The Influence of Institutional Ownership, Leverage, and Audit Committee on Earnings Management: Evidence of Companies Listed on the Indonesia Stock Exchange

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Abstract
Objective – This research aims to analyze: 1) The influence of institutional ownership on earnings management, 2) The influence of leverage on earnings management and 3) The influence of audit committee.

Design/methodology – Population in this research is entire companies listed on the Indonesia Stock Exchange (BEI) in 2015-2017. Selection of the sample using purposive sampling method with a total of 194 companies. This research uses secondary data. The analysis used is multiple linear regression and t-test for the purpose of identifying the influence of institutional ownership, leverage, and audit committee on earnings management.

Results – Findings of this research indicate that: 1) Institutional ownership had a significant effect to earnings management, with direction is positive 2) Leverage had a significant effect to earnings management, with direction is negative, and 3) audit committee had a significant effect on earnings management in positive direction.

Keywords: Ownership, Leverage, Audit Committee, Earnings.

1. Introduction

Profit is one tool to measure company performance that is often used as a basis for business decision making. Profit information as stated in Statement of Financing Accounting Concept (SFAC) Number 2 is the main element in financial statements and is very important for those who use it because it has predictive value. This makes the management try to make earnings management so that the company's performance looks better by external parties.

The act of cheating by making earnings management has led to several accounting reporting scandals that are widely known to all parties, both those occurring in Indonesia and abroad.

The case in 2012 of the Bakrie Group subsidiary, PT Bumi Resources Tbk (known as BUMI), manipulated financial statements. The next case occurred with information technology company Google Indonesia which was proven to be defiant in paying taxes because it refused to be examined. While the phenomenon of earnings management practices abroad can be seen in the case of Toshiba Corporation, where at the beginning of April 2014 the world was shocked by the news that there had been a serious and extraordinary engineering of accounting reports carried out by management during the period of 2008 to 2014, with profit manipulation rate of US $ 1.2 billion (The Financial Times-May 24, 2017). Finally, the beginning of the second quarter of 2017 raised the issue of accounting numbers manipulation at British Telecom.

Based on the cases described above, the practice of earnings management (earnings management), especially the manipulation of numbers in the company's financial statements, still occurs to date, it is inseparable from differences in interests between managers and shareholders.

In the theory of Jensen & Meckling, (1976), this difference in interest is called the Agency Theory, this theory explains the existence of a relationship between share-
holders (principal) and agents (management or directors), where they have mutual interests, namely maximizing welfare (maximizing welfare). This is in line with the theory presented by Wild & Subramayam, (2005), that earnings management is a management intervention that intentionally in the process of determining profits, usually to fulfill personal goals or interests.

According to Healy & Wahlen, (1999), earnings management occurs when management uses judgment in financial reporting and preparation of transactions to change financial statements. Management's actions will certainly mislead stakeholders (shareholders, creditors and the government) about the company’s performance.

Earnings management practices can be reduced through the Corporate governance mechanism, one of the mechanisms being institutional ownership (Setyapurnama & Norpratiwi, 2006). Investors or institutional shareholders have a role in providing a reliable mechanism for presenting information to other investors because institutional investors are sophisticated investors, which have better-controlling power than individual investors. Institutional investors will monitor it effectively and not be affected by the manipulation actions taken by the manager.

Jensen & Meckling, (1976) state that institutional ownership has an important role in minimizing agency conflicts that occur between shareholders and managers. The existence of institutional investors is considered to be able to optimize the supervision of management performance by monitoring every decision taken by the management as the company manager.

Leverage has a relationship with the practice of earnings management, where investors will see the smallest company leverage ratio because the leverage ratio affects the impact of company risks that occur especially the risk of debt default. So the smaller the leverage ratio the smaller the risk, and vice versa (Sartono, 2001). In this way when a company has a high leverage ratio, the company tends to practice earnings management because the company is threatened not to fulfill its obligations by paying its debt on time.

To reduce earnings management practices, an audit committee was formed. The audit committee within the company will play a role in overseeing the management of the company to be better by conducting reviews of financial information such as financial reports so that it can help management take action (Dwikusumowati & Rahardjo, 2013). Because of the importance of the role of the audit committee, the Indonesian Audit Committee Association (IKAI) stressed that the existence of the audit committee is expected to improve the quality of the company's internal supervision, and be able to optimize the checks and balances mechanism, which ultimately aims to provide optimum protection to shareholders and other stakeholders. So with the existence of an audit committee in a company, the opportunity to practice financial report manipulation and earnings management can be reduced. The number of audit committee meetings held, it will be able to reduce earnings management actions (Yendrawati & Yuanifa, 2015).

