor contract issue and restrict the management opportunistic behavior (Watts, 2003). Through the implementation of good corporate governance is expected to reduce the managers to act manipulation, so a performance is reported to reflect the economic conditions of the actual company (Jensen, 1993). The results of the survey of Graham, Harvey and Rajgopal (2005) find strong evidence that top management as respondents are much more willing to engage in earnings management accruals to achieve profit targets.

The company uses various models of earnings management to achieve their target (Zang, 2006). The measurement of earnings management conducted by using a variety of approaches, that is: real earnings management, accrual earnings management, and integrated earnings management. Proxy of real earnings management is measured by abnormal cash flow operations (abnormal CFO), abnormal production costs (abnormal PROD) and abnormal discretionary expenses (abnormal DISC). Proxy of accrual earnings management measured by the short term and long term accruals models. Proxy of integrated earnings management measured by the mean value of each proxy for real earnings management and accrual earnings management models. While the mechanism of corporate governance was measured by managerial ownership, institutional ownership, board size, the proportion of independent board, and audit committee existence. Because of the implementation of good corporate governance mechanism will reduce the action of earnings management, so the purpose of this study is to analyze the influence of corporate governance mechanisms to reduce the earnings management which measured by variety models

LITERATURE REVIEW

1. Corporate Governance

According to the “Pedoman Tata Kelola Perusahaan PT. BEI (2011)”, Corporate Governance is a system designed to direct the management of the company professionally based on the principles of transparency, accountability, responsibility, independence, and fairness. So, corporate governance is a procedure rules and mechanisms that control a company to maximize long-term profits for the

shareholders. So the main purpose of the implementation is to optimize the value of good corporate governance for the, shareholders and the other stakeholders in the long run.

The earnings management can be minimized through monitoring mechanisms to align the differences of interests between owners and management with: (1) increase the company's share ownership by management (Jensen and Meckling, 1976); (2) institutional ownership by an amount shares significantly, so it can reduce the motivation of managers to perform earnings management (Pratana and Machfoedz, 2003); (3) the proportion of independent board that restricts management to perform earnings management (Peasnell, Pope and Young, 1998), (4) board size, where the number of commissioners that is more capable for reducing earnings management (Midiastuty and Machfoedz 2003), and (5) the existence of an audit committee can reduce earnings management and then they affect the quality of financial reporting (Wilopo, 2004).

The mechanism of corporate governance can help resolve the conflict between the principal and the agent, and controlling shareholders to minority shareholders. There are two types of corporate governance mechanism. First, the internal mechanisms, including through: ownership structure, executive compensation, board of commissioners, and the disclosure of financial statements. Secondly, the external mechanisms, including through: independent commissioners, public ownership, and quality audits (Setptiyanto, 2012).

1. 1. Institutional Ownership

Institutional ownership has the ability to control the management through effective monitoring process, thereby reducing managers to act in earnings management. This reasoning is supported by Rajgopal et al. (1999), Bushee (1998), Rajgopal and Venkatachalam (1998), and Midiastuty and Masud (2003). Their results concluded that institutional ownership has the ability to influence the earnings management.

Institutional investors are often referred to as a sophisticated investor and they should be able to use the information in predicting the current period compared to the future earnings of non institutional investors. Jiambalvo et.al (1996) found that the absolute value of discretionary accruals is negatively related to the ownership of institutional investors. While Midiastuty and Masud (2003) found that the presence of high institutional ownership restricts managers to act earning management.

H1: Institutional Ownership negative effect on earnings management

1.2. Managerial Ownership

Generally, stocks ownership by a manager will determine the policy and decision making on the selection of the accounting method which applied to the company. Percentage stocks ownership by management is also likely to affect the earnings management. This reasoning is supported by

Morck et al. (1988), Warfield et al. (1995); Gabrielsen, et al. (2002), and Midiastuty and Mas'ud Mahfoedz (2003), where the companies managed by managers who have a particular percentage of the company's stock could affect earnings management. Based on these considerations hypothesis can be formulated as follows:

H2: Managerial ownership negatively affect on earnings management

1.3. The size of the board of commissioners

The number of the board of commissioners is an important factor in monitoring the company. Through its role in conduct the supervision function to the company's operations, the number of the board of commissioners can make an effective contribution to the process of preparing financial statements. It possibility avoid of fraudulent financial statements. A large number of the board of commissioners will reduce the effectiveness of the functions, but it is easier to control the board of directors (Jensen 1993). A large number of the board of commissioners also creates a better environment relationships and more effective for supervise management.

