

The Effect of Firm Size and Leverage on Profit Management With Ownership Structure as a Moderating

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ABSTRACT

This study aims to examine and analyze the effect of firm size and leverage on earnings management with ownership structure as moderating. The sample used is 54 manufacturing firms listed on the Indonesia Stock Exchange for 2015-2017 period, using multiple regression analysis and to measure hypotheses is SPSS 24. The study results are (1) firm size has a positive and not significant effect on earnings management. (2) Leverage has a positive effect on earnings management. (3) Managerial ownership has a negative effect on earnings management. (4) Institutional ownership has a negative and insignificant effect on earnings management. (5) Managerial ownership strengthens the influence of firm size on earnings management. (6) Institutional ownership does not strengthen the influence of firm size on earnings management. (7) Managerial ownership weakens the influence of leverage on earnings management. (8) Institutional ownership weakens the influence of leverage on earnings management.

Keywords: firm size, leverage, earnings management, managerial ownership, institutional ownership



INTRODUCTION

The number of profit benefits for the firm, namely as a basis for dividend distribution, the basis of compensation and bonuses for employees, the basis for determining the amount of tax to be paid, the basis for evaluating the firm's prosperity is an indicator of the efficiency of corporate funds, as a management motivation for corporate control. For firms, profit is a goal of a firm established. the Statement of Financial Accounting Concept (SFAC) No. 1, earnings information is the main concern for estimating management's performance or accountability. In addition, earnings information also helps users of financial statements in estimating the firm's earnings power in the future. Hanafi (2010), states that profit is the overall measure of a firm's performance, which is defined as follows: $Profit = Sales - Cost$. Hanafi & Halim (2007) defining firm financial statements is one of the important sources of information in addition to industry information, economic conditions, the firm's market share, the quality of other management. Thus, financial statements have an important meaning for users to assess firms and make financial economic decisions.

In the firm's financial statements, profit is one of the important parameters in financial statements that are used to measure management performance. Profit is also important information for the firm both for internal firm and external parties. But earnings information is not always accurate, because sometimes earnings information becomes a target of manipulation through opportunistic management actions to meet satisfaction. Profits obtained by the firm are also often the basis of decision making, where profits are measured on an accrual basis. This accrual basis has implications that the profit of a firm is determined, among others, by the amount of accrual both discretionary and nondiscretionary. Using an accrual basis, transactions or other events are recognized when the transaction or other event occurs not when cash or cash equivalents are received or issued. Accrual elements can occur based on management policies (discretionary accruals) or (nondiscretionary accruals). Determination of discretionary accruals with the intention to increase or decrease profits is an action of earnings management.

In general, earnings management aims to increase or decrease reported profits from the unit to be his responsibility which does not have a relationship with the increase or decrease in the firm's profitability for the long term. Therefore, actions taken by management can be interpreted as earnings management actions that affect reported earnings and provide false economic benefits to the firm, so that in the long run it will disrupt and even endanger the firm. Hidayat (2016) defining earnings management is an intervention that is intentionally carried out by management in the process of determining profit, and is usually carried out for personal purposes. One of the factors that influence earnings management is the size of the firm. Firm size is a level where the size of the firm is clarified various ways. The size of the business is reviewed from the field of the firm being run. Determination of the scale of the firm can be determined based on total sales, total assets, average sales level (Seftianne & Handayani, 2011). Firms that are in high growth require greater organizational resources, and vice versa, firm size is often associated with earnings management. Large firms have a high suspicion of making earnings management. Because large firms must be able to meet the estimates of their investors.