Previous research conducted by Jalil & Rahman, (2010) who tested investors’ institutions on earnings management in public companies in Malaysia, with the results of the study showed that institutional ownership has a negative effect on earnings management, institutional ownership in a company can effectively mitigate earnings management, the greater the institutional ownership the lower the earnings management practice. In this study institutional ownership is measured by the percentage of shares held by the institution in a company. This research is also supported by research conducted by (Ping & Koh, 2006); (Cheng & Reitenga, 2009); (Tiswiyanti, Fitriyani, & Wiralestari, 2012); (Wiradi & Sebrina, 2013); (Agustia, 2013); (Kusumaningtyas, 2014); (Yendrawati & Yuanifa, 2015); and (Ebraheem, 2016).

The research on the effect of leverage on earnings management conducted by Anagnostopoulou & Tsekrekos, (2017) regarding the effect of financial leverage on real accrual-based earnings management with samples on public companies in Greece.
shows that leverage has a positive effect on earnings management, using debt to equity ratio as a measure of leverage. The results of this study are also supported by research conducted by Jones and (Jones & Sharma, 2001); (Naftalia & Marsano, 2013) (Agustia, 2013);(Mahiswari & Nugroho, 2016).

Research conducted by (Yendrawati & Yuanifa, 2015) which examined the influence of audit committees on earnings management in public companies in Indonesia with the results of the study that audit committees negatively affected earnings management, using a measure of the number of audit committee meetings/meetings in one year. The number of audit committee meetings can reduce earnings management actions carried out by company management. This research is also supported by research conducted by (Tiswiyanti et al., 2012); (Prastiti, 2013); (Sun & Liu, 2013); (Fodio, Ibikunle, & Oba, 2013); (Kusumaningtyas, 2014); and (Miko & Kamardin, 2015).

Based on the explanation above, the author takes all the companies listed on the Indonesia Stock Exchange as research samples because the more companies are sampled, the more reliable and quality the results of the research will be expected.

2. Literature Review and Hypothesis Development

Agent Theory

Understanding agent theory according to Scott, (2003) is “agency theory is a branch of game theory that studies the design of contract to motivated a rational agent to act on behalf of the principal when the agent’s interest would otherwise conflict with those of the principal”.

The above statement explains that agency theory is the development of a theory that studies a contract design where agents work on behalf of the principal when their goals are in opposition. This theory describes the relationship between shareholders as principals and managers as agents.

In the context of financial management, the main agent relations are (1) between shareholders and managers and (2) between managers and credit holders (Jensen & Meckling, 1976).

Earnings Management

According to Healy & Wahlen, (1999), defining earnings management is earnings management when management uses judgment in financial reporting and preparation of transactions to change financial statements. Management’s actions will certainly mislead stakeholders about the economic performance of the company or influence the results related to contracts that depend on the accounting figures reported.

Earnings management is a difficult phenomenon to avoid because this phenomenon is the impact of the use of accrual basis in the preparation of financial statements. In practice, managers can choose accounting policies according to financial accounting standards. Therefore, it is natural that managers choose these policies to maximize their utility and market value. This is what (Scott, 2003) called earnings management.

Institutional Ownership

Institutional Ownership According to Saptatinah, (2005), institutional ownership is a share of companies owned by institutions or institutions (banks, insurance companies, pension fund companies, investment companies, and foundations).

Jensen & Meckling, (1976) state that institutional ownership has an important role in minimizing agency conflicts that occur between shareholders and managers. The existence of institutional investors is considered to be able to optimize the supervision of management performance by monitoring every decision taken by the management as the company manager.

Relevant research on the effect of institutional ownership on earnings management can be seen in the research of Jalil & Rahman, (2010) which examines investors
and earnings management: Malaysian evidence, the results of the study show that institutional ownership has a negative effect on earnings management, institutional ownership can mitigate effective earnings management. The greater the institutional ownership the lower the earnings management practice. This research is also supported by research conducted by (Ping & Koh, 2006); (Cheng & Reitenga, 2009); (Tiswiyanti et al., 2012); (Wiryadi. & Sebrina., 2013); (Agustia, 2013); (Kusumaningtyas, 2014); and (Ebraheem, 2016).

While the research conducted by Wedari & Kusumaning, (2004) shows the results that institutional ownership has a positive effect on earnings management. This study shows that institutional ownership cannot carry out its role effectively in mitigating earnings management. The greater the majority shareholder (concentration of institutional ownership) makes the owner can act according to his interests. This research is supported by research conducted by (Siregar & Utama, 2005); (M.M., Marcuss, Saunders, & H, 2006); (Tarjo, 2008); and (Mahiswari & Nugroho, 2016).

H1: Institutional ownership affects earnings management.

Leverage

Leverage is the use of assets and sources of funds (sources of funds) by companies that have a fixed burden to increase the potential profit of shareholders(Sartono, 2001). Thus, management has the motivation to make earnings management to get a bonus from the owner of the company or shareholders. This is in accordance with the hypothesis The bonus plan which states that managers in companies with bonus plans tend to use accounting methods that will increase profits.