Related with the reliability of the financial statements, the empirically effect of the number of the board of commissioners on earning management. Beasley (1996) found a positive relationship between the number of the board of commissioners with fraudulent financial statements. So the hypothesis is formulated as follows:

H3: The size of the board of commissioner effect on earnings management

1.4. Independent board of commissioners

The compositions of the boards of commissioners whose members are from outside the company have a tendency to influence the earnings management. This reasoning is supported by Dechow et al. (1996), Chtourou et al. (2001), Midiastuty and Masud (2003), and Xie et al. (2003), where the a company that has a composition of board members from outside the company may affect the earnings management. The composition of the board of commissioners is also related to the information content of earnings. Through its role in oversight, board composition may influence the management in preparing the financial statements.. This reasoning is supported by Anderson et al. (2003), that the composition of the board of commissioners may affect the quality of reported earnings.

According Chtourou et al. (2001) and Wedari (2004), independent board will restrict the earnings management. CCG (1998) recommend that the board of commissioners from the outside is a good practice. Based on the arguments and empirical findings, the research hypothesis is formulated as follows:

H4: The proportions of independent board negatively affect earnings management

1.5. The existence of audit committee

The existence of an audit committee is expected to improve the quality of earnings through oversight of the financial reporting process and the implementation of external audit. The research of Bachtiar and Veronica (2004) the audit committee has a significant relationship with accruals earnings management in manufacturing company in Indonesia, during the period 2001-2002. It means that the presence of an audit committee to restrict effectively earnings management in the company. Wilopo (2004) found that the presence of audit committees and independent board is able to negatively affect to the earnings management. So the hypothesis can be formulated as follows:

H5: The presences of an audit committee negatively affect earnings management

2. Earnings Management

Scott (2006) defines earnings management as follows “Given that managers can choose accounting policies from a set (for example, GAAP), it is had to expected that they will choose policies so as to maximize their own utility and/on the market value of the firm” Fischer and Rosenzweig (1995) defines earnings management as the the action a manager to present a report which increase or decrease profit for the period of its responsibility to business units,

Based on the definition above, earnings management is intervention in the external financial reporting process with a view to benefit themselves. Earnings management is one of the factors which can reduce the credibility of financial statements. Earnings management could disrupt financial statement users which trust profit figures are modified as profit figures without engineering (Setiawati and Naim, 2000). The actions of earnings management can be measured by various models, that is: accrual earnings management model (short term and long term), real earnings management, and integrated earnings management.

2.1. Long term accrual model dan short term accrual model

The measurement model of accrual earnings management is considered by some researchers still have not been could reveal the full conditions of earnings management, because the model ignore the relationship between transaction cash flows and accruals (Dechow et al., 1995, Guay et al., 1996, Kothari et al. 2005, Subramanyam, 1996, Kothari 2001 Subekti, Wijayanti and Akhmad 2010). The accruals approach separates total accruals into non-discretionary component of accruals and discretionary accruals Models are frequently used is the modified Jones model.

Some previous studies measuring earnings management using accruals approach Midiastuty and Machfoedz (2003); Veronica and Bachtiar (2004); Wedari (2004); Boediono (2005); Kusumawati

(2005); Veronica and Main (2005); Rahmawati, Suparno and Qomariyah (2006); Nasution and Setiawan (2007); Ujjiyantho, Arief and Scout (2007); Herawaty (2008), Prasnowo and Wiyadi (2011), Nugroho and Trisnawati (2011), Fauziah and Sasongko (2011). One of the advantages of discretionary accruals approach (aggregate accruals) is potentially able to uncover a variety of ways to increase or decrease the profit rate. It has less attention to be known by outsiders (Gumanti 2000). However, the use of discretionary accruals model rise a lot of criticism. Gomez, et al. (1999) found that the model ignores the relationship between cash flow and accruals. So that some accruals non discretionary component into classified as discretionary. These errors result the model misspecification.

