AICEB
AIRLANGGA INTERNATIONAL CONFERENCE ON ECONOMICS AND BUSINESS 2018

UNIVERSITAS AIRLANGGA
FACULTY OF ECONOMICS AND BUSINESS

Asosiasi Fakultas Ekonomi & Bisnis Indonesia
AFEBI

Book of Abstracts

AIRLANGGA INTERNATIONAL CONFERENCE ON ECONOMICS AND BUSINESS | 2018

DISRUPTION ERA: HOW SHOULD BUSINESS AND GOVERNMENT RESPONSE?

Faculty of Economics and Business - Universitas Airlangga
Surabaya. October 24, 2018

Welcome Remarks

International conferences provide an excellent opportunity to bring together academics from different countries and background for the purpose of presenting their research result, critically discussing methodology and finding and improving the quality of research and the impact of the research on society and science. Furthermore, conferences enable the scientific community to create new networks, to foster relationships and extend their visibility.

Airlangga International Conference on Economics and Business (AICEB) 2018 is an annual conference Hosted by Faculty of Economics and Business, Universitas Airlangga, in Collaboration with Association for Faculties of Economics and Business – Indonesia (AFEBI). The theme of AICEB 2018 is Disruption Era : How Should Business and Government Response?

I expect this conference raises an important things in the discussion room and proceeding. The theories use in this conference should be problem driven-that is addressing a problem of direct, indirect, or long-linked relevance to practice, rather than narrowly addressing the (theoretical) issues. Hence, the research and discussion in this conference could provide a useful insight for practitioners, while at the same time contribute to the development of the field of economics and business.

I'm looking forward to seeing you in AICEB in the near future

With warmest regards

Dr. Rudi Purwono

AICEB 2018 Conference Chair

Foreword

Assalamualaikum Warahmatullahi Wabarokatuh

Praise be to God for the Almighty who for His grace, the preparation for organizing the 1st AICEB can run well. It is a big work for us at the Faculty of Economics and Business Airlangga University to held this International conference.

Welcome to all conference participants at the Faculty of Economics and Business, Airlangga University. In accordance with the theme of the 1st AICEB: " Disruption Era : How Should Business and Government Response? ", it is expected that this conference can produce many contribution to the development of research in the area of economics and business, especially in topic that is related to the disruption issues.

My highest appreciation to all committee who have worked hard to prepare this agenda well. Hopefully the 1st AICEB can run smoothly and can be a means to be able to answer the future challenges faced by the Field of Economics and Business.

Surabaya, October 2018

Dean of FEB UNAIR,

Prof. Dr. Hj. Dian Agustia, SE., M.Si.,Ak

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ACCOUNTING

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Factors Determining Energy Consumption In Malaysia: An Aggregate And Disaggregate Analysis

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ABSTRACT

Malaysia is experiencing a very significant economic growth and has a target to become a developed country. However, energy as the main factor driving economic growth in Malaysia should be limited consumption in accordance with the Kyoto Protocol. Besides economic growth, the limitation of energy consumption will also affect some other macroeconomic variables. This study tries to investigate the relationship between energy consumption, economic growth and other macroeconomic variable namely population, urbanization and trade openness in the case of Malaysia. In order to get deeper analysis and determine the type of energy consumption that drive and driven by macroeconomic variable, this study employ aggregate and disaggregate of energy consumption model. To achieve the goal of this study, the unit root, cointegration and VECM was used taking the period 1971 – 2016. The result unit root test showed that the variables are not stationer at the level, however the variables are stationer at the first difference. The cointegration test confirmed there is one cointegration for aggregate system. The disaggregate system which are consist of oil, coal and gas system confirmed two cointegration for each system based on trace test statistic whereas based on maximal Eigen-value statistics, oil consumption system has three cointegration and coal and gas showed the same result with its trace test statistic. The outcome of long-run relationship test indicated that oil is the most affected by the fluctuation on real GDP while the opposite happened to the gas. In addition, gas is the most affected variable by the increasing of population in Malaysia.