Martusa & Jennie (2010), Firms must be able to face and win the competition, therefore the task of the firm is not just to produce and market its products, but considering the size of the costs that will occur so that the costs are efficient and effective. Armando & Farahmita (2012),

to increase profits managers of firms can produce more than necessary with the assumption that higher production levels will cause fixed costs per unit of product to be lower. This strategy can reduce the cost of goods sold and increase operating profit. This method is one way of manipulating real activities that are usually carried out by firms with poor performance so they don't have much accrual to manipulate. The only way is to manipulate the real activity specially to achieve profit slightly above zero. With the three ways above the firm firms that are suspected of manipulating real activities will have an abnormal production cost that is greater than other firms

Leverage is a fund borrowed by the firm (debt) used by the firm to finance its assets in carrying out its operational activities. Sjahrial (2009), Leverage is the use of assets and sources of funds by firms that have fixed costs (fixed costs), meaning resources derived from loans because they have an interest expense as a fixed expense with the intention of increasing the potential profit of shareholders. Thus, the greater the debt of a firm, the greater the firm also asks to maximize profits or increase profits so that the firm is not threatened with liquidation so as to encourage management to do earnings management. This research is a replication of Astuti, Nuraina & Wijaya (2017) researched who tested leverage and size on earnings management. There is a difference were: 1). Add ownership structure variables as moderating.2). 2. Using manufacturing samples, while in previous studies using banking samples. 3). Measurement of earnings management using real management.

Looking at the background of the above problems, the purpose of this study was to determine the effect of firm size on earnings management. Knowing the effect of leverage on earnings management. Knowing the effect of managerial ownership on earnings management. Knowing the effect of institutional ownership on earnings management. Knowing the effect of firm size on earnings management with ownership structure as measured by managerial ownership as a moderating variable. Knowing the effect of firm size on earnings management with ownership structure as measured by institutional ownership as a moderating variable. Knowing the effect of leverage on earnings management with ownership structure as measured by managerial ownership as a moderating variable. Knowing the effect of leverage on earnings management with ownership structure as measured by institutional ownership as a moderating variable.

The benefits of this research can contribute to the development of theory, especially in the study of financial accounting regarding corporate governance, firm size, leverage on earnings management and being used for information users (shareholders, internal and external stakeholders, managers, employees) to understand corporate governance mechanisms, firm size, and leverage in making or giving a right and wise decision. As a study material to add to the literature and references in understanding topics regarding the influence of corporate governance, firm size, and leverage on earnings management so that it can multiply knowledge in future research.

Agency Theory (Agency Theory)

In understanding corporate governance implementation, the agency perspective can be used as the rationale in this study. Jensen & Meckling (1976) have developed agency theory. Agency theory is a relationship between the principal and the agent, where there is a relationship

between the employment contract. In the employment contract, the principal is referred to as the owner and investor who gives an order to the agent, namely management to carry out the task the principal's wishes. this theory the relationship between principals and agents is created because of conflicting interests.

Smith (2011) in Fatmawati (2013) there are two kinds of conflicts of interest, namely: 1). Moral Hazard. The agent's actions that are not ethical and are selfish in maximizing their needs are usually unknown to the principal. In addition, the agency contract is based on the imperfect, i.e., the principal does not know the ins and outs of firm information relating to the agent's actions. 2). Adverse Selection, Agents have more information when a contract with the principal has not been made and complete information is only disclosed after the contract is executed before a decision is made. The principal cannot control whether the agent acts in the interests of the principal or for the benefit of the agent himself.

The relationship between the principal and the agent is at risk leads to information imbalance, because the agent has more information about the firm than the principal. In other words, it can be assumed that individuals will act in accordance with their own interests, so the information they have will encourage agents to hide the information they have from the principal. In this condition, agents can influence the firm's financial statements by using earnings management. If the agent with the principal experiences this condition, the firm will not run well. Thus, a control mechanism is needed that can align the interests of both parties.

Signaling Theory

Signal theory is signaling carried out by managers in reducing information asymmetry. Managers present information through financial reports that management implements conservatism accounting policies that can obtain higher quality profits because this principle prevents firms from taking action to exaggerate profits and help users of financial statements by providing information on profits and assets that are not overstated. In practice, management carries out a conservatism policy by calculating high depreciation and will produce low profits that are relatively permanent which means it *does not have* a temporary effect on the decline in profits that will turn around in the future (Hendrianto, 2012).

If the firm is in financial difficulties and has bad prospects, the manager signals by conducting conservative accounting which is reflected in negative discretionary accruals in showing that the firm's financial condition and current and future earnings are worse than current non-discretionary earnings. Therefore, the increasing level of corporate financial difficulties will encourage managers to improve earnings management actions and vice versa.