According to Kothari et al. (2002) Jones model failed to estimate the portion of total discretionary accruals and probably will cause seriously problems in formulating conclusions. Therefore, the development of model needs to be done with other models offered by Whelan and McNamara (2004) which is a development of Jones model (1991) and modified Jones (1994). The differences, discretionary accruals divided into components of short-term discretionary accruals and long-term discretionary accruals. The separation is expected to better explain the role of each component of discretionary accruals to measure earnings management.

Short term and long term accruals have different characteristics. Short term accruals related to how to perform earnings management related to assets and current liabilities, the period is usually conducted in the first quarter or a fiscal year. While the long - term accruals related to fixed assets and long-term debt (Kusuma, 2006). Managers can take advantage of the differences in these characteristics. Managers will be easier to manipulate accounting data through long - term discretionary accruals, because the manager's actions can not be detected for several subsequent accounting period (Whelan and McNamara 2004).

According to Whelan and McNamara (2004) the market may consider long term use of discretionary accruals is effort the manager to fooling market participants, because the nature of the accrual provides an opportunity for managers to manipulate. Thus the impact of long term use of discretionary accruals will be greater than the short term discretionary accruals. Earnings management research by separating the components of total accruals into discretionary accruals short-term and long-term discretionary accruals has also been conducted by previous studies (Romi, 2011; Zayene and Jilani, 2010; Subekti, 2010; Guay and Sidhu, 2005), Safitri and Wiyadi (2012), Purbasari and Sasongko (2012).

2.2. Real Earnings Management

Roychowdhury (2006) defines earnings management as follows “management actions that deviate from normal business practice, undertaken with the primary objective of meetings certain

earnings thresholds”. In other words, managers intervene in the financial reporting process not only through various accounting methods or estimates but also can be done through various decisions relating to operational activities.

Real earnings management is the management actions that deviate from the normal course of business and conducted with the main objective to achieve the profit target (Roychowdhury, 2006; Cohen and Zarowin, 2010). Real earnings management can be conducted with 3 (three) ways, namely: the manipulation of sales, a decrease in discretionary expenditures, and overproduction. The third way is usually conducted by a company is underperforming, so not much has accrued to be manipulated. Roychowdhury (2006) provide empirical evidence that the company is doing in real earnings management to avoid reporting losses.

Research on earnings management based only on accrual arrangement alone may be invalid (Roychowdhury, 2006). Several recent studies of earnings management stated the importance of understanding how the company conducts earnings management through real activities manipulation in addition to accrual-based earnings management (Roychowdhury, 2006; Gunny, 2005; Cohen et al., 2008; Cohen and Zarowin, 2010; Suhestingsih and Trisnawati, 2012).

2.3. Integrated Earning Management

The model of integrated earnings management is introduced by Leuz, Nanda and Wysocki (2003). This model is a combination of the values and policies of income smoothing and discretionary accruals. This model was adopted by Habib (2004) with his study the impact of earnings management on the relevance of accounting information value on manufacturing companies in Japan. Subekti, Kee and Ahmad (2008) also measured the value of integrated earnings management used factor analysis. Furthermore, measurement of earnings management in the company go public in Indonesia by using the integrated model was conducted by Trisnawati et.al, (2012).

RESEARCH METHODOLOGY

This research population is all companies listed in the index of Sharia (JII) and Conventional Index (LQ 45) during the period from 2004 to 2010. The sample selected by purposive sampling. Total sample is 271 companies during the periods. Data used in this research is the annual financial statements published during this period and had complete information during the period of observation and estimation.