According to Brigham & H, (2001), the use of debt at a certain level will be able to reduce the cost of corporate capital because the cost of debt is a reduction in corporate tax, and can increase stock prices, which in turn will benefit management, investors, creditors, and companies. Debt policy at a certain level is a practice to maximize the company’s utility and market value, which is part of the practice of earnings management.

Research on the effect of leverage on earnings management has been carried out by Anagnostopoulou & Tsekrekos, (2017) with a sample of public companies in Greece showing that leverage has a positive effect on earnings management. The results of this study are also supported by research conducted by (Jones & Sharma, 2001); (Naftalia & Marsono, 2013); (Agustia, 2013); and (Mahiswari & Nugroho, 2016).

While the results of different studies found by Zamri, R.A, & Al, (2013) with a sample of public companies in Malaysia found that leverage has a negative effect on earnings management. Leverage as a control system and monitor limits the activity of earnings management. This research is in line with research conducted by (Yamaditya & Raharja, 2014); (Putri & Titik, 2015); and (Gunawan, Surya, & Purnawati, 2015).

H2: Leverage affects earnings management.

Audit Committee

The Indonesian Audit Committee Association IKAI, (2018) stressed the existence of the audit committee is expected to be able to play a role in improving the quality of the company’s internal supervision, as well as being able to optimize the checks and balances mechanism, which ultimately aims to provide optimum protection to shareholders and other stakeholders.

According to Decree of Bapepam, (2012) LK No. Kep-643 / BL / 2012 on the Establishment and Implementation Guidance of the Audit Committee stated that a meeting/conference audit committee of at least three (3) months of the year. This audit committee meeting is one of the means for the audit committee to carry out oversight of management. So the opportunity to manage earnings can be reduced.

Research conducted with the results of that audit committees negative effect on earnings management, make use of the measuring instrument ie the number of con-
ference/meeting audit committee within one year. The number of audit committee meetings can reduce earnings management actions carried out by company management. This research is also supported by research conducted by (Klein, 2003); (Tiwiswiyanti et al., 2012); (Prastiti, 2013); (Sun & Liu, 2013); (Fodio et al., 2013); (Kusumaningtyas, 2014); (Miko & Kamardin, 2015).

While the research conducted by Sudjatna & Muid, (2015) found results that the audit committee has a positive effect on earnings management, the audit committee of measuring instruments ie dummy variables (presence / no) the audit committee. The existence of an audit committee in a company is not able to reduce the occurrence of earnings management activities. This is alleged due to a large number of companies using audit committees only to fulfill the requirements proposed by the government. This research was supported by (Wahyuningsih, 2009); Pamudji and Trihartati (2010), and (Nabila & Daljono, 2013).

H3: Audit Committee influences earnings management.

### 3. Research Method

**Research Population and Samples**

In this study the population is all companies listed on the Indonesia Stock Exchange (IDX) with a research period of 2015-2017, the number of companies registered until the end of 2017 is 555. In this study, the sampling technique used was purposive sampling, this technique uses certain considerations for sample determination. The population that will be used as a sample is the population that meets the criteria used in sampling is as follows:

<table>
<thead>
<tr>
<th>Criteria</th>
<th>Number</th>
</tr>
</thead>
<tbody>
<tr>
<td>All companies are registered from January 2015 to December 2017 and are still operating until December 2017.</td>
<td>555</td>
</tr>
<tr>
<td>Companies owned by the majority by individuals or communities</td>
<td>17</td>
</tr>
<tr>
<td>Companies grouped into types of financial industries such as Banking, Insurance and Non-Bank Financial Institutions.</td>
<td>97</td>
</tr>
<tr>
<td>Companies that do not consistently conduct audit committee meetings at least 1 (one) time in every 3 (months) months or at least 4 (four) times in one year</td>
<td>18</td>
</tr>
<tr>
<td>Companies that inconsistently publish financial reports and annual reports with an accounting period per December 31, from January 2015 to December 2017</td>
<td>229</td>
</tr>
<tr>
<td>Total Companies that can be sampled</td>
<td>194</td>
</tr>
</tbody>
</table>

**Operational Definition and Variable Measurement**

The dependent variable of this study is earnings management. Earnings management is a choice of accounting policies by managers to achieve certain goals and can maximize company value.

Earnings management can be measured through the Modified Jones Model. The Jones Modification Model is a development of the Jones model that can detect earnings management better than other models in line with the research of (Dechow, Sloan, & Sweeney, 1995).