Keywords: energy consumption; oil; coal; gas; economic growth; population; urbanization; trade openness

FP-368
The Effect Of Ownership Structure And Quality Of Corporate Governance To Earnings Management In Emerging Market

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ABSTRACT

This study aims to determine the effect of ownership structure and quality of corporate governance on earnings management. The ownership structure is divided into managerial ownership and ownership concentration. Managerial ownership is measured by the proportion of the company's shares owned by management, and the ownership of the concentration is measured from the proportion of majority shares owned by individuals or groups outside of managerial ownership. The method of analysis used is multiple regression. This study uses empirical data from Indonesia Stock Exchange (IDX) with sample of 33 companies in the period 2011-2015. The test results found that the variable ownership concentration has a positive effect on earnings management. The greater the degree of concentration of ownership in the individual or group over the company's stock, will improve the management of earnings in the company. Variables of managerial ownership and quality of corporate governance have no effect on earnings management. This study contributed to agency theory. This study found that agency conflicts between owners and agents did not occur in Indonesia, as described in agency theory. However, the current conflict leads to a conflict of interest between the majority shareholder and the minority shareholder.

Keywords: managerial ownership; ownership concentration; corporate governance quality; and earnings management

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1 INTRODUCTION

The concept of establishing a modern company as a legal entity can be seen from the separation between ownership and management. According to Lukviarman (2016, p.23), a corporate entity has its own life, so it is able to run continuously beyond the age of the owner-founder who has the right to transfer ownership of the company. The more developed the company is, the owner who is the owner and manager must submit the management of the company to the professional in managing the business. This is so that the company is managed by those who better understand the business being run so that it is expected to be able to streamline costs and provide optimal benefits for the owner.

The relationship between the agent as the manager of the company and the principal as the owner of the company is called the agency relationship. According to Lukviarman (2016, p.38), agency theory experts use the assumption that both parties (agents & principals) have their respective interests and these interests experience differences from the standpoint of both fields. The existence of these different interests can trigger conflicts of interest between the agent and the principal, which is called the agency problem. One form of the agency problem in corporate entities is earnings management carried out by managers, which has a negative impact, even detrimental to the company for the long term.

Managers as company managers have more information about the operations and conditions of the company until the information is released to the public. Conditions like this give rise to differences in information held by the principal and agent which leads to asymmetry information. When information in the form of financial statements presented by managers to owners and/or stakeholders has been managed, this will result in losses for stakeholders who use the information as a basis for evaluating the company's performance and reference in decision making.

The existence of a conflict of interest between the agent and the principle that leads to the agency problem, it is necessary to have a mechanism that can reduce the occurrence of the conflict. Efforts to harmonize the interests of agents and principals can be done with corporate governance mechanisms. In this study, empirical testing will be conducted on the effect of ownership structure which consists of managerial ownership and concentrated ownership and quality of corporate governance on earnings management.

The purpose of this study was to examine and analyze empirically the influence of managerial ownership, concentration ownership, and the quality of corporate governance on earnings management. This research is expected to contribute conceptually to the development of earnings management literature, by adding independent variables, namely managerial ownership, ownership of concentration and quality of corporate governance. This will be interesting because Indonesia has a high proportion of concentration ownership patterns that are dominated by individuals and groups that are different from ownership patterns in developed countries such as America.

2 LITERATURE STUDY & HYPOTHESIS DEVELOPMENT

In agency theory, it is explained that the occurrence of the agency problem is the result of differences in interests between the principal and agent, which arise from the separation of ownership and control. To solve this agency problem, among others, can be done by giving an opportunity for managers to own company shares. When agency conflicts occur due to differences in interests between the principal and agent, in the opposite condition, agency conflicts should not occur again when the agent is also involved as the owner of the company. When managers have company shares, the concept of separation between ownership and control will not occur because the manager as a manager also has the owner-manager status and in this condition, the interests between the principal and agent must be aligned.

Furthermore, concentrated ownership is also expected to be one of the efforts in resolving agency conflicts. When a person or group of people have an increase in the portion of ownership, the majority shareholder (controlling shareholder) should have a high incentive to supervise the agent in managing the company's invested resources. The presence of corporate governance also has implications in reducing the occurrence of agency conflicts. In theory, the existence of a supervisory function which is a mechanism of corporate governance can reduce the occurrence of agency conflicts, so that this will reduce the agency costs caused by the inconsistency of the interests of the owner and manager.