Variabel Measurement

Dependent variable in this research is earnings management as measured by accrual earnings management (discretionary accruals Short term and long term discretionary accrual), real earnings

management (abnormal cash flow operations (CFO), abnormal production costs (PROD), and abnormal discretionary expenses (DISCR), and integrated earnings management (the average value of each proxy is STDA, LTDA, CFO, DISCR and PROD) measurements each proxy is:

a. **Short Term Discretionary Accrual**

$$STDA = \frac{STACCI_{i,t}}{TA_{i,t-1}} - \left\{ \beta_1 \left(\frac{1}{\text{Log } TA_{i,t-1}} \right) + \beta_2 \left(\frac{\Delta REVI_{i,t} - \Delta RECI_{i,t}}{TA_{i,t-1}} \right) + \beta_3 \left(\frac{INCI_{i,t}}{TA_{i,t-1}} \right) \right\}$$

b. **Long Term Discretionary Accrual**

$$LTDA = \frac{LTACCI_{i,t}}{TA_{i,t-1}} - \left\{ \beta_1 \left(\frac{1}{\text{Log } TA_{i,t-1}} \right) + \beta_2 \left(\frac{PPE_{i,t}}{TA_{i,t-1}} \right) + \beta_3 \left(\frac{INT_{i,t}}{TA_{i,t-1}} \right) + \beta_4 \left(\frac{INCI_{i,t}}{TA_{i,t-1}} \right) \right\}$$

c. **Abnormal Cash Flow Operation (Abnormal CFO)**

$$CFO_t / A_{t-1} = \alpha_0 + \alpha_1(1/\text{log}.A_{t-1}) + \beta_1(S_t/A_{t-1}) + \beta_2(\Delta S_t/A_{t-1}) + \varepsilon_t$$

d. **Abnormal Production Costs**

$$PRODt / A_{t-1} = \alpha_0 + \alpha_1(1/\text{Log}. A_{t-1}) + \beta_1(S_t/A_{t-1}) + \beta_2(\Delta S_t/A_{t-1}) + \beta_3(\Delta S_{t-1}/A_{t-1}) + \varepsilon_t$$

e. **Abnormal Discretionary Expenses**

$$DISC_t / A_{t-1} = \alpha_0 + \alpha_1(1/\text{Log}. A_{t-1}) + \beta(\Delta S_{t-1}/A_{t-1}) + \varepsilon_t$$

Descriptive analysis performed to calculate the amount of abnormal CFO, abnormal PROD, abnormal DISCR, STDA and LTDA and to declare the degree of earnings management in each proxy for each sub-group sample (JII and LQ-45) during the period 2004-2010. Ranking conducted on the value of aggregate earnings management by calculating the average of the five proxies that form an integrated earnings management value (AGGR).

The independent variables consist of managerial ownership, institutional ownership, board size, the proportion of independent board, the existence of audit committee, and the type of index.

a. **Managerial Ownership**

Managerial ownership is the percentages of shares owned by managers (commissioners and directors). Managerial ownership = the number of shares owned by management divided by total number of shares outstanding x 100%

b. **Institutional Ownership**

Institutional ownership is the percentage of shares owned by institutional investors. Institutional ownership measured by the number of shares owned by institutional investors divided by the total number of shares outstanding multiplied by 100%.

c. **Board Size**

Board size is the number of commissioners from both internal and external. Board size was measured by the number of commissioners from both internal and external.

d. The proportion of independent Board

Independent commissioner is the percentage of corporate board member from outside parties (instead of management and owner). This variable was measured by using the ratio of the number of commissioners from outside parties with the total number of commissioners.

e. The existence of Audit Committee

The audit committee is a dummy variable, if the company's Audit Committee formed in accordance with the rules of the Stock Exchange (consisting minimum three people) were given a score 1. When not in accordance with the rules of the Stock Exchange, were given a score 0

f. The type of index

Type of index is a dummy variable, for the companies included in the index category sharia (JII) was given a score 0, while for the companies included in the category of conventional index (LQ-45) were given a score 1

EMPIRICAL RESULTS

This research aims to analyze the influence of corporate governance mechanisms on earnings management with various approaches. The initial step is to calculate the average value of each proxy for earnings management in each sample group during the period of observation. The results of the calculation of the mean value of earnings management with various models of approach can be seen in the following table.