Firm Size

The size of the firm is the scale of the firm seen from the total assets for the year concerned until the next few years which shows the size of the firm. The bigger the assets, the more capital invested, the more sales, the more money will be circulated and the greater the market capitalization, the greater will be known in the community (Sudarmadji & Sularto, 2007 in Ningsaptiti, 2010).

The size of the firm is one of the measures used by the firm to find out whether the firm has more complex operational activities that enable earnings management. The size of the firm

is a scale in which small firms can be classified various ways, including total assets, sales and stock market value (Kusumawardhani, 2012) and is also a reference for investors, which investors use to assess the assets and performance of the firm, can be seen from the total assets (assets) and total sales (net sales) owned by the firm. Usually, larger firms have more information than small firms. The bigger the firm, the more decisions that can be made at the firm. So, the bigger the firm, the greater the ability of the firm to get a loan, because large firms tend to be able to generate profits.

Leverage

Leverage is the use of assets and sources of funds by firms that have fixed costs in order to increase shareholder profits and is also a ratio that describes the source of operating funds used by the firm, shows the magnitude of the risk of the firm, the greater the risk faced by the firm, the uncertainty to obtain future profits will also increase and also to predict the profit that might be biased for investors if they invest in the firm.

Subhan (2010), the magnitude of the debt management ratio (leverage) shows how much the firm uses debt to fund investments made for the firm's operations. The economic situation in general, funding by using debt to a certain extent will have a positive impact on the firm's cash flow, including the existence of tax savings and providing more operating profits available to investors.

Leverage is usually used to describe a situation or the firm's ability to use assets or funds that have a fixed burden to increase the level of income for the owner of the firm. Leverage shows how much debt is used to finance firm assets. Leverage is the ratio between total liabilities and total assets, the greater the level of leverage, the greater the value of the firm's debt. Firms that have a high leverage ratio due to the large amount of debt compared to assets owned by the firm will tend to manipulate earnings management. Management will also choose an accounting process that increases assets, surrenders debt and increases income with the aim of avoiding violations of long-term debt contracts (Putri & Titik, 2014)

Managerial Ownership

Managerial ownership is the number of shares held by firm management. Managerial ownership can be measured by calculating the percentage of shares held by firm management with the number of shares outstanding. One mechanism that can reduce agency costs is by increasing share ownership by management. The presence of agency relations with control by agents in the firm tends to cause agency conflict. Agency conflict can lead to the nature of management reporting opportunistically earnings to maximize personal interests. Agency conflict can be minimized by increasing the number of shares held by firm management (Fauziah, 2014)

The greater the ownership of management, the greater the management's efforts to maximize profits for the benefit of shareholders and for their own interests. Jensen & Meckling (1976) state that ownership of a firm by management can equalize the interests of shareholders with the interests of managers so that conflicts of interest between shareholders and managers can be minimized.

Accounting theory, earnings management is determined by the motivation of firm managers. Different motivations will produce different earnings management values. Ownership of a manager will determine the policy and decision making of the accounting methods applied in the preparation of financial statements, so that a certain percentage of share ownership by management tends to influence the actions of earnings management (Fauziah, 2014).

Institutional Ownership

Institutional ownership is agency theory, there is a distance between the agent and the principal which gives rise to the possibility of conflict can affect the quality of reported earnings. The presence of agency conflict triggers the emergence of information asymmetry between agents and principals. The management has certain interests and will tend to compile a profit report that is in accordance with its objectives and not in the interests of the principal.

Institutional shareholders tend to have a lot of information compared to individual shareholders. Because in general institutional shareholders spend a lot of time observing or researching firms and industries, while individual shareholders have limited time to observe firm performance. A high level of institutional ownership will lead to greater oversight by institutional investors, so that it can become a barrier to manager's opportunistic behavior.

Cornett et al., (2006) in Fauziah (2014) states that supervisory actions carried out by firms and institutional investors can limit managerial behavior. With that, the existence of institutional shareholders can motivate managers to encourage their attention to firm performance, so that institutional shareholders are encouraged to succeed in becoming an effective monitoring mechanism in every decision taken by the manager. This is because institutional shareholders are involved in strategic retrieval, so it is not easy to believe in earnings manipulation.

