J. Basic. Appl. Sci. Res., 2(7)7192-7199, 2012
© 2012, TextRoad Publication

ISSN 2090-4304
Journal of Basic and Applied Scientific Research
www.textroad.com

Influence of the Internal Corporate Governance and Leverage Ratio to the Earnings Management

Tirza Oktovianti*, Dian Agustia

University of Airlangga, Surabaya, East Java of Indonesia

ABSTRACT

This paper intended to study the empirical proof about the influence of internal corporate governance and leverage ratio due to the earnings management. The internal corporate governance was included the managerial property and the independent board of director. The methodology consisted of collecting secondary data and the analysis using statistical method. Normality test as one of the parametric analysis was used in this research. Secondary data was collected by using the archival strategy and the stock share rate was based on the Indonesia Securities Market Directory (ISMD). Result was used to give contribution in theoretical development of the agency theory and corporate governance related to the study of financial account. In addition this result could be used as a consideration for investors in making decision.
Keywords: managerial property, independent board of director, leverage ratio, earnings management

INTRODUCTION

The agency theory described that principally the agency relation is appear when one or more person undertaking the other person as an agent for giving a service and then delegating the authority of decision making to the agent [1]. Manager is obliged to give signal about the company condition to the owner as an implementation on the responsibility of company management, but sometimes the information is accepted being not suitable with the real condition. This kind of information is known well as asymmetric information. The asymmetry between the management of agent and the principal of owner will give the chance of manager to carry out the earnings management [2].

There are some manners in the earnings management [3], one of them is with discretionary accruals [4]. Discretionary accruals are an earnings management with controlling the accrual transaction so that the earnings was seen so high. Discretionary accruals is considered as a performance standard which is more superior than cash flow because the accruals decrease time and mismatching which due to the size of cash flow [5]. The managerial policy can increase the earnings informatively by giving the private communication [6]. The earnings management that is carried out by a company is not only free from the conflict of interest. Setiawati and Naim [7] evaluated the behaviour of earnings management in the manufacture company which was registered in the Bursa Efek Jakarta for responding the change on the income tax laws of 1994 and behave in the year of 1995. They used the approach of discretionary accrual for detecting the earnings management. Bagnoli and Watts [8] presented that the practice of earnings management is more carried out by management because they assumed that the other company also carried out the same thing. Therefore, the competitor performance can also become as a stimulus to carry out the practice of earnings management because the investor and creditor will compare to determine which company has the favourable rating. Discretionary accruals is considered as a performance standard which is more superior than cash flow because the accruals decrease time and mismatching which due to the size of cash flow [6]. The managerial policy can increase the earnings informatively by giving the private communication [8].

Corporate governance is one of the key elements in increasing the economical efficiency which included a series relation between the company management, board of director, stock shareholders, and the other stakeholders. Surya and Yustivandana [9] presented that corporate governance is a system which directing and controlling the company in order to reach the balance between the strength of authority which is needed by a company to guarantee the sustainability of existence and the responsibility to stakeholder. Corporate governance is also as a mechanism which is used to make the certainty that the finance supplier like stock shareholders and bondholders of a company obtain return of the activity which was carried out by manager. In addition, leverage is also influenced the earnings management. Leverage is as the ratio between the total duty and total asset. The more leverage ratio means the high value of company credit. The accounting numbers can be influenced by carrying out the earnings management. Therefore, the company with high leverage ratio presents the proportion of credit is higher than the active and it has the trend to manipulate in the form of earnings management [9].

This research intended to obtain the empirical proof about the influence of internal corporate governance and leverage ratio to the earnings management. The internal corporate governance was included the managerial property and the independent board of director.

***Corresponding Author:** Tirza Oktovianti, University of Airlangga, Surabaya, East Java of Indonesia

MATERIALS AND METHODS

This study used 2 kinds of data that was included data of finance report and data of asset market of Manufacture Company which was registered in Bursa Effect Indonesia during the year of 2006 until 2009 on the manufacture emitting which go public in Bursa Efek Jakarta (BEJ). There was selected the emitting which was moving in the manufacture because the finance report on the manufacture emitting had the item with more complex and perfect of discretionary accrual than the non manufacture emitting. The samples were selected using purposive and judgment sampling with the criteria as follow:

1. The companies were as the group of Manufacture Company which had finance report from the year of 2006 until 2009.
2. The companies were registered in Bursa Efek Indonesia (BEI) from the year of 2006 until 2009.
3. The manufacture company had not been published the finance report at the end of June 2010.