Table 1
Earnings Management Value.

No.	Model	Jakarta Islamic Index	LQ-45 Index
1.	LTDA	0,233685	0,604901
2.	STDA	-0,589799	-0,404240
3.	ACCRUAL	-0,356114	0,200661
4.	Abn-CFO	-0,012055	0,005118
5.	Abn-PROD	0,006644	-0,002420
6.	Abn-DSCR	-0,004292	0,002336
7.	REAL	-0,009703	0,005033
8.	INTEGRATED	-0,075419	0,040803

Sources: Secondary data, processed.

The table 1 shows that during the period 2004-2010 the company incorporated in Indonesia's sharia index had a negative mean value of accrual earnings management, real earnings management, and integrated earnings management. It means companies tend to perform accrual earnings management, real earnings management, and earnings management is integrated with the pattern of

decrease profit figures. While the company is incorporated in the conventional index had a positive mean value of earnings management. It means companies tend to perform earnings management with the pattern to increase profit figures.

By using an accrual earnings management approach, a company incorporated in the JII index have the higher value in short term approach (-0,589799) than in the long term approach (0,233685). Most companies tend to use pattern decrease earnings numbers. This pattern gives an indication, that the manipulation of earnings numbers performed with the selection of accounting methods for recording and recognition inventory, accounts receivable, current assets, accounts payable and taxes payable, While the companies belonging to the LQ-45 index have more long term approach (0,604901) with a raised pattern rather than a short term earnings numbers (-0,404240). This strategy is to raise the value of fixed assets by selecting the depreciation method. Moreover, it can also conducted by recognizing the long-term debt into current liabilities. However, the companies in the index JII and LQ-45 use the same approach with a long term pattern of rate increase earnings numbers and short term approach to reduce the patterns of earnings numbers.

Through the real earnings management approach, the action of earnings management is mostly done by companies in JII index (-0,009703) compared with the LQ-45 index (0,005033). The patterns tend to reduce earnings number conducted by manipulating discretionary costs (DISC) by raising the advertising and research costs. By the increase in discretionary costs, it will reduce corporate profits. According to the results of the data analysis, the value of the highest average real earnings management proxy is mostly done by manipulating cash flow (Abn-CFO has the highest mean value compared to other proxies). Real earnings management actions by the company on the LQ-45 index of tend to use patterns to raise earnings numbers, especially by manipulating cash flow because Abn-CFO has the highest mean value (0.005118).

Furthermore, through an integrated earnings management approach (AGGR), the action of earnings management is more be done by the companies in the index JII with the pattern decreasing earnings numbers. While in the LQ-45 index companies tend to use pattern increasing earnings numbers. This integrated measurement of earnings management clearly gives more accurate results.

The results of multiple regression analysis related to influence of corporate governance mechanisms to earnings management on LQ 45 and JII can be described by the following table.

Table 2.
The Result of Regression Analysis

VARIABLE	ACCRUAL	STDA	LTDA	RIIL	INTEGRATED
CONSTANT	0,055 (0,128)	-0,479 (-10,865)	0,534 (1,253)	-0,028 (-0,373)	-0,006 (-0,070)

MGROWN	0,209 (0,740)	-0,065 (0,313)	0,274 (0,660)	0,100 (0,369)	0,073 (0,579)
INSTOWN	-0,083 (0,838)	-0,140 (0,001)	0,057 (0,886)	0,052 (0,469)	-0,012 (0,887)
BOARSIZE	0,040 (0,227)	0,001 (0,746)	0,039 (0,235)	0,001 (0,901)	0,009 (0,199)
BOARDINDP	-1,416 (0,004)	-0,062 (0,209)	-1,354 (0,005)	-0,088 (0,3005)	-0,282 (0,005)
AUDITCOM	-0,301 (00,41)	-0,028 (0,062)	-0,273 (0,062)	0,016 (0,528)	-0,055 (0,073)
TYPE IND	0,535 (0,000)	0,180 (0,000)	0,356 (0,014)	0,017 (0,512)	0,112 (0,000)