Profit Management

Earnings management is a management action / behavior to choose accounting policies to influence profits as they wish through internal factors owned by the firm. The definition of earnings management is divided into two, namely: 1). Narrow Definition, Earnings management in the narrow sense is interpreted as a manager's behavior to play with the discretionary accrual component in determining earnings the target manager. 2). Broad Definition, Earnings management in the broad sense is a manager's action to increase or decrease the profit reported in a period over a unit where the manager is responsible, without causing an increase or decrease in the unit's long-term economic profitability.

In general, earnings management can be said as an intervention from the management of the firm to regulate profits by increasing or decreasing accounting profits by utilizing the leeway of using accounting methods or principles, because in accounting standards firms are allowed to freely choose the accounting method. Schipper (1989) earnings management in the process of financial reporting to external parties of the firm is a corporate management intervention for the purpose of personal interest. Earnings management results in profits reported by the firm not being in accordance with the actual conditions and not in accordance with economic reality, so the reported quality of earnings is not good. Earnings management is done so that the firm looks to have a good performance.

Scott (2009) there are several factors that encourage firm management to practice earnings management, namely: 1). Motivation Planning Bonuses, The management of the firm will act opportunistically and try to regulate firm profits in such a way as to suit personal interests so as to get the maximum bonus. 2). Other Motivations, Other motivations which are the driving factors for management in practicing earnings management are political motivation, taxes, CEO turnover, IPO, and the importance of information to shareholders.

a. Political Motives

Earnings management is used by firm management to reduce earnings reporting to public firms. The management of firms tends to reduce profits because of pressure from the public, especially large firms and strategic industries because their activities affect the public which can result in the government issuing stricter regulations.

b. Tax Motive

Earnings management is carried out with tax motives, namely in order to save tax, this motive is the most obvious motive for the firm's management to conduct earnings management.

c. CEO Turnover

The CEO turnover motivation, for example, is that CEOs who are approaching retirement tend to increase bonuses, and if a poorly performing CEO will tend to maximize income so that he is not dismissed as CEO.

d. IPO

Earnings information is a benchmark for the value of a firm in a firm that will conduct an IPO (Initial Public Offering). If the firm will conduct an IPO, the management of the firm will tend to conduct earnings management so that the firm's stock price rises and is demanded by investors.

e. The Importance of Providing Information to Shareholders

Because providing information to shareholders, especially information about profits, is important, so that reported profits need to be presented so that shareholders continue to assess the firm in good performance.

Earnings management techniques Setiawati & Na'im in Rama (2013) were conducted with 3 techniques, namely: 1). Take Advantage of Opportunities to Make Accounting Estimates, Firm management can conduct earnings management with judgment (estimation) of accounting estimates including estimation of the percentage estimate of uncollectible receivables, estimation of the economic life of fixed assets to influence depreciation or a morits for intangible assets, estimated warranty costs, and others. 2) Change the Accounting Method, Changes in accounting methods used to make earnings management in recording transactions. An example is the method of depreciating fixed assets from the unit of activity method to the straight line method, the inventory valuation method from the average method to the FIFO method. 3). Shift the Period of Costs or Income. Shifting the period of costs or income, for example, is accelerating or delaying expenses for research and development until the next accounting period, accelerating or delaying the promotion of expenses until the next period, etc. Scott (2009) there are several forms of earnings management that can be done by firm management, including: 1). Taking a Bath, Taking a bath usually occurs when CEO turnover or

organizational management changes by recognizing costs there are future periods and current period losses to be charged, so that the next period profits will be higher. 2). Income Minimization, Is a pattern that is carried out when a firm has profitability or the ability to generate high profits so that if future earnings are expected to drop dramatically then it can be overcome by taking profit from the previous period. 3). Income Maximization, 4). Is a pattern that is carried out when a firm experiences a decline in profit, a goal of income maximization in order to report a high net income in order to receive a higher bonus. 5) Income Smoothing, The firm does it by doing income smoothing which is reported to reduce profit fluctuations that are too large or too small because investors in general tend to like profits that are relatively stable.