The procedure of sample selection was presented as in Figure 1.

Table 1 Procedure of sample selection

No.	The selection of sample	Total
1.	The company which was registered in BEI from the year of 2006 – 2009	323
2.	Non manufacture company	(194)
3.	The manufacture company which had not been published the finance report at the end of June 2010	(58)
	Samples	71

Source: Secondary data that has been analysed

This study used 2 kinds of variables such as exogeneous and endogen variables. Exogeneous variable is the variable which influences or becomes as the cause of change or be appearing the independent variable [11]. The exogeneous variables in this research were the determined factors of corporate governance such as the institutional property, the managerial property, the proportion of independent editorial board, and the standard of editorial board. Exogeneous variable is the variable which is influenced or as the reason of the exogenous variable [11]. Endogen variable itself included the intervening and dependable variable [11]. The earnings management was the intervening variable but stock share return was the dependent one in this research.

The determined factors of Corporate Governance

The determined factor of corporate governance is included the institutional property, the management property, the independent board of director, and standard on the board of director as follow:

a. Institutional property
   The institutional property can professionally monitor the infestation development because the control of management is very high so that the potency of falseness can be pressured. The scale which was used in this research was the ratio scale and it was measured using the percentage indicator on the stock share number of the whole circulated stock share that was belonged to the institution.
b. Managerial property
   The managerial property is the number of stock share which is belonged to the management from the whole stock share that is circulated. The big stock share property of economical value has the incentive for balancing the interest and principles. Ratio scale was used in this research and the managerial property was measured from the percentage stock share number of the whole circulated stock share that were belonged to the management.
c. Independent board of director property
   The independent board of director is the board of director which does not affiliated with the management, the member of the other board of director, the controller of stock share holder, and it is independent from the business or the other relation which can influence the ability to make independent action or merely for the company interest. Ratio scale was used in this variable and the proportional independent board of director was measured by dividing the number of independent board of director with the total number on the board of director.
d. Standard on the board of director
   Standard on the board of director is the number on the company board of director. Board of director has the responsibility and authority of the management action and to give advice to the management if it is looked necessary by the board of director. Ratio scale is used in this variable and as the continuous variable. Standard on the board of director is measured by using the total number on the board of director which come from internal as well as external company.

Leverage ratio

The laverage ratio measures how far the expenses is carried out by the credit compared to the asset and the ability to pay the interest and the other fixed load. Leverage ratio in this research was measued by using the Debt to Asset Ratio (DASR) because DAR is one of the credit ratio which is generally used in evaluating the compant condition. The DAR can also evaluate a company is good or bad in the management of credit problem so that the risk of company can be better understood. DAR is one of the credit risk which is used to evaluate the structure of credit asset that is used to afford the total activa [12]. Ratio scale is used in this variable and the formula of DAR is as follow:

$$\text{DAR} = \frac{Net\ Liabilities}{Total\ Assets} \quad \text{.....} \quad (1)$$

Earnings Management

Earnings management is a manager action to select the accounting policy for reaching some specific aims. The accounting policy is the use of accrual in making the finance report. Earnings management in this research is measured by identifying the discretionary accrual using the Modified Jones Model [13]. Ratio scale is used in this variable. Earnings management is approximately with the abnormal accrual / discretionary accruals (AA_{ip}). It is carried out by entering the accounts of finance report, so is obtained the AA_{ip}. Abnormal accrual in this research was analysed on each period from the year of 2006 until 2009. The steps of evaluation on abnormal accrual are as follow:

1. To analyse the total accrual

   For identifying the earning rekeys can be carried out by analysing the total accrual. Dechow *et al.* [13] measured the total accrual by using the formula as follow:

   $$TA = NI - CFO \quad \text{.....} \quad (2)$$

   Note:
   TA = Total of Accrual
   NI = Net Income,
   CFO = Cash Flow from Operation.