Sources: Secondary data, processed.

$$\text{Accrual} = 0,055 + 0,209 \text{ Mgrown} - 0,083 \text{ Instown} + 0,040 \text{ Boarsize} - 1,416 \text{ Boardindp} - 0,301 \text{ Auditcom} + 0,535 \text{ Tipeind} + e$$

$$\text{STDA} = -0,479 - 0,065 \text{ Mgrown} - 0,140 \text{ Instown} + 0,001 \text{ Boarsize} - 0,062 \text{ Boardindp} - 0,028 \text{ Auditcom} + 0,180 \text{ Tipeind} + e$$

$$\text{LTDA} = 0,534 + 0,274 \text{ Mgrown} - 0,057 \text{ Instown} + 0,039 \text{ Boarsize} - 1,354 \text{ Boardindp} - 0,273 \text{ Auditcom} + 0,356 \text{ Tipeind} + e$$

$$\text{Real} = -0,028 + 0,100 \text{ Mgrown} + 0,052 \text{ Instown} + 0,001 \text{ Boarsize} - 0,088 \text{ Boardindp} + 0,016 \text{ Auditcom} + 0,017 \text{ Tipeind} + e$$

$$\text{INTEGRATED} = -0,006 + 0,073 \text{ Mgrown} - 0,012 \text{ Instown} + 0,009 \text{ Boarsize} - 0,282 \text{ Boardindp} - 0,055 \text{ Auditcom} + 0,112 \text{ Tipeind} + e$$

1. Hypotesis 1

Managerial ownership illustrates the large number of shares owned by management of the total shares outstanding. Large share ownerships in terms of economic value have incentives to align the interests of managers with the company. The result of hypothesis testing for managerial ownership variable indicates that stock ownership by management has no effect on earnings management with various approaches.

These results contrast with some theory, that a high managerial ownership would reduce the action of earnings management. The reason is that the sample used has a number of managerial ownership is very low, so the results are less able to illustrate that managerial ownership can affect the earnings management. Thus managerial ownership has not been able to reduce the misalignment between the interests of managers with owners.

2. Hypotesis 2

Hypothesis testing is intended to test the effect of ownership variables to earnings management. The analysis shows that institutional ownership has no effect on the earnings

management, except in the short term approach (STDA). In STDA approach has β value of -0,140 with a probability value level of 0,001 ($< 0,05$). It means institutional ownership negatively affect of earnings management the action with STDA approach.

These results support the research of Jensen and Meckling (1976), Warfield et.al., (1995), Dhaliwal et.al., (1982), Morck et al., (1988), Pranata and Masud (2003) and Cornertt et.al., (2006) who found a significant negative effect institutional ownership on the action of earnings management. These results are also consistent with reason that institutional owners are more focused on current earnings (Porter, 1992; Pranata and Mas'ud 2003). As a result, managers are forced to take action that can improve short-term earnings, that is the earnings manipulation.

The same a view expressed by Cornett et.al., (2006), that institutional ownership will make the manager feel bound to meet profit targets of the investors, so that they will still tends to engage in earnings manipulation. Their act of monitoring by institutional investors may encourage managers to focus more attention on the performance of companies that can reduce the chances of behavior for its own interest.

Wedari (2004) found institutional investors have more time to analyze investments and have access to information that is expensive compared to individual investors. So they have the ability to supervise the act of management is better than the individual investor. So as higher as the institutional ownership, as smaller as the chance of management to manipulate earnings management.

3. Hyphotesis 3

Based on the analysis, board size has no significantly effect on earnings management with various models. It means the amount of the company's board size can not reduce the action of earnings management that occurred. These results contrast with the research Xie, Davidson, Dadalt (2003), Yu (2006), Zhou and Chen (2004), and Chtourou, Bedard and Courteau (2001) which shows that a larger board size can reduce the action of earnings management in the enterprise shown by negative coefficient and significantly.