Previous Research

The test results that have been carried out by several previous researchers can be seen in table 1 as follows:

Table 1. Previous Research

Name of Researchers	Title	Research Variable	Results
Wardana (2012)	Effect of Good Corporate Governance, leverage, firm size on earnings management (empirical studies on manufacturing firms listed on the IDX)	<i>Corporate governance, institutional ownership, board of director, board independence, audit committee, leverage, firm size, earning management</i>	Institutional ownership has a positive effect on earnings management, board of commissioners has a negative effect on earnings management, board of directors negatively affects earnings management, independent board has a negative effect on earnings management, audit committee has a positive effect on earnings management, leverage has a negative effect on earnings management, firm size negative effect on earnings management.
Marlisa (2016)	Analysis of Factors that affect earnings management of property and real estate firms	<i>Leverage, firm size, good corporate governance, earnings management</i>	The results showed that leverage variables, independent commissioners, and audit committees did not significantly influence earnings management, while firm size and audit quality had a significant effect on earnings management.

Name of Researchers	Title	Research Variable	Results
Abdillah <i>et. al.</i> (2015)	Effect of Good Corporate Governance on Profit Management (Empirical Study on Manufacturing Firms Listed on the Indonesia Stock Exchange 2013-2014)	<i>Good corporate governance, manajemen laba</i>	The results of this study indicate that the audit committee has a negative effect, independent commissioners, and institutional ownership has a negative and significant effect on earnings management. While managerial ownership has a positive and significant effect on earnings management
Sari (2014)	The effect of good corporate governance on earnings management	<i>Good corporate governance, managerial ownership, institutional ownership, audit committee, independent commissioner, firm size, firm size, earnings management</i>	The results of the study showed that independent commissioners and KAP measures had an effect on earnings management, but managerial ownership, institutional ownership, audit committees, firm size had no effect on earnings management
Wulandari (2013)	Effect of Good Corporate Governance and leverage on earnings management (Study of non-financial firms listed on the Indonesia Stock Exchange in 2008-2011)	Good corporate governance mechanism, firm size, leverage, earnings management, financial performance	The results showed that (1) institutional ownership had a significant negative effect on earnings management, (2) independent commissioners had a significantly insignificant positive effect, (3) the size of the board of directors had no significant negative effect on earnings management, (4) leverage negatively affected significant to earnings management, (5) firm size has a significant negative effect on earnings management.
Putri (2014)	Effect of managerial ownership, leverage, and firm size on earnings management in food and beverage firms	Managerial ownership, leverage, earnings management, firm size	The results showed that managerial ownership and leverage did not have a significant positive effect on earnings management, firm size did not have a

Name of Researchers	Title	Research Variable	Results
			significant negative effect on earnings management and managerial ownership, leverage, simultaneous firm size did not significantly influence earnings management.
Lee (2013)	Effect of leverage, institutional ownership, size and firm value on earnings management actions	<i>leverage, institutional ownership, firm size, firm value, and earnings management</i>	Based on the results of the study indicate that simultaneously, leverage, institutional ownership, firm size and firm value significantly influence earnings management. Partially, firm size has a significant negative effect on Earnings Management, while leverage, firm ownership and firm value have no significant effect on earnings management.

The conceptual framework describes the relationships between variables in this study, the conceptual framework will describe the influence of firm size, leverage on audit report lag with ownership structures (managerial ownership and institutional ownership) as moderating variables. In picture 1 is the theoretical framework of the hypothesis contained, as follows:

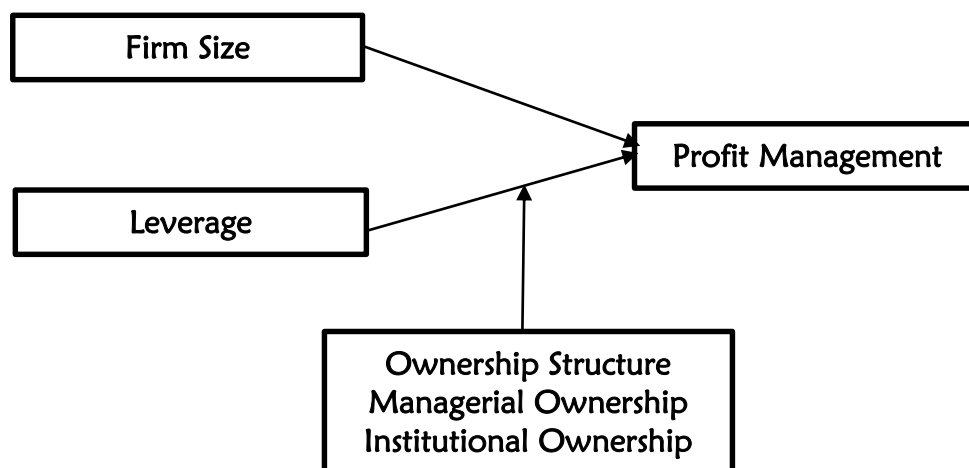


Figure 1. Framework

Development of Hypotheses

Effect of firm size on earnings management

Firm size is a value that shows the size of the firm. The size of the firm can show how much the firm is developing and know the ability and level of risk of the firm in managing shareholder investment (Wulandari, 2013). Larger firms usually tend to have a broad interest in the public and are more public attention so that they will pay more attention to the financial reporting process and have an impact on financial reports that are more accurate (Effendi, 2013 in Sari, 2014). The size of the firm is thought to be able to influence the amount of corporate earnings management, where if earnings management is carried out efficiently makes the size of the firm bigger and the management of profits increases (Restuwulan, 2013). Increased earnings management is due to the size of the firm because large firms have more complex operational activities than small firms, thus causing earnings management, and supported by research conducted by Medyawati & Dayanti (2016) and Sutikno et al.,(2014) which proves a positive influence of firm size on earnings management.

H1: Firm size has a positive effect on earnings management.

Effect of leverage on earnings management

Leverage is a measure of the proportion of total assets financed by creditors or firm debt (Gitman & Zutter, 2015). The higher the leverage ratio, means the higher the firm's debt or in other words the debt proportion is higher than the proportion of the firm's assets. This shows that the firm has a large dependence on debt which can make investors careful and raise doubts to invest in the firm because if the operating firm has a dependence on debt, the risk of investors will be higher. So the firm management can be encouraged to take earnings management actions to make investors interested in investing in the firm. The higher the firm's debt, the management must also be able to convince the creditors that the firm can return the loan and interest (Wulandari, 2013). In addition, the higher the level of leverage describes the management error in managing the firm's finances or the implementation of an inappropriate strategy. Therefore, the higher the leverage ratio can increase earnings management actions by firm management. This is supported by research conducted by Naftalia & Marsono (2013) and Wardana (2012) who say there is a negative effect of leverage on earnings management.

H2: Leverage has a positive effect on earnings management.

Effect of managerial ownership on earnings management

Management is ownership of shares by the management of the firm. Jensen & Meckling (1976) say managerial ownership can reduce agency problems or agency conflict from the manager by equating the interests of managers and shareholders. Because agency theory, agency conflict arises because of the separation between the owner and the manager of the firm caused by the principal and the agent has their own interests and the principal and agent try to increase their satisfaction. Therefore, agency problems can be minimized by increasing managerial ownership so that firm management will have interests that are aligned with shareholders so that it will minimize the opportunistic behavior of managers. (Abdillah, 2015). With the unification of these interests, agency conflict can be reduced and managers can be motivated to improve firm performance and improve shareholder welfare (Anggraeni & Hadiprajitno, 2013).

Because managers have more access to firm information compared to shareholders, eating managers can manipulate that information if the information is not in accordance with their

interests. But with managerial ownership that will unite the interests of managers and shareholders, managers will not be motivated to do earnings management so that it can improve the quality of accounting information and profits. Therefore, increasing managerial ownership is expected to reduce earnings management actions. This is supported by research conducted by Anggraeni & Hadiprajitno (2013), Maharianta & Ramantha (2014) which prove that managerial ownership is proven to have a negative effect on earnings management.