To obtain earnings management values can be measured through discretionary accruals calculated by eliminating total accruals with no discretionary accruals. The calculation model is as follows:

a) The first step in measuring discretionary accrual is to calculate the total accrual value using the following equation: \( T\text{Ait} = N\text{Iit} - C\text{FOit} \) ............(1)

b) Enter the \( T\text{Ait} \) value into the equation as follows: \( T\text{Ait} / A\text{it-1} = \alpha_1 (1 / A\text{it-1}) + \beta_1 (\Delta\text{Recitit} / A\text{it-1}) + \beta_2 (P\text{PEit} / A\text{it-1}) \) ..........................(2)

After all, values are entered into equation number 2, then the next step is to do ordinary least square (OLS) regression of the equation.
c) Regression on points is done to get the parameters of each sample company, then used to find Non-Discretionary Accruals (NDA) using the equation: \( \text{NDA}_{it} = \alpha_1 \left( \frac{1}{A_{it-1}} \right) + \beta_1 \left( \frac{\text{alessales}_{it}}{A_{it-1}} - \Delta\text{Recitit} / A_{it-1} \right) + \beta_2 \left( \frac{\text{PPE}_{it}}{A_{it-1}} \right) \) ..............................................(3)

d) After obtaining the \( TA_{it} / A_{it-1} \) value and the NDA value, then enter the two values into the Discretionary Accruals (DA) equation to find the value of earnings management. \( \text{DA}_{it} = \frac{TA_{it}}{A_{it-1}} - \text{NDA}_{it} \) ..........................................(4)

Information:
- \( TA_{it} \): Total company accrual i in period t.
- \( DA_{it} \): Discretionary Accrual company i in period t.
- \( \text{NDA}_{it} \): Non Discretionary Accruals of the company i in period t.
- \( \text{NI}_{it} \): Net Income of company i in period t.
- \( \text{CFO}_{it} \): Cash Flow Operating company i in period t
- \( \alpha \): Constant
- \( \beta_1, \beta_2 \): Coefficient of regression
- \( A_{it-1} \): Total Assets in period t-1.
- \( \Delta\text{sales}_{it} \): Difference in company sales i in period t.
- \( \Delta\text{recitit} \): Difference in receivable company i in period t.
- \( \text{PPE}_{it} \): Value of company fixed assets i in period t.

If the value of the discretionary accrual (DA) of the company is negative, it means that earnings management by the company is by reducing profits, on the contrary, if the company's positive discretionary accrual value means earnings management that is done by the company by increasing company profits. If found a value of zero (0) discretionary accrual (DA) means that the company does not do earnings management.

Independent Variable (X)

a) Institutional ownership (X1)
   Institutional ownership is the ownership of a company by an institution that is incorporated. Institutional ownership in this study was measured with a minimum percentage of 20% (Beams & Al, 2007).

b) Leverage
   Leverage is the use of debt (debt) to buy assets and finance company projects to increase the level of income (return) for company owners. Leverage in this study is measured by dividing total debt by the amount of company capital (Sartono, 2001).

c) Audit Committee
   An audit committee is a committee formed by a board of commissioners whose job is to present an independent discussion of financial statements, examine the effectiveness of internal control and risk management of the company, and ensure the adequacy of independent audits and internal audits.

The audit committee in this study was measured by counting the number of meetings/committee meetings with the commissioners, management, internal auditors and external auditors in one year. A minimum of four meetings is held (Bapepam, 2004).

Research model
To test the hypothesis, the following multiple regression equation is used:
\[ Y = a + \beta_1 x_1 + \beta_2 x_2 + \beta_3 x_3 + e \]

Where:
4. Result and Discussion

Earnings Management

Earnings management in negative companies, this means that earnings management conducted by the company tends to reduce the reported profits, better known as income minimization. While earnings management in companies is positive, this means that earnings management conducted by the company tends to increase the reported earnings, known as income maximization. And if the earnings management value approaches 0 (zero), it can be concluded that the company is not indicated to do earnings management.

<table>
<thead>
<tr>
<th>No</th>
<th>Classification</th>
<th>No.</th>
<th>Code</th>
<th>Company</th>
<th>Year 2015</th>
<th>Year 2016</th>
<th>Year 2017</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Lowest Value</td>
<td>171</td>
<td>TKIM</td>
<td>Baktas Tjiwi Kimia Tbk</td>
<td>-76.4375</td>
<td></td>
<td></td>
</tr>
<tr>
<td>2</td>
<td>Highest Value</td>
<td>71</td>
<td>ESSA</td>
<td>Surya Esa Perkasa Tbk</td>
<td>34.9391</td>
<td></td>
<td></td>
</tr>
<tr>
<td>3</td>
<td>Average Value</td>
<td></td>
<td></td>
<td></td>
<td>-0.0574</td>
<td>-0.6089</td>
<td>-0.0613</td>
</tr>
</tbody>
</table>

Source: www.idx.com 2015-2017

Based on table 2, from all the companies that were sampled, Surya Esa Perkasa Tbk (71) in 2015 had the highest DA level of 34.9391 meaning that the earnings management actions carried out by company managers were by increasing profits. Whereas the company with the lowest DA is the Tjiwi Kimia Tbk Paper Factory (171) in 2016 amounting to -76.4375. This means that earnings management actions carried out by company managers are reducing profits. Besides, the average earnings management carried out by companies from 2015 to 2017 is to reduce profits.