Board size has no effect significant on earnings management, because of the placement or additional board members is made possible simply to the formal comply, while the majority shareholder (controllers or founders) still plays an important role, so that the performance of the board is not increased even down (Gideon, 2005) . In addition, the size of the board size is not a key determinant of the effectiveness supervision of management on the company. However, the effectiveness of the control mechanism depends on values, norms and beliefs are accepted within an organization (Jennings 2004a; 2004b; 2005a; Oliver, 2004) and the role of boards of commissioners in control activities (monitoring) management against (Cohen, et al., 2004; Jennings 2005b).

4. Hyphotesis 4

The analysis showed that the proportion of independent board significant effect on earnings management with various earnings management models except for STDA earnings management and

real earnings management model. It means, the more proportion of independent board within the company reduce the action of earnings management. These results support by Dechow et al. (1996), Chtourou et al. (2001), Midiastuty and Masud (2003), and Xie et al. (2003), The company has the composition of board members from outside the company could reduce the action of earnings management. While the results of the analysis showed, the proportion of independent board had no significant effect on earnings management is consistent with research conducted by Klein (2002), Veronica and Main (2005) and Boediono (2005), the proportion of independent board has no effect on the action of earnings management.

The influence of the proportion of boards of commissioners against give an indication of earnings management, that placement or addition of board members not only meet the formal provisions, and they have an important role in conducting supervision the company. So the size of the proportion of independent board to be a major determining factor in the effectiveness of the control of management (Cohen, et al., 2004; Jennings 2005b).

5. Hyphotesis 5

Based on the analysis, this variable has no effect on earnings management except the accrual models. In accruals model, this variable negatively affect earnings management. Means the existence of an audit committee is able to reduce the actions of earnings management.

These results are consistent with the research Xie, Davidson, Dadalt (2003), Veronica and Bachtiar (2004), Wedari (2004), and Wilopo (2004), where the existence of an audit committee negatively affect on the action of earnings management. So that, indicates an important corporate governance mechanism to ensure the implementation of the company's actions were fair and transparent. While on LTDA, STDA, Real, and Integrated models, variable presence of an audit committee does not negatively affect on the action of earnings management. So these results are consistent with the research Veronica and Main (2005) that the existence of an audit committee does not affect on the action of earnings management.

6. Hyphotesis 6

Based on the analysis, earnings management on various models is mostly done by the company in the LQ-45 index compared with companies in the JII index. This is caused the company in JII more ethical and more compliant to the provisions of Shari'ah compared with companies in the LQ-45 index

These results support the research Hanafi (2006) and Nugroho (2011), where the cost of capital is lower than the shares in JII compare with LQ-45. Cost of capital is lower indicating a lower level of risk, lower information asymmetry, and agency costs lower so that investors are not too demanding level of profit.

CONCLUSION

1. Based on the results of descriptive analysis, generally, companies tend to perform the earnings management using patterns decrease earnings numbers. However, on companies in the JII index tends to use decrease earnings numbers pattern, while on company in the LQ-45 index tends to use increase earnings numbers pattern.
2. Companies in the LQ-45 index were more likely to the action of earnings management compared to companies in the JII index.
3. Measurement of earnings management is only based on one model produces less accurate numbers. The use of accrual earnings management model and real earnings management is complementary to the measurement of earnings management that combines both (integrated earning management) provide be better results.
4. Companies that perform accrual earnings management, real earnings management, and integrated earnings management tend to use decrease earnings numbers pattern.
5. Based on the results of multiple linear regression analysis, The model of accrual (short term or long term) and integrated earnings management corporate governance mechanism are quite effective in reducing earnings management action. While in real earnings management model corporate governance mechanisms are not able to reduce the action of earnings management.
6. Corporate governance variables are confined to the managerial ownership, institutional ownership, board size, the proportion of independent board, and the presence of the auditor committee. Future research needs to be adding another variable, (extensive disclosure, audit quality and public ownership), other characteristics of the audit committee variables (competence of audit committee members, educational background, experience, and so on), as well as it reflects the corporate governance mechanism more precisely.

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