H3: Managerial ownership has a negative effect on earnings management.

Effect of institutional ownership on earnings management

Institutional share ownership is the ownership of the number of shares of a firm owned by non-bank financial institutions such as mutual fund firms, pension funds firms, insurance firms, investment firms, private foundations and others. This institution has a big interest in the investment made including investment in shares in other firms so that the institution professionally monitors the development of its investment. And institutional shareholders tend to have a lot of information compared to individual shareholders. Because in general institutional shareholders spend a lot of time observing or researching firms and industries, while individual shareholders have limited time to observe firm performance. So that institutional ownership will lead to greater oversight by institutional investors, so that it can become an obstacle and reduce manager's opportunistic behavior such as earnings management actions by the firm.

Cornett et al., in Fauziah (2014) said that supervisory actions carried out by firms and institutional investors can limit managerial behavior. It can be said that institutional ownership has the ability to reduce the incentives of managers who prioritize personal interests through a strict level of supervision. The existence of this institution is able to be an effective monitor for firm management in taking earnings management actions (Abdillah, 2015). Therefore, it can be said that the higher the level of institutional ownership will reduce earnings management actions and conducted by Wulandari (2013), Abdillah (2015), Rice (2013) who said that there is a negative influence of corporate governance on the proxy of institutional ownership of earnings management.

H4: Institutional ownership has a negative effect on earnings management

The influence of firm size on earnings management is moderated by managerial ownership

Managerial ownership is share ownership by management, with managerial ownership management not only functions as a firm manager but also as a shareholder (Jensen & Meckling, 1976). Based on accounting theory, earnings management is determined by manager's motivation. Differences in motivation produce differences in the size of earnings management, such as between managers who are also shareholders and managers as firm managers. Both of these can affect earnings management, this is because managerial ownership determines policy and decision making on the accounting methods applied to the managed firm. A certain percentage of share ownership by management tends to influence earnings management actions (Gideon, 2005).

H5: Managerial ownership strengthens the influence of firm size on earnings management

The effect of firm size on earnings management is moderated by institutional ownership

Institutional ownership is the ownership of firm shares by parties outside the firm in the form of institutions, which are expected to reduce the deviant management actions of the firm.

With high institutional ownership, institutional investors will get fewer opportunities for corporate control. With the proportion of the number of institutional ownerships in a firm will strengthen the influence of firm size on earnings management and conducted by Umami (2016) found that institutional ownership can strengthen the influence of firm size on earnings management.

H6: Institutional ownership strengthens the influence of firm size on earnings management

Effect of Leverage on Profit Management Moderated by Managerial Ownership

The amount of leverage can affect earnings management, high leverage due to management errors in managing the firm or in other words, the lack of proper implementation of management strategies. Lack of supervision can lead to high leverage and increase opportunistic actions such as earnings management to maintain management performance in the eyes of shareholders and the public. Managerial ownership is share ownership by management, with managerial ownership management not only functions as a firm manager but also as a shareholder (Jensen & Meckling, 1976).

Based on accounting theory, earnings management is determined by manager's motivation. Differences in motivation produce differences in the size of earnings management, such as between managers who are also shareholders and managers as firm managers. Both of these can affect earnings management, this is because managerial ownership determines policy and decision making on the accounting methods applied to the managed firm. A certain percentage of share ownership by management tends to influence earnings management actions (Gideon, 2005) and conducted by Rahmah & Soekotjo (2017) found that managerial ownership weakens the influence of leverage on earnings management and also conducted by Jao & Pagalung (2011) also found that managerial ownership weakened the influence of leverage on earnings management.

H7: Managerial ownership weakens the influence of leverage on earnings management

Effect of Leverage on Profit Management Moderated by Institutional Ownership

Institutional ownership does not have the ability to control management so it cannot reduce earnings management, because institutional investors do not act as sophisticated investors who have more ability and opportunities to monitor and discipline managers to be more focused on firm value. Institutional ownership is one way to monitor the performance of managers in managing the firm so that the presence of ownership by