CHAPTER V
CONCLUSIONS, LIMITATIONS, AND RECOMMENDATIONS

5.1 Conclusions

The research is carried to discover and analyze the influence of firm characteristics and corporate governance characteristics on earnings management behavior. The research discovered that financial performance, firm size, and share issuance activity can accentuate the earnings management behavior significantly on firms listed in Indonesia Stock Exchange (IDX). This indicated that firm with higher financial performance might not necessarily is a good sign. Managers might engage earnings management to obtain short run stock benefit (Bhojraj et al., 2009). Larger firms possesses more incentives and opportunities to conduct earnings management (U. Ali et al., 2015; N. H. Dang et al., 2017). This phenomenon signify that governance practice and earnings quality in large firm might not better than small firms.

In other hand, big four auditors can attenuate the earnings management behavior significantly. This suggest Indonesia have an efficient audit environment that enable the big four auditors to perform effectively. As studies suggested big four auditors might limit earnings management behavior under enforced legal environment (Memiş & Çetenak, 2012; Yasar, 2013). Leverage can decrease earnings management behavior however is partially significant. This indicate that creditors such as bank could serve as external monitor mechanism on firms, however needs more enforcement from the internal monitor mechanism from firm itself. Board of directors' size have negative influence on earnings management behavior, however the influence is insignificant. The empirical result support the notion that firms listed in Indonesia Stock Exchange need to improve the efficiency of corporate governance mechanism, to enable efficacy of monitoring mechanism.

Furthermore, the findings in the research show that all three discretionary accruals models are relevant to define earnings management behavior in Indonesia proved by high correlation degree of Spearman's rank. In addition, earnings management behavior in Indonesia might conducted more by manipulating non cash revenue recognition, therefore discretionary accruals model of Jones presented

different result compared to the models of Dechow and Kothari. As study suggested, Jones model might be incredulous if earnings management behavior is managed through non cash revenues (Dechow et al., 1995).

5.2 Limitations

The research possess some limitations, described as below:

1. According to the effect sizes convention, r-square is defined as follow: small effect if <=0.12, medium effect if between 0.13 and 0.25, and large effect if >= 0.26 (J. Cohen, 1992). In this respect, only two of three discretionary accruals models have high effect size, presented by adjusted r-square of 39.54% for Jones' model and 26.46% for Dechow's model. In other hand, Kothari's model have medium effect with r-square of 21.21%.
2. The research simply focused on firms listed in Indonesia Stock Exchange, with observation periods of only 5 years (2014 – 2018).
3. The research merely concentrated on accruals earnings management behavior.

5.3 Recommendations

1. For investors and creditors, discoveries of this research provide novel understanding that firm valuation should not only based on financial figures such as firm performance and firm size. Qualitative measure such as managerial ability and corporate governance practice and characteristics should also be emphasized (Edi & Suyadi, 2018; Salim & Hn, 2019).
2. For government, the findings suggest that enforcement on legal system should not only be applied on audit environment but also firm corporate governance policy. Moreover, as bank efficiency increased, debt firms' earnings management behavior could be decreased (Ahn & Choi, 2009). That is, monitor and control mechanism to protect investor should be relied on both internal mechanism (through corporate governance) and external mechanism (through independent auditors and banks).
3. Further research might concentrated on variables that constraint earnings management behavior such as leverage and board structures. The extend

of leverage in distressed firm that would attenuate earnings management behavior could be focused on (Alzoubi, 2018). In addition, further research could also focused on the quality of boards rather than only focused on boards' size (Payal & Singh, 2017).