Institutional Ownership

Institutional ownership can be calculated by calculating that at least 20% of the company’s ownership is owned by the institution. This percentage is obtained from the company’s financial statements posted on the www.idx.com website 2015-2017.

One example is the company Astra Agro Lestari Tbk (1) from 2015 to 2017 owned by a majority by PT Astra International Tbk amounting to 79.68% (attachment 3). Furthermore, it can also be seen in one of the State-Owned Enterprises (BUMN) companies namely Adhi Karya (Persero) Tbk (6) from 2015 to 2017 owned by the majority of the Republic of Indonesia (Ministry of BUMN) of 51.00%.

<table>
<thead>
<tr>
<th>No</th>
<th>Classification</th>
<th>No.</th>
<th>Code</th>
<th>Company</th>
<th>Year 2015</th>
<th>Year 2016</th>
<th>Year 2017</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Lowest Value</td>
<td>34</td>
<td>BNBW</td>
<td>Bakrie and Brothers Tbk</td>
<td>0.2067</td>
<td></td>
<td></td>
</tr>
<tr>
<td>2</td>
<td>Highest Value</td>
<td>192</td>
<td>WSBP</td>
<td>Waskita Beton Precast Tbk</td>
<td>0.9999</td>
<td></td>
<td></td>
</tr>
<tr>
<td>3</td>
<td>Average Value</td>
<td></td>
<td></td>
<td></td>
<td>0.6148</td>
<td>0.6170</td>
<td>0.6201</td>
</tr>
</tbody>
</table>

Source: www.idx.com 2015-2017

Table 2. Summary of data on the development of corporate earnings management in 2015-2017

Table 3. Summary of institutional ownership development data for 2015-2017
Based on table 3, it can be seen the institutional ownership of each company listed on the Indonesia Stock Exchange. From the whole company, it was seen that Waskita Beton Precast Tbk (192) in 2015 had the highest level of institutional ownership, which was equal to 0.9999 or 99.99%, meaning that the number of institutionally owned shares was higher than other shareholders in the company. While companies that have the lowest level of institutional ownership are Bakrie and Brothers Tbk (34), which is from 2016 amounting to 0.2067 or 20.67%, meaning that the number of institutionally owned shares is lower than the shareholders of public groups. Besides that, it can also be seen that the average institutional ownership of public companies in Indonesia from 2015 to 2017 is more than 0.61 or 61%.

**Leverage**

Leverage is measured by comparing funds from company creditors (debt/liabilities) with funds provided by the owner of the company or shareholders.

Examples of calculations can be seen in Ace Hardware Indonesia Tbk, PT, in 2015 Ace Hardware Indonesia Tbk, PT had total debt of Rp.638,724,157,543, and total share capital of Rp2,628,825,516,460, - so that a debt value could be obtained to equity ratio as follows:

\[
\text{Debt to equity ratio} = \frac{\text{Debt}}{\text{Equity}} = \frac{\text{Rp638,724,157,543,}\,-}{\text{Rp2,628,825,516,460,}\,-} = 0.2430
\]

Leverage value that is less than 0 (zero) can be concluded that the company has a debt (liability) smaller than share capital. And this also illustrates that all funds used for company operations are only a small portion of debt and the rest use funds from shareholder capital.

Conversely, if the value of leverage is more than 1 (one), it can be concluded that the company has a portion of debt greater than share capital. And this indicates that most of the funds used for the company's operations are mostly from debt. The greater the debt or obligation, the greater the risk of liquidation of a company.

<table>
<thead>
<tr>
<th>No</th>
<th>Classification</th>
<th>No.</th>
<th>Code</th>
<th>Company</th>
<th>Year</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Lowest Value</td>
<td>59</td>
<td>DNET</td>
<td>Indoritel Makmur International Tbk, PT</td>
<td>2015 0,0077</td>
</tr>
<tr>
<td>2</td>
<td>Highest Value</td>
<td>12</td>
<td>OKAS</td>
<td>Ancora Indonesia Resources Tbk, PT</td>
<td>2016 14,1946</td>
</tr>
<tr>
<td>3</td>
<td>Average Value</td>
<td>6</td>
<td></td>
<td></td>
<td>2017 1,4658 1,3387 1,4194</td>
</tr>
</tbody>
</table>

Source: www.idx.com 2015-2017

From table 4, it can be seen that Ancora Indonesia Resources Tbk, PT (126) has the highest leverage value in 2016 which is equal to 14,1946, meaning that the funds used for the company's operational activities are mostly from debt. Whereas the company that has the lowest leverage is Indoritel Makmur International Tbk, PT (59) in 2015 which is equal to 0.0077. Besides that, it can also be seen that the average company leverage from 2015 to 2017 has a leverage value above 1 (one), meaning that the average company uses funds originating from debt for its operational activities, rather than using funds or capital originating from shareholders.
Audit Committee

The audit committee is a committee formed by the board of commissioners tasked with presenting an independent discussion of financial statements. The audit committee is measured by counting the number of committee meetings with the commissioners, management, internal auditors and external auditors in one year, at least conducting meetings four (4) times a year.