   Then by using model of Jones [14], Dechow *et al*.[13] measured the total accrual by predicting the decreasing of non cash working capital and the increasing of depreciation cost related to the motivation of manager for decreasing income. The formula of total accrual after being carried ot the current maturities of long term debt is as follow [14]:

   $$TA_{it} = (\Delta Current\ Assets_{it} - \Delta Cash_{ir} - \Delta Current\ Liabilities_{it} - Depreciation\ and\ Amortization\ Expense_{it}) \quad \text{.....} \quad (3)$$

   Note:
   TA_{it} = total *accrual* emitting I in the year if t,
   $\Delta Current\ Assets_{it}$ = the change of fluent active on emitting-i in the period of t,
   $\Delta Cash_{ir}$ = the change of cash and the equivalent cash of emitting-i in the period t,
   Depreciation and Amortization Expense$_{it}$ = depreciation cost and amortisation of emitting-i in the period of t.

2. To analyse the normal accrual level

   Model of Jones [14] used the model of expected accrual for analysing the normal accrual level. This model described some variables such as the income and brute active level, the building and utility. The model od expected accrual was as follow [13}

   $$TA_{it} / A_{it-1} = \alpha_1 (1 / A_{it-1}) + ß_2 (\Delta Revt / Ait\text{-}1) + \beta 3\ (PPE_t / A_{it-1}) + \varepsilon \quad \text{.....}(4)$$

   Note:
   TAit = Total accrual of the company-i in the period of t
   Ait-1 = Total active of the company- i in the period of t-1
   ΔREVt = Income change of the company-i in the period of t
   PPEt = Fixed active of the company –i in the period of t
   e = error
   α 1, α 2, α3 is the firm-specific parameters.

3. To analyse the discretionary accrual (abnormal earning level of accrual)

   Discretionary accrual is measured by using cross-sectional Modified Jones [14]. This model was also used by Ardiati [15] as follow:

   $$DAt = \alpha 1(1 / Ait\text{-}1) + \alpha 2[(\Delta REVt / Ait\text{-}1 - \Delta RECt / Ait\text{-}1) + \alpha 3(PPEt / Ait\text{-}1) \quad \text{.....} \quad (5)$$

   $$DAit = TAit / Ait\text{-}1 - NDAit \quad \text{.....} \quad (4)$$

Note:
DAit = Discretionary Accruals of the company-i in the period of t
NDAit = Non Discretionary Accruals of the company-i in the period of-t
TAit = Total accrual of the company-i in the period of-t
Ait-1 = Total active of the company-i in the period of-t
Δrevt = Income change of the company-i in the period of-t
PPEt = Active of the company-i in the period of-t
ΔRect = Debit change of the company-i in the period of-t
e = error
α 1, α 2, α3 is the firm-specific parameters.
Emitted is expressed to carry out the earnings management if the discretionary accrual has the positive or negative value. The positive value indicated that the emitting carries out the earnings management through the pattern of income increasing and the negative value indicated the decreasing one [16]

RESULTS AND DISCUSSION

The research variables included the institutional property, the managerial property, and the proportional independent board of director, standard on the board of director, the leverage ratio, the earnings management, and the stock share return. Average of the research variables is presented in Table 1.

Table 1 Average of the research variables

Variable	Year			
	2006	2007	2008	2009
Institutional property (X1)	72,0970	72,8726	73,0301	72,7066
Managerial property (X2)	1,9164	1,9011	2,0463	2,5663
Proportional independent board of director (X3)	0,5697	0,5884	0,5814	0,5550
Standard on the board of director (X4)	3,4507	3,5211	3,4930	4,0423
Leverage ratio (X5)	0,3721	0,4005	0,4120	0,4441
Earnings management (Y1)	0,0068	-0,0125	0,0138	0,0017
Stock share Return (Y2)	0,0216	0,0434	-0,0189	0,0434