2.1. Previous Research Studies

Research on earnings management has been carried out by researchers from various countries. In Portugal, Alves (2012) has examined the relationship between ownership structure and earnings management. Using a sample of 34 non-financial companies listed on the Euronext Lisbone during the 2002-2007 period, Alves found that earnings management has a negative relationship with managerial ownership, and ownership concentration. The results of this study indicate that managerial ownership and ownership concentration can improve the quality of annual earnings by reducing earnings management.

Molik et al. (2013) have examined the effect of audit quality on earnings management during the global financial crisis in Australia. The samples used were 576 companies listed on the ASX 2006-2009. Audit quality was measured using Big-4 KAP and earnings management was measured using discretionary accruals with the Jones model approach and the Jones modified model. The results of his research show that there is a significant negative influence between audit quality on earnings management. Conclusion Molik et al. (2013) that audit quality can reduce earnings management.

Okolie et al. (2013) also examined the effect of audit quality on accrual-based earnings management in companies in Nigeria. They use a sample of the 57 companies listed on the NSE in the period 2006-2011. Audit quality is also measured using Big-4 and non-Big-4 KAP and earnings management is measured by discretionary accruals using the jones model, the modified jones model, and the model used by Becker et al. (1998). The test results prove that of the three models, audit quality has a significant negative effect on earnings management. From these results it can be concluded that audit quality can reduce earnings management behaviour in the company.

Siregar and Utama (2005) also conducted research on earnings management, examining the effect of ownership structure, company size, and corporate governance practices on earnings management. This study uses empirical data from the Jakarta stock exchange, a sample selected of 144 companies for non-crisis periods (1995-1996), (1999-2002). Earnings management as the dependent variable is measured by discretionary accruals, using the Kasznik model (1999). Furthermore, for independent variables, ownership structure is measured by family ownership and institutional ownership. Firm size is measured by the natural logarithm of the company's equity market value at the end of the year. The practice of corporate governance is measured using Big-4 and Non-Big-4 KAP, the proportion of independent board of commissioners, and the existence of an audit committee. The results of the research by Siregar and Utama (2005) found that family ownership and institutional ownership have a positive effect on earnings management. Company size, KAP size, and audit committee have an effect on the negative of earnings management. Furthermore, the composition of the board of directors has a positive effect on earnings management.

Research on earnings management is also carried out by Doukakis and Bekiris (2011) which examines corporate governance relationships and accrual earnings management using corporate governance indexes. The research sample is companies listed on Athens, Milan, and Madrid stock exchanges. The results show that companies that implement high corporate governance standards will reduce earnings management which results in high earnings quality.

Kantiasih (2010) conducts research on the influence of corporate governance quality on firm value. The samples were all companies listed on the Indonesia stock exchange in 2007-2008. The quality of corporate governance is measured by a governance index, which consists of 23 binary questions and objectives. Company value is measured using Tobin's Q and Price to book value multiple. The results of Kantiasih's (2010) research show that the quality of corporate governance is proven to increase the value of the company.

2.3. Hypothesis Development

A. Managerial ownership with earnings management

According to agency theory, managerial share ownership encourages managers to increase the value of the company, because managers are responsible for the company's wealth as shareholders. If the interests of managers and owners can be aligned, managers will not be motivated to manipulate information or make earnings management, so that the quality of accounting information and informativeness of earnings can increase. Increasing managerial ownership is expected to reduce earnings management actions, which is reflected in the reduced value of discretionary accruals. The amount of managerial ownership is expected to improve the quality of financial reporting and profit generated.

Cheng and Warfield (2005) found that companies with higher managerial ownership can influence earnings management. Previously, Warfield et al. (1995) found that managerial ownership is associated with low levels of earnings management. Shleifer and Vishny (1986) have stated that the majority of shareholders have economic incentives to monitor. Agency problems will disappear if a manager is also at the same time as an owner. The greater the proportion of management ownership in the company, the management tends to try harder for the benefit of shareholders who also include themselves.

From the above explanation, it can be concluded that, the greater the level of managerial ownership of the company's shares, the reduced value of discretionary accruals or earnings management. So, if managerial ownership increases, then the management incentive to manipulate profits will decrease. This is because the interests of management and owners can be aligned. Based on the effects of managerial ownership on earnings management, the research hypothesis is determined as follows:

H_1: Managerial ownership affects earnings management

B. Concentration of ownership and earnings management

Shleifer and Vishny (1986) show that shareholders who have large or majority shares have a strong incentive to actively monitor and influence company management to protect their investments. Large shareholders (majority) are expected to be able to monitor the actions of managerial behaviour effectively and reduce the scope of managerial opportunism to engage in earnings management (Dechow, Sloan & Sweeney, 1996).

