CHAPTER V
CONCLUSION, LIMITATION, AND RECOMMENDATION

5.1 Conclusion

This research is conducted on listed family-controlled companies in Indonesia Stock Exchange for 5 years from the year of 2012 to 2016. This study focuses on investigating the impact of corporate governance on earnings management. Using discretionary accruals as the proxy of earnings management, and the corporate governance factors that used in this study are audit committee expertise, audit committee independence, audit committee size, audit committee meeting, board size, independence commissioner, managerial ownership and institutional ownership. This study also uses control variables in order to make the analysis result better, the control variables that use in this study are firm size, firm performance, leverage, and firm growth.

Based on the modified Jones model was used as the measurement of discretionary accruals in this study. The empirical analysis results can be summarized as the following:

a. Audit committee expert is significant and negatively related to earnings management. The more audit committee expert in a company is less likely to give the ability to the manager in doing earnings management. Audit committee who has accounting background are likely to have more auditing and accounting experience than the audit committee who did not have, they could share their knowledge and more information about accounting and auditing to the other audit committee. This result is due to

the listed family-controlled companies in Indonesia have enough audit committee expert in the company.

b. Audit committee independence variable has found no any significant relation with earnings management. This means that the number of independent director in audit committee has no effect on company management whether to do earnings management or not.

c. Audit committee size variable is insignificantly relation with earnings management in listed family-controlled companies in Indonesia Stock Exchange. This due to the size of the audit committee has not influenced the manager in doing earnings management. This means that whether the company has the large scale or small scale of the audit committee has no effect on the manager to manage earnings.

d. Audit committee meeting variable is insignificantly impacted to earnings management in listed family-controlled companies in Indonesia Stock Exchange. This due to the frequencies of meeting that held by audit committee has no any significant influence on manager in doing earnings management. The regular meetings of the audit committee have no any effectiveness at reducing or increasing earnings management.

e. Board size variable is a significant and negative impact on earnings management in listed family-controlled companies in Indonesia Stock Exchange. This due to a large number of boards of director may lead to being better in mitigating earnings management.

f. Independence commissioners variable has found that there is a significant and negative relation to earnings management. This means that the more independence commissioners are in a company the less likely the manager conduct the earnings management.

g. Managerial ownership variables have found there is no any significant with earnings management in listed family-controlled companies in Indonesia Stock Exchange. This due to the average value of managerial ownership that show in the descriptive statistic is very low which the average of managerial ownership is only 8.56%. Only 8.56% of family-controlled in Indonesia has occupied managerial ownership in their company, thus the managerial ownership has no affect on the manager to manage earnings.

h. Institutional ownership variable has found no affect on earnings management in family-controlled companies in Indonesia. The descriptive statistic results show that the average of institutional ownership is 67.58%, although the family-controlled companies in Indonesia have occupied institutional ownership in their companies but the empirical results in this study show that there has no influence of institutional ownership to earnings management. This means that the institution party has no ability to controlling the manager to manage company's earnings.

i. The control variable firm size has an influence on earnings management significant positively. This means that the larger size of a company may

lead the company's management hard to control the operation, thus the director failed to control the manager in doing earnings management. This result is also due to the larger companies have more likely to engage earnings management than small companies.

j. The control variable firm performance has significant positive related to earnings management. This due to the best performance that a company can achieve, the more likely of the company manager to engage earnings management to make its financial statement looks better.

k. The control variable leverage has found no any significant relation with earnings management in family-controlled companies that listed on Indonesia Stock Exchange. This means that how much the companies' debt is not related on manager in managing the companies' earnings.

l. The control variable firm growth has found positive significantly related to earnings management. This means that faster a company growth form year by year the more likely the manager engaging the earnings management. This results due to the faster growth of a company may lead the manager in doing earnings management to show that the company financial and operationally doing well.

The conclusion shows that the corporate governance factors which are only audit committee, board size, and independence commissioners have significantly related to earnings management. Both audit committee, board size, and independence commissioner are significant and negatively impact on earnings management. While the other corporate governance such as audit committee

independence, audit committee size, audit committee meeting, managerial ownership, and institutional ownership does not affect the earnings management in family-controlled companies in Indonesia Stock Exchange. Also, control variables including firm size, firm performance, and firm growth are both significant positively related to earnings management, except the leverage variable which shows that there has no relation to earnings management.

Overall, the results show that corporate governance in practice has important implication on the opportunistic behavior by manager, and also if the companies have conduct good corporate governance may lead the manager to mitigate the earnings management for a personal reason.

5.2 Limitation

This study has some limitation while doing the research, which should be considered when interpreting for the next findings. The limitation of this study such as:

a. The selection of the sample study is only using listed family-controlled companies in Indonesia Stock Exchange for 5 years of the period of 2012 to 2016, while there are many sectors in Indonesia and have more than 500 companies listed. Thus, the limited size of the sample is another concern.

b. There is a limited number of companies did not list the detail audit committee's profile such as education information and their working background information. Therefore, for the audit committee expert

variable that has no data should be expelled out the company in the observation.

c. This study only uses the factors of corporate governance such as audit committee expert, audit committee independence, audit committee size, audit committee meeting, board size, independence commissioner, managerial ownership and institutional ownership. While there are still have other corporate governance factors that can also affect earnings management.

5.3 Recommendation

Based on the test results and analysis in this research, there have some recommendations can be used for the future findings that have the same line topics. The recommendation such as:

a. For the future investigating is expected to broaden the scope of the sample by adding the year observation, which is more than 5 years and adding more companies that is not only family-controlled companies but also non-family-controlled companies that listed in Indonesia Stock Exchange.

b. For all the companies that listed in Indonesia stock exchange are expected to give more detail information both directly related and indirectly related to the company.

c. To extent the current literature, the future findings are expected to add more independent variables and control variables that are not using in

this research to broaden this research topic. The other good corporate governance factors such as cash flow operation and government ownership.