CHAPTER V
CONCLUSION, LIMITATION, AND RECOMMENDATION

5.1 Conclusion

This research was conducted to analyze the effect of corporate governance on in two models of earning management detection, which is the Modified Jones Model and Conditional Revenue, Model. The independent variables used are managerial ownership, institutional ownership, ownership concentration, board size, and independent board, and the control variables are company size and leverage.

The estimation model of earnings management detection using a Conditional Revenue Model is able to provide more accurate estimates than the Modified Jones Model in detecting earnings management. Based on the Conditional Revenue Model of manufacturing companies listed on the Indonesia Stock Exchange in 2013-2017, the size of the conditional revenue prediction model is 64.80% while the modified Jones model is only 47.66%. This means that the accuracy of estimation of earnings management by using the conditional revenue model is 64.80%, while the remaining 35.20% is explained by other variables outside the formulation. For the modified Jones model, the accuracy of estimated earnings management detection is 47.66%, the remaining 52.34% is explained by other variables outside the model.

Based on the test results that have been done in the previous chapter, we can conclude in both model, managerial ownership has a significant negative

effect on earning management. This shows that managers with low managerial ownership have greater motivation in practicing earning management to achieve self-interest (Ramadan, 2015). Managerial ownership can be a corporate governance mechanism that can reduce the unconformity of interests between management and owners or shareholders (Asward and Lina, 2015).

Institutional ownership using the Modified Jones Model has no significant effect on earning management. Institutional ownership is unable to limit the occurrence of earning management, as institutional investors act as temporary owners who focus more on current earnings (Yang et al., 2009). Therefore, the existence of institutional ownership will not necessarily have an impact on the improvement of supervisory processes that affect the decrease of earning management action (Chew & Gillan, 2009).

Institutional ownership using Conditional Revenue Model has a significant negative effect on earning management. This means increasing institutional managerial can reduce earnings management actions. The results of this study are consistent with studies conducted research by Asward and Lina (2015).

Ownership concentration in both models has no significant effect on earning management. This indicates that the high low degree of ownership concentration of a company does not affect the level of earning management practices undertaken. The majority shareholder is not the driver of earning management in the company (Perwitasari, 2014). The results of this study are consistent with research conducted by Asward and Lina (2015) also.

Board size using the Modified Jones Model has a significant positive effect on earnings management. This means that the larger the size of the board of directors of a company, the higher the earning management practices are also made. A large size of a board of director is considered less effective on carrying out its functions, because it is more difficult in communicating, coordinating, and decision-making (Yermack, 1996; Beasley, 1996; Jensen, 1993).

While Board size using Conditional Revenue Model has no significant effect on earnings management. This means that the larger the size of the board of directors of a company, not affected the earning management practices. The results of this study consistent with research conducted Kurawa and Saheed (2014), Abed *et al*. (2012) stating that the larger the size of a company's board, the lower earnings management practices.

Independent board using the Modified Jones Model has a significant positive effect on earnings management. Research results show that the higher the proportion of independent commissioners, the higher rate of discretionary accruals usage. A higher rate of independent commissioners can increase the possibility of fraud happening in the company because independent commissioners are considered more fair and effective in supervising the management of a company (Beasley, 1996).

Independent board using Conditional Revenue Model has a significant negative effect on earnings management. Research results show that the higher the proportion of independent commissioners can reduce the rate of discretionary

accruals usage. An independent board of commissioners is an effective corporate governance mechanism to reduce earnings management practices and can improve the quality of financial reporting.

Firm size control variable has a significant positive effect on earnings management. This indicates that the larger the company size, the lower the earnings management practices are taken. A large company has a stronger management power, making it easier to manipulate earnings (Rahmani & Akbari, 2013).

In contrast to leverage control variables has a significant positive effect on earnings management. This indicates that managers in higher levels of leverage tend to apply aggressive earnings management practices to prevent the breach of debt agreements. (Watts & Zimmerman, 1986).

5.2 Limitation

This research has some limitation which is as follows:

1. This research is limited to manufacturing companies listed in IDX and is uses data over a short time span which is five years. This affects the regression results in reflecting the condition of the companies listed in IDX.
2. Many companies listed in IDX didn't publish their annual financial statements fully and completely for five years consecutively from the year 2013-2017. This causes the data can’t be found and cause the number of sample data to be reduced.

3. The supporting of literature obtained regarding the effect of managerial ownership, institutional ownership, ownership concentration, and board independent, as well as company size and leverage control variables on earnings management, are still minimum.
4. The model to calculate discretionary accruals in this research is the Modified Jones Model and Conditional Revenue Model. Many research regarding earnings management uses different ways to calculate the value to be used as earning management proxy, thereby making the rest results obtained are different.
5. This study has not used a sample of companies that are actually involved in financial manipulation because the Capital Market Supervisory Agency (BAPEPAM) does not publish the data.

5.3 Recommendation

The recommendation that can be given by the author as consideration for further research is as follow:

1. Expand the research samples, not limited only to manufacturing companies, and can expand the research time horizon for more than five years. It is expected that further research can take industrial sectors other than manufacturing.
2. Adding other independent variables that are not contained in this research model, but also affecting the dependent variable, such as characteristics

of the audit committee (Latif & Abdullah, 2015), auditors quality (Guna & Herawaty, 2010), company characteristics (Uwuigbe *et al*., 2015), etc.

3. Collect more previous research and other supporting theories that can be used as research references, so as to produce a better regression model for the research,
4. Using a different calculating ways from previous researchers to calculate such as Kaznik Model or Kothari Model the value used as earning management proxy.
5. If data is available, it is expected that in future studies it can use a sample of companies that have indicated financial manipulation.