The more frequency the audit committee conducts meetings/meetings, the more reliable financial statements as a source of decision-making information. From table 5, it can be seen that Timah (Persero) Tbk (169) carried out the audit committee meetings most frequently in 2015, namely 61 meetings a year. While other companies have carried out audit committee meetings at least or at least 4 (four) times a year. Besides that, it can also be seen that the average activities of the company's audit committee meetings from 2015 to 2017 are as many as 6 (six) times a year.

<table>
<thead>
<tr>
<th>No</th>
<th>Classification</th>
<th>Code</th>
<th>Company</th>
<th>2015</th>
<th>2016</th>
<th>2017</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Lowest Value</td>
<td></td>
<td></td>
<td>4</td>
<td>4</td>
<td>4</td>
</tr>
<tr>
<td>2</td>
<td>Highest Value</td>
<td>169</td>
<td>TINS Timah (Persero) Tbk</td>
<td>61</td>
<td></td>
<td></td>
</tr>
<tr>
<td>3</td>
<td>Average Value</td>
<td></td>
<td></td>
<td>6</td>
<td>6</td>
<td>6</td>
</tr>
</tbody>
</table>

Source: www.idx.com 2015-2017

Classic Assumption Test

- Residual Normality Test
  The results of the residual normality test show a significant level greater than α (α= 0.05) which is 0.068> 0.05, meaning that the data for all independent and dependent variables are normally distributed.

<table>
<thead>
<tr>
<th>Unstandardized Residual</th>
</tr>
</thead>
<tbody>
<tr>
<td>N</td>
</tr>
<tr>
<td>Normal Parametersa,b</td>
</tr>
<tr>
<td>Mean</td>
</tr>
<tr>
<td>Std Deviation</td>
</tr>
<tr>
<td>Most Extreme Differences</td>
</tr>
<tr>
<td>Absolute</td>
</tr>
<tr>
<td>Positive</td>
</tr>
<tr>
<td>Negative</td>
</tr>
<tr>
<td>Kolmogorov-Smirnov Z</td>
</tr>
<tr>
<td>Asymp. Sig. (2-tailed)</td>
</tr>
</tbody>
</table>
a. Test distribution is Normal.
b. Calculated from data.

- Multicollinearity Test
  VIF value and tolerance calculation results. The VIF value for institutional ownership variable (LNX1) is 1.010 with a tolerance of 0.990, Leverage (LNX2) has a VIF value of 1.010 with a tolerance of 0.990 and Audit Committee variable (LNX3) has a VIF value of 1.002 with a tolerance of 0.998. Each of these independent variables has a VIF value <10 and a tolerance value> 0.1, so it can be concluded that there are no symptoms of multicollinearity between independent variables.

<table>
<thead>
<tr>
<th>Model</th>
<th>Unstandardized Coefficients</th>
<th>Standardized Coefficients</th>
<th>t</th>
<th>Sig.</th>
<th>Collinearity Statistics</th>
</tr>
</thead>
<tbody>
<tr>
<td>B</td>
<td>Std.</td>
<td>Beta</td>
<td></td>
<td></td>
<td>Tolerance VIF</td>
</tr>
</tbody>
</table>

Multicoll-

Heteroscedasticity test

The calculation results of each independent variable show that sig level > \( \alpha \) 0.05, which is 0.963 > 0.05 for institutional ownership variables, 0.197 > 0.05 for the leverage variable and 0.592 > 0.05 for the audit committee variable. So that this study is free of symptoms of heteroscedasticity and is worthy of investigation.

Autocorrelation

Test Based on the autocorrelation test, it was found that the Durbin-Watson value was 1.955, this value was between the D-W values between -2 to 2, meaning the dependent variable was free from autocorrelation.

Hypothesis and Discussion Results

From processing statistical data in table 10 above, the multiple linear regression equation is obtained as follows: \( Y = -0.003 + 0.640 X_1 - 0.131 X_2 + 0.272 X_3 \)

The numbers generated from the test are explained as follows:

a) Constant (\( \alpha \)) The constant value obtained is -0.003. This means that if the independent variable (institutional ownership (X1), leverage (X2), and audit committee (X3)) does not exist or is worth zero, then the level of earnings management that occurs is equal to -0.003. The number -0.003 illustrates that company managers carry out earnings management by reducing profits.

b) Regression Coefficient (\( \beta \)) X1 The regression coefficient of institutional ownership variable (X1) is 0.640. This shows that every increase of one percent (%) of institutional ownership will result in the company’s managers doing earnings management by increasing profits by 0.640.