If the majority shareholder attempts to direct the company's management to act for his personal benefit, then the minority shareholders consisting of individuals and more than the majority shareholders can join with other minority shareholders to discount the stock market price. The minority shareholders can also provide unfavourable issues to other potential investors. The impact is that the company's stock price and company value will decrease. As a result, majority shareholders will experience a large loss in the decline in stock prices and a decrease in the value of the company.

Claessens et al. (1999) also explained that concentration ownership can lead to the risk of expropriation of minority shareholders. Expropriation is a way of maximizing one's own welfare by distributing wealth from others. Expropriation can be carried out by majority shareholders through company policy. One such policy is the manager's policy to make earnings management. This is because earnings management can be carried out by managers based on the desire of the majority shareholders who benefit themselves. However, the impact is that the majority owner will minimize the risk of expropriation of minority shareholders. Because if the expropriation is carried out, then the minority shareholders and the stock market will discount the stock market price which will actually harm the majority shareholder itself.

Based on the description above, the hypothesis that can be formulated as follows:

H_2: Ownership of concentration can affect earnings management

C. Quality of Corporate Governance and Earnings Management

The implementation of corporate governance is recognized to be beneficial for the country, stakeholders, as well as for companies that implement it. The positive effects of the implementation of good corporate governance are to strengthen the economy, and also a tool for the development of the social and economic environment. Countries where the majority of companies have implemented good corporate governance, the capital market in the country will tend to be more attractive to global investors.

The application of good corporate governance will encourage the realization of transparency in financial recording and reporting and supervision effectively and efficiently. This allows the owner to supervise the performance of his manager so that it can reduce earnings management practices. Thus, the better implementation of corporate governance is expected to reduce earnings management practices.

Based on this description, the following hypotheses can be formulated:

H_3: The quality of corporate governance can affect earnings management

3. Research Design & Variable Measurement

This research is a descriptive empirical study with the quantitative approach, which aims to analyse the variables as a whole. This study uses a data panel, which is data that examines more than one variable over a period of time. Data were taken from the financial statements of manufacturing companies listed on the Indonesia stock exchange (IDX) in 2011 - 2015.

The population in this study are all manufacturing companies listed on the Indonesia Stock Exchange. The sample was chosen based on purposive sampling with criteria that can be seen in the following table:

Table 1 Sample Selection Process

Description	Quantity
Manufacturing companies listed on the IDX, 2011 - 2015	143
Firms that don't have managerial ownership (MO)	(82)
Firms that publish financial statements in foreign currencies	(15)
Companies whose data is incomplete	(13)
Companies that meet the criteria for research	**33**
Observations in the period 2011 - 2015 (= 33 x 5)	165
Observations are eliminated due to data outliers	(11)
Total observation	**154**

Measuring Earnings Management

Following standard accounting literature, we use discretionary accruals as a proxy for earnings management. The model used in detecting earnings management is The Modified Jones Model developed by Alves (2012). In this model, non-discretionary accruals (NDA) are estimated using OLS regression, while discretionary accruals (DACC) are residual values. The equation used by Alves (2012) in detecting DACC is as follows:

$$\frac{\mathrm{TACC_{it}}}{\mathrm{TA_{it-1}}} = \propto_1 \left(\frac{1}{\mathrm{TA_{it-1}}}\right) + \propto_2 \left(\frac{\Delta\,\mathrm{Rev_{it}} - \Delta\,\mathrm{Rec_{it}}}{\mathrm{TA_{it-1}}}\right) + \propto_3 \left(\frac{\mathrm{PPE_{it}}}{\mathrm{TA_{it-1}}}\right) + \varepsilon_{it}$$

Where,

TACC = total accruals in year t, calculated as the difference between net income and operating cash flows.
TA = total assets at the beginning of year t.
∆Rev = change in revenues.
∆Rec = change in accounts receivable.
PPE = gross property, plant and equipment.
i,t = firm and year index

Measurement of Managerial Ownership.
Managerial ownership is measured by calculating the proportion of company shares owned by the manager compared to the total shares of the company.

Measurement of Ownership of Concentration
Ownership of Concentration is measured by calculating the proportion of the number of shares owned by individuals/groups compared to the total shares of the company.