Based on the results in Table 1, the average of institutional property variable in 2006 was 72.0970%, in 2007 and 2008 was increasing to 72.8726% and 73.0301%, in 2009 was decreasing to 72.7066%. The reason was the institutional property could professionally monitor the infestation development because the control level to management was very high so that the potency of falseness could be pressured

The influence of institutional property to the earnings management

Based on the statistical analysis, the institutional property was not influenced the earnings management with the significant value of 0.1651 (> 0,05) and the line coefficient was -0.0906. It indicated that if the institutional property increased, the earnings management would decreased and if the institutional property decreased, the earnings management would increased of -0.906. This result supported the previous research of Ujiantho and Pramuka [17]. Hence, this result was not consistent with the research of Cornello *et.al.* [18]; Mediastuty *et.al.* [19]. they presented that the institutional property as one of the influenced factors to the earnings management could decrease the action of earnings management.

Balsam *et.al* [20] found the negative relation between unexpected discretionary accrual and the return around the date of announcement because the institutional investor had the access of information source more accurately time and more relevant. It could know the existence of earnings management faster and easier than the individual investor. Jiambavo [21] expressed that the absolute value of discretionary had negative relation with the institutional property. There was feedback effect from the institutional property which could decrease the earnings management. If the earnings management was efficient so the high institutional property would increase the earnings management but if the earnings management was opportunist so the high institutional property would decrease the earnings management. This result showed that the institutional property did not have the ability to control the management so that could not decrease the earnings management. The reason was manager was compulsory to carry out the action that could increase the earnings in the short time for manipulating the earnings.

The influence of managerial property to the earnings management

The managerial property was influenced the earning management with significant value of 0.0032 (<0.05) and the line coefficient was 0.1644. It indicated that if the managerial property was increasing, the earning management would increase of 0.1644. This result supported the previous research of Ujiantho and Pramuka [17]; Midiastuty [19] They expressed that the managerial property had significant negative influence to the earnings management. Wetson and Brigham [22] expressed that the potency of conflict in the agency relation was very high that was when the company management had less than 100% of the general stock share belonging to the company, so the conflict potency was appeared. The conflict was occurred because the wish of agency to get high salary or certain facility with principal belonging due to the private comfortable.

Jensen and Meckling [23] found that the managerial property would be success as the factor for decreasing the problem of manager agency by making suitable the manager interest and the stock share holder. They also found that the manager interest could be united with the external stock share holder if the stock share property by manager was increased so the manager would not manipulate the earnings for his interest. In the low stock share property, the incentive due to the probability of opportunism behaviour manager would increase [24]. Warfield *et.al.* [25] in their research evaluated the managerial property had negative relation with the discretionary accrual. This result indicated that the managerial property was able to become as one of the determined factors on the corporate governance that could decrease the unsuitable interest between the management and the stock share holder.

Influence of the proportional independent board of director to the earnings management

The proportional independent board of director was influenced to the earnings management with the significant value of 0.0328 (<0.05) and the line coefficient was 0.1080. If the proportional independent board of director increased, the earnings management would be increasing with the value of 0.1080. This result supported the research of Veronica and Utama [26], Ujiyantho and Pramuka [17], Corcello et al [18]. They studied the influence of corporate governance practice to the earnings management which one of the determined factors had been found that the composition on the board of director was negative influenced to the earnings management of company. In general, board of director was accomplished a task and was given a responsibility of monitoring the information quality in the finance reports. It was necessary due to the management interest to carry out the earnings management which gave impact on decreasing the investor trust. To solve the problem, the board of director was allowed to have the access of company information. The existence of board of director had been studied by Peasnell *et.al.* [27]. they studied the effectiveness on the board of director and the independent board of director due to the earnings management in English. The samples were included 1,178 companies during the period of 1993 to 1996. The result indicated that the independent board of director limited the management to carry out the earnings management.

This result indicated that the corporate governance factor which was applied through the independent board of director was able to decrease the action of earnings management. Therefore if the member of external board of director increased the monitoring, it would be related to the lower use of discretionary accrual. In addition, the proportional board of director which was included of the member from external company had the trend to influence the earnings management.