c) Regression Coefficient (\( \beta \)) X2 Regression coefficient value of leverage (X2) variable is - 0.131. This means that every increase in one unit of debt to equity ratio will result in the company’s managers doing earnings management by reducing profits by - 0.131.

d) Regression Coefficient (\( \beta \)) X3 The regression coefficient value of the audit committee implementation variable (X3) is 0.272. This means that each increase in
one unit of the audit committee will result in the company's managers managing earnings by increasing profits by 0.272.

\[
\begin{array}{|c|c|c|c|c|}
\hline
\text{Model} & \text{Unstandardized Coefficients} & \text{Standardized Coefficients} & \text{t} & \text{Sig} \\
\hline
1 & (Constant) & -0.003 & .001 & -3.180 & 0.002 \\
& LNX1 & .013 & .001 & 6.40 & 19.585 & 0.000 \\
& LNX2 & -0.001 & .000 & -1.31 & -4.877 & 0.000 \\
& LNX3 & .004 & .000 & .272 & 8.400 & 0.000 \\
\hline
\end{array}
\]

\text{a. Dependent Variable: Manajemen Laba (Y) \\
b. Weighted Least Squares Regression-Weighted by bobot}

\text{Testing Research Model}

Statistical F test The results of data processing show the results of the F test of 319.102 with a significant level of 0.000. So obtained F count > F table with a value of 319.102 > 0.1172 and a significance value smaller than \( \alpha \) that is equal to 0.000 < 0.05. This means that the regression equation obtained is significant.

\text{Test The Coefficient of Determination}

The R Square value shows 0.655. This identifies that the contribution of independent variables namely institutional ownership, leverage and audit committees to the dependent variable is earnings management of 65.50% while 34.50% is determined by other factors.

\text{Hypothesis Testing}

Based on the results of the statistical data processed in table 10 above, it can be seen that the influence of the independent variables on the dependent variable partially is as follows:

- Institutional ownership affects earnings management.
  
  From table 10, it can be seen that institutional ownership variables have a beta value of 0.640, meaning that the direction of the influence of institutional ownership (X1) on earnings management (Y) is positive at 0.640, with a significance value of 0.000 smaller than alpha 0.05 and t values count > t table which is equal to 19.585 > 1.9645. This shows that institutional ownership variables (X1) have a significant effect on earnings management (Y). Thus the first hypothesis of this study was accepted.

- Leverage affects earnings management.
  
  From table 10, it can be seen that the leverage variable has a beta value of -0.131, meaning that the direction of leverage (X2) on earnings management (Y) is negative at -0.131, with a significance value of 0.000 smaller than alpha 0.05 and t value count > t table which is 4.877 > 1.9645. This shows that the leverage variable (X2) has a significant effect on earnings management (Y). Thus the hypothesis of this study is accepted.

- Audit committee influences earnings management.
  
  From table 10, it can be seen that the audit committee variable has a beta value of 0.272, meaning that the direction of the audit committee (X3) on earnings management (Y) is positive at 0.272, with a significance value of 0.000 smaller than alpha 0.05 and t values count > t table which is 8.400 > 1.9645. This shows that the audit committee variable (X3) has a significant effect on earnings management (Y). Thus the hypothesis of this study is accepted.

\text{Effect of Institutional Ownership on Earnings Management}

From the results of statistical data analysis, it can be seen that institutional ownership has a significant positive effect on earnings management. This shows that the
greater the percentage of institutional ownership, the greater the chance of earnings management practices in a company.

According to Tarjo, (2008), the majority shareholder (concentration of institutional ownership) makes the owner able to act in his interest. Because the majority of shareholders can be part of the ranks of management or at least appoint their chosen manager, so they can make decisions that only benefit the majority shareholders. With the entry of managers from the majority shareholders of institutional ownership into the ranks of company management, each decision only benefits the majority shareholders as well as the chance of earnings management.

Arifin, (2007) states that when share ownership is still small, the increase in ownership will reduce agency problems because control rights can be carried out efficiently. But when share ownership is sufficient to control efficiently and the ownership is added, the shareholders will have the excessive ability. This ability of excessive control will create new agency problems, namely in the form of opportunities to take actions that benefit the majority shareholders (concentration of institutional ownership) and harm other investors. This means that this is in accordance with Scott, (2003) regarding the notion of earnings management, namely earnings management is the choice of accounting policies by managers to achieve certain goals.

The results of the above research are in line with the research conducted by Wedari & Kusumaning, (2004) showing the results that institutional ownership has a positive effect on earnings management. This study shows that institutional ownership cannot carry out its role effectively in mitigating earnings management. The greater institutional ownership makes the owner can act in his interest. This research is supported by research conducted by (Siregar & Utama, 2005); (M.M. et al., 2006); (Tarjo, 2008); (Mahiswari & Nugroho, 2016).

The findings of this study contradict the research of Jalil & Rahman, (2010) which examined institutional investors and earnings management: Malaysian evidence, the results showed that institutional ownership negatively affected earnings management, institutional ownership in a company can effectively mitigate earnings management. The greater the institutional ownership the lower the earnings management practice. This research is also supported by research conducted by (Ping & Koh, 2006); (Cheng & Reitenga, 2009); (Tiswiyanti et al., 2012); (Wirjadi. & Sebrina., 2013); (Agustia, 2013); (Kusumaningtyas, 2014); (Yendraawati & Yuanifa, 2015); and (Ebraheem, 2016).

Effect of Leverage on Earnings Management

From the results of statistical data analysis, it can be seen that leverage has a significant negative effect on earnings management. This shows that the greater the leverage, the smaller the chance of earnings management practices in a company.

The higher the leverage ratio, shows the worse the financial condition of the company because the higher the financial risk borne by the company (Sartono, 2001). Therefore company management will only focus on debt repayments or obligations rather than manipulating financial statements by means of earnings management. And it is also added that the greater the debt held by a company, the more stringent supervision is carried out by creditors so that the flexibility of management to carry out earnings management diminishes.

The results of the above research are in line with the research conducted by Zamri et al., (2013) with a sample of public companies in Malaysia finding results that leverage negatively affects earnings management. Leverage as a control system and monitor limits the activity of earnings management. This research is in line with research conducted by (Yamaditya & Raharja, 2014); (Putri & Titik, 2015); (Gunawan et al., 2015).

The findings of this study contradict the research conducted by Anagnostopoulou & Tsekrekos, (2017) with a sample of public companies in Greece showing that lever-
age has a positive effect on earnings management, the greater the value of leverage because it is less careful in managing leverage so that it increases opportunistic actions such as earnings management maintain its performance in the eyes of shareholders and the public. The results of this study are also supported by research conducted by (Jones & Sharma, 2001); (Naftalia & Marsono, 2013); (Agustia, 2013); and (Mahiswari & Nugroho, 2016).

The Influence of the Audit Committee on Earnings Management

From the results of statistical data analysis, it can be seen that the audit committee has a significant positive effect on earnings management. This shows that the more the frequency of audit committee meetings, the higher the chance of earnings management practices in a company.

Lin, Li, & Yang (2006) stated that this positive relationship was caused by one of them because the company looked at the rules of formation and audit committee meetings only as mandatory. The audit committee meets 4 times a year just to abort the company’s obligations so that the performance and supervisory functions of the audit committee have not run optimally. In addition, there is a possibility that the meetings conducted by the committee have not yet focused on resolving the formation of good corporate governance so that they have not been able to eliminate company problems that lead to the practice of earnings management (Nabila & Daljono, 2013).

The results of the above research are in line with the research conducted by Sudjatna & Muid, (2015) finding results that audit committees have a positive effect on earnings management. The existence of an audit committee in a company is not able to reduce the occurrence of earnings management activities. This is allegedly due to a large number of companies using audit committees only to fulfill the requirements proposed by the government. This research was supported by (Wahyuningsih, 2009); (Pamudji & Trihartati, 2012); and (Nabila & Daljono, 2013).

The findings of this study contradict the research conducted by Yendrawati & Yuanifa, (2015) with the results of the study that the audit committee negatively affected earnings management. The more the number of audit committee meetings, the more able to reduce earnings management actions carried out by company management. This research is also supported by research conducted by (Klein, 2003); (Tiswiyanti et al., 2012); (Prastiti, 2013); (Sun & Liu, 2013); (Fodio et al., 2013); (Kusumaningtyas, 2014); and (Miko & Kamardin, 2015).

5. Conclusions and Recommendations

Based on the results of the research findings and testing of the hypotheses that have been proposed, it can be concluded that:

1) Hypothesis 1 is accepted, where institutional ownership has a significant positive effect on earnings management in companies listed on the Indonesia Stock Exchange (IDX). So the bigger the shares owned by institutional shareholders in a company, the greater the chance of earnings management will be.

2) Hypothesis 2 is accepted, where leverage has a significant negative effect on earnings management in companies listed on the Indonesia Stock Exchange (IDX). So the greater the leverage level of a company, the smaller the opportunity for earnings management will be.

3) Hypothesis 3 is accepted, where the audit committee has a significant positive effect on earnings management in companies listed on the Indonesia Stock Exchange (IDX). So the more the frequency of committee meetings in a company, then the higher the chance of earnings management in a company.

Based on the inherent limitations of this study, the suggestion of this study is to carry out further research using other measurement tools to detect earnings management, such as using industrial models by Dechow, a special accrual approach model by Beaver and Engel or a real manipulation approach model by Roychowdhury.
so that the results of subsequent research can provide new perspectives both from a theoretical standpoint and from the standpoint of research results.

References

Institutional Ownership, Leverage, Audit Committee, Earnings Management

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