Quality of Corporate Governance
The quality of corporate governance is measured by using an index with instruments adapted from the corporate governance Perception Index (CGPI) issued by the Indonesian Corporate Governance Forum (FCGI) or the Indonesian Institute of Corporate Governance (IICG). Quality measurement of corporate governance uses a questionnaire consisting of 38 questions about aspects of the principles of good corporate governance, namely transparency, accountability, responsibility, independence, and fairness.

For measurement of governance index, the content analysis method is used. Of the 38 questions in the questionnaire, the answer was seen in the company's annual report that was sampled. Questions whose answers are seen in the annual report will be given a score of 1 and those not given a score of 0. The total score can be summed and multiplied by the percentage of weight for each group of questions.

4. Results

Based on the results of descriptive statistics, it can be seen that for the dependent variable (DACC), the value ranges between -0.23 to 0.22 with an average value of -0.0076 and a standard deviation of 0.079. This shows that during the study period, the sample companies conducted earnings management with a pattern of minimizing earnings.

Earnings management with a pattern of minimizing earnings occurs because of the high level of concentration ownership on the company's shares and owned by individuals or families, which is marked by an average ownership concentration of 45%. The majority owner certainly has the power in appointing and directing management in managing their business. Earnings management with a pattern of minimizing profits is carried out on the instructions of the majority shareholder, with the aim of reducing taxes required by the government on the corporation or so that the tax burden that will be paid does not exceed the tax previously paid. However, this condition only benefits the majority shareholders and harms minority shareholders in assessing corporate performance by using information from financial statements, because the earnings information presented is no longer representative.

Based on the results of descriptive statistics, managerial ownership has an average value of 0.0707 and a standard deviation of 0.1054. From this value, it is known that the average manufacturing company in Indonesia has a percentage of shares owned by directors and company commissioners of 7% of the total shares of the company. This indicates that the percentage of share ownership by company management in the sample company is still low, especially during the period 2011-2015. The concentration ownership variable has an average value of 0.454 and a standard deviation of 0.187. From this value, shows that the average sample company has a concentration of 45% owned by individuals or business groups. This indicates that the level of concentration of ownership held by individuals or groups is still relatively high, namely

45% owned by individuals or institutions, the rest is owned by management and the community with a percentage of minority shareholdings.

Corporate governance variables have an average value of 6.65 and a standard deviation of 1.09. From this value, it is known that the quality of corporate governance in sample companies is not good enough, so that there is a need for improvement in the implementation of good corporate governance, especially manufacturing companies in Indonesia.

4.1. Hypothesis Test Results

R-Square is obtained is 0.036, meaning that the variation of changes in the dependent variable that can be explained by the independent variable is 3.6%, while the rest is explained by other variables outside the model.

Table 2 Regression Test Results

Model	Unstandardized Coefficients		Standardized Coefficients	t	Sig.
	B	Std. Error	Beta		
(Constant)	-0,067	0,049		-1,367	0,174
MO	0,073	0,067	0,097	1,103	0,272
OC	0,089	0,038	0,210	2,350	0,020*
IGOV	0,002	0,006	0,029	0,353	0,725

Based on Table 2, it can be concluded that the second hypothesis can be accepted because the t-value of the statistics is 2.350> 1.9755 and the probability value (p) 0.020 <0.05, means ownership concentration (OC) has a positive effect on earnings management. Of the three independent variables in the regression model, managerial ownership (MO) and governance (IGOV) indices have no effect on earnings management. This can be seen from the significance probability for MO of 0.272 and IGOV of 0.725 where the values are both far above 0.05. Thus, it can be concluded that earnings management variable is influenced by OC with the formula:

DACC = -0,067 + 0,073 MO + 0,089 OC + 0,002 IGOV

A. Discussion of hypothesis 1

Statistical results show that managerial ownership (MO) has no statistical effect on earnings management (DACC). Managerial ownership has no effect because the ownership pattern in Indonesia is still concentrated in individuals, groups, and families. The high concentration of ownership in the family causes the controlling shareholders to have the power to determine the CEO and Commissioner of the company. In Indonesia, in particular, those who are directors and commissioners are family members or close people who are trusted by the controlling shareholders.