Influence the standard on the board of director to the earnings management

The standard on the board of director was not influenced the earnings management with the significant value of 0.620 (>0.05) and the line coefficient was -0.0298. If the standard on the board of director increased, the earnings management would increase with the value of 0.0298. This result supported the previous research of Chtourou *et.al.* [28], Zhou and Chen [29], Ujiyantho and Pramuka [17]. They expressed that the standard on the board of director was not significantly influenced to the earnings management. Hence, this result did not support the research of Midiastuty and Machfoedz [19], Cornett *et.al*. [18]. they found that the standard on the board of director was negative influenced to the earnings management. Influence on the standard of the board of director to the company performance had the variety of result. One of the arguments expressed that the more persons as the board of director would cause the worse performance of company [30][31][23]. The reason was caused by the agency problems. The more members on the board of director, this organization would be difficult in functioning such as difficulty in communication and coordinating work from each member difficulty in monitoring and controlling the action of management, and difficulty in making decision for the company [30] [23]. The more member on the board of director would make the difficulty in controlling the company management and the impact was in the performance of company was more decreasing [30][31]. Zhou and Chen [29] indicated that the standard on the board of director in commercial bank was not influenced to the earning management which was measured by using loan loss provisions.

Result of this research indicated that the standard on the board of director did not have the ability to control the management so that could not decrease the earnings management. It could be described that big or small number on the board of director was not as the main determined factor of the controlling effectiveness of

company management, but effectiveness of the mechanism on controlling was depended on the value of norm and trust that was accepted in an organization [32].

Influence of the institutional property, the managerial property, the proportional independent board of director, and the standard on the board of director to the earnings management

The the institutional property, the managerial property, the proportional independent board of director, and the standard on the board of director were influenced to the earnings management based on the F test with the significant value of 0.000 (<0.05) and the determination coefficient R^2 was 0.3085. It indicated that the institutional property, the managerial property, the proportional independent board of director, and the standard on the board of director described the earnings management with the percentage of 30.85% and the rest of 69.15% could be described by the other factors. This result supported the research of Yjiyantho and Pramuka [17] which expressed that there was relation between the corporate governance (the institutional property, the managerial property, the proportional independent board of director, and the standard on the board of director) and the eranings management.

The manipulated behaviour by the manager which was begun from the conflict of interest, could be minimized through a monitoring mechanism by carrying out the corporate governance that intended to balance the variety of interest. At the first, it could be carried out by increasing the property of company stock share by management [23], so the owner interest or stock share holder would be able to be paralleled with the manager interest. The second, the property of stock share was by institutional investor. Midiastuty and Machfoedz [19] expressed that the institutional investor was as the side which could monitor the agent with the big property, so that the manager motivation to regulate the earnings became decreasing. The third, it was carried out through the monitoring function by the board of director. Dechow et.al. [33] and Beasly [34] found the significant relation between the function of the board of director and the finance report, They found that the standard and independent board of director influenced their ability in monitoring the process of finance report.

Influence of the leverage ratio to the earnings management

The leverage ratio was influenced the earnings management with the significant value of 0.0000 (<0.05) and the line coefficient was 0.5493. If the leverage ratio decreased, the earnings management would decrease with the value of 0.5493. It was suitable with the expression of Mamedova [35] and Astuti [36]. They said that if the company leverage increased, the management would carry out the earnings management. Company with the high leverage ratio indicated that the proportional credit was higher that the proportional active and it would have the trend to manipulate in the form of earnings management. Therefore company with high leverage had the trend to regulate the earnings that was reported by increasing or decreasing the earnings the next period to now.

In the agency theory, the agent was assumed as the side which wanted to maximize itself but it always remained to fulfil the contract. In the case of credit contract, the company was as agent and the creditor as principal. Therefore, the company as agent wanted to maximize itself but it always remained to fulfil the contract. The closer company with the violation of credit agreement based on accounting, it was more allowed the company manager to select the procedure of accounting which moved the earnings and reported from the next period to now [37]. It was carried out because the net earnings which were reported to be increased would decrease the probability of the failure on paying the credits in the next period. Therefore, the company manager was very allowed to influence the accounting numbers in the finance report especially the bottom line earnings number.

CONCLUSION

The determined factors of corporate governance in this research which were influenced to the earnings management were the managerial property and the proportional independent board of director. It indicated that the both factors were able to decrease the unsuitable interest between the management and the stock share owner or holder. If there was evaluated together, the institutional property, the managerial property, the proportional independent board of director and the standard on the board of director were influenced to the earnings management. The leverage ratio was influenced the earnings management. This result indicated that company with high leverage ratio had proportional credit higher than the proportional active and it had the trend to manipulate in the form of earnings management.

REFERENCES

1. Jennings, M. M. 2005. Conspicuous Governance Failures: Why Sarbanes-Oxley Is not an Ethics Warranty. *Corporate Finance Review*, 9:5 (March/April), hal.41-47
2. Richardson, Vernon J. 1998. Information Asymmetry an Earnings Management: Some Evidence. *Working Paper*.

3. Ardiati, Aloysia Yanti. 2003. Pengaruh Manajemen Laba Terhadap Return Saham Dengan Kualitas Audit Sebagai Variabel Pemoderasi. *Simposium Nasional Akuntansi VI*, Surabaya, 16-17 Oktober 2003, 408-426.
4. Subramanyam, K., 1996, "The Pricing of Discretionary Accruals", *Journal of Accounting and Economics* 22, Augustus-December, pp. 249-281.
5. Bagnoli, M. and S. Watts. 2000. The Effect of Relative Performance Evaluation on Earnings Management: a Game-theoritic approach. *The Journal of Accounting Public Policy* 19: 377-397.
6. Dechow, P.M.. 1994. "Accounting Earnings and Cash Flows as Measures of Firm Performance: The Role of Accounting Accruals", *Journal of Accounting and Economics* 18, pp. 3-42.
7. Setiawati, Lilis dan Ainun Na'im. 2001. Bank Health Evaluation by Bank Indonesia and Earnings Management in Banking Industry. Gadjah Mada *International Journal of Business* Volume 3 No 2 May: 159-176
8. Watts, R., dan J. Zimmerman, 1986, "*Positive Accounting Theory*", Prentice Hall Inc., Englewood Cliffs, NJ.
9. Surya, Indra dan Ivan Yustivandana. 2008. *Penerapan Good Corporate Governance, Mengesampingkan Hak-Hak istimewa Demi Kelangsungan Usaha*. Jakarta: Kencana Prenada Media Grup.
10. Astuti, Dewi Saptantinah Puji. 2002. Analisis Faktor-Faktor Yang Mempengaruhi Motivasi Manajemen Laba Di Seputar Right Issue. www.google.com
11. Sugiyono. 2009. *Statistik Untuk Penelitian*. Bandung: Penerbit CV. Alfabeta.
12. Fraser, Lyn M and Aileen Ormiston. 2004. *Understanding Financial Statements. 7th edition*. New Jersey: Preason edycation International, Inc., Upper Saddle River.
13. Dechow, P.M., R.G. Sloan, and A.P. Sweeney, 1995. Detecting Earnings Management. *The Accounting Review* 70, pp. 193-225.
14. Amanah, Lailatul. 2003. Manajemen Laba Pada Perusahaan Bermasalah. *Ekuitas* Vol 8 No.2. Juni: 188-205.
15. Ardiati, Aloysia Yanti. 2003. Pengaruh Manajemen Laba Terhadap Return Saham Dengan Kualitas Audit Sebagai Variabel Pemoderasi. *Simposium Nasional Akuntansi VI* Surabaya.
16. Perry, Susan, E. and Thomas H. Williams. 1994. Earnings Management proceeding management buyout offers. *Journal of Accounting and Economics* 18:157-179
17. Ujiyantho, Muh. Arief dan Bambang Agus Pramuka. 2007. Mekanisme Corporate Governance, Manajemen Laba dan Kinerja Keuangan. *SNA X*, Juli 2007.
18. Cornett, M. M., Marcus, A.J., Tehranian, H., 2009. Corporate Governance And Earnings Management At Large U.S. Bank Holding Companies. *Journal of Corporate Finance* 15, p. 412–430.
19. Midiastuty, Pratana P., dan Mas'ud Machfoedz. 2003. Analisis Hubungan Mekanisme Corporate Governance dan Indikasi Manajemen Laba. *Simposium Nasional Akuntansi 6* Surabaya
20. Balsam, S., E. Bartov and C. Marquardt. (2002). Accrual Management, Investor Sophisticated, and Equity Valuation: Evidence from 10-Q Fillings. *Journal of Accounting Research* Vol. 40 No.4, p. 987-1012.
21. Jiambavo, J. 1996. Discussion of Causes and Consequenses of Earnings Manipulation. *Contemporary Accounting Research*. Vol, 13. Spring, p 37 – 47.
22. Weston, J. F. and E. F. Brigham. 1994. *Essential of Managerial Finance*. The Dryde Press-Harcourt Brace College Publishers.
23. Jensen, Michael C. dan W.H. Meckling. 1976. Theory of The Firm: Managerial Behaviour, Agency Cost and Ownership Structure. *Journal of Financial Economics* 3. page. 305-360.
24. Shleifer, Andrei and Robert W. Vishny. 1997. A Survey of Corporate Governance. *Journal of Finance*, 52: 737-783.
25. Warfield, T.D., Wild, J.J., Wild, K.L., 1995. Managerial ownership, accounting choices, and informativeness of earnings. *Journal of Accounting and Economics* 20, 61–91

26. Veronica, Sylvia dan Siddharta Utama. 2005. Pengaruh Struktur Kepemilikan, Ukuran Perusahaan, dan Praktek Corporate Governance terhadap Pengelolaan Laba (Earnings Management). Artikel yang Dipresentasikan pada *Simposium Nasional Akuntansi 8* Solo tanggal 15 - 16 September 2005.

27. Peasnell, KV., PF Pope, and S Young. 1998. outside Director, Board Effectiveness, and Earnings Management. Working Papers from Lancaster University.

    http://www.eurojournals.com/mefe_3_03.pdf

28. Chtourou, Sonda Marrakchi, Jean Bedard and Lucie Courteau. 2001. Corporate Governance and Earnings Management. Available on-line at www.ssrn.com

29. Zhou Jian and Chen Ken Y. 2004. Audit Committee, Board Characteristics and Earnings Management by Commercial Banks. Working Paper

    http:: //aaahq.org/audit/midyear/05midyear/papers/ZHOU_CG_EM_DEC16A.

30. Yermack, D. 1996. Higher Market Valuation of Companies with Small Board of Directors. *Journal of Financial Economics* 40, 185-211.

31. Eisenberg, T., Sundgren, S., Wells, M.T., 1998. Larger Board Size and Decreasing Firm Value in Small Firms. *Journal of Financial Economics* 48, 35-54.

32. Jennings, M. M. 2005. Conspicuous Governance Failures: Why Sarbanes-Oxley Is not an Ethics Warranty. *Corporate Finance Review*, 9:5 (March/April), hal.41-47.

33. Dechow, Patricia M., R.G. Sloan, and A.P. Sweeney. 1996. Causes And Consequences Of Earnings Manipulation: An Analysis Of Firms Subject To Enforcement Actions By The SEC. *Contemporary Accounting Research* 13, 1-36.

34. Beasley, Mark S. 1996. An Empirical Analysis of The Relation Between The Board of Director Composition and Financial Statement Fraud. *The Accounting Review* Volume 71, No 4, October: 443-465.

35. Mamedova, Irina Zagers. 2008. The Effect of Leverage Increases on Real Earnings Management. Thesis of Erasmus University in September 2008.

    http://publishing.eur.nl/ir/repub/asset/15572/Accountability_zager.pdf

36. Astuti, Dewi Saptantinah Puji. 2002. Analisis Faktor-Faktor Yang Mempengaruhi Motivasi Manajemen Laba Di Seputar Right Issue. www.google.com

37. Watts, R. L., and J.L. Zimmerman. 1986. *Positive Accounting Theory*, Englewood Cliffs, NJ.