In Indonesia, conflicts of interest no longer focus on the inconsistency of interests between the principal and the agent. However, it has led to a conflict of interest between majority owners and minority owners. This is characterized by the owners of companies that are concentrated on individuals or families so that this party has a strong influence to determine the direction of the company. Minority shareholders, in this case, are in a weak position.

The results of this study indicate that there is no statistically significant effect between managerial ownership on earnings management. This indicates that managerial ownership which is considered as an internal mechanism in aligning the interests between the principal and agent described in the agency theory is not proven. This is due to the high level of concentration of ownership in individuals or families in manufacturing companies observed in the period 2011-2015. The high concentration of ownership makes the majority shareholders have power in terms of determining who will be the business manager they run. This condition has led to agency conflicts that previously occurred between owners and managers as a result of the separation between ownership and control, switching to the existence of conflicts between majority and minority owners when the shares of the company are also owned by outsiders.

B. Discussion of hypothesis 2

The results of the second hypothesis testing showed that ownership concentration (OC) had a significant positive effect on earnings management (DACC). The higher the concentration of ownership, then earnings management will also increase. This indicates that the theory that explains the owner who owns a large number of company shares (the majority) has a strong incentive to reduce agency problems by closely monitoring and ensuring that management, to protect their investment is not proven.

The high level of ownership concentration illustrates the absence of separation between ownership and management (control), which is explained in the agency theory. In this condition, the majority shareholder has the power to choose and place a family or close person who is trusted to occupy an important position in the company such as a director and/or commissioner. The manager who is a part/family of the majority shareholder is a representative of the owner-manager. This illustrates that there is no separation between ownership and management as explained in the agency theory.

C. Discussion of hypothesis 3

The results of statistical tests concluded that the quality of corporate governance variables did not affect earnings management. The good quality of corporate governance in Indonesia has proven to be unable to reduce or suppress earnings management behavior. This indicates that corporate governance is not working in Indonesia. The presence of corporate governance as aligning the interests of the parties involved in the company does not go well.

Corporate governance quality does not have a statistically significant effect on earnings management, which indicates that corporate governance mechanisms are not going well. Corporate governance as a monitoring mechanism is not proven to overcome agency problems. Supervision activities become difficult to implement when the commissioner as the organ that oversees the behavior of managers is part of the majority shareholder. Even in other conditions, commissioners and directors may have affiliations with majority shareholders, thus impacting the lack of independence of commissioners in carrying out their duties. This is also caused by the high level of concentration of ownership in individuals and families, the weak law enforcement and supporting institutions, and the relatively small and not "liquid" capital markets so that they are not able to effectively act as a control mechanism in the implementation of the Corporate Governance principles.

5. Conclusion

a) Managerial ownership does not affect earnings management. Indicating that many or few voting rights or share ownership owned by management cannot reduce earnings management carried out by management. This is because the manager is a family member or has an affiliate relationship with the majority shareholder. It also illustrates that agency conflicts do not occur between owners and managers, but rather lead to conflicts of interest between majority shareholders and minority shareholders.

b) Ownership concentration has a positive effect on earnings management. These results prove that the increase in ownership concentration cannot reduce earnings management by management. This indicates that the manager obeys the majority shareholder as the holder of power by voting right in a large composition at the GMS and can appoint and dismiss the commissioners and directors through the GMS. This condition makes the majority shareholders have the power and power in managing and protecting their investments even though they must ignore the interests of minority shareholders who are in a weak position.

c) The quality of corporate governance does not affect earnings management. This indicates that the good quality of corporate governance does not reduce earnings management carried out by management. Weak law enforcement and supporting institutions, as well as the small capital market, make the control mechanism not work well. The high concentration of ownership also results in the difficulty of the commissioner to act independently in his duties.

Limitations of research

1) This study only uses managerial variables of ownership, ownership concentration and quality of corporate governance which are seen as influences on earnings management variables. From the results of the analysis, it is known that

3.6% earnings management is influenced by these three variables. While the remaining 96.4% is explained by other variables. Thus there are still many other independent variables that need to be identified to explain variables that influence earnings management.

2) The quality of Corporate Governance is measured using the content analysis method, where this method cannot be avoided by the subjectivity of the researcher.
3) The sample used is only manufacturing companies listed on the Indonesia Stock Exchange (IDX). We recommend that you use a sample of companies in all sectors listed on the Indonesian stock exchange so that the results can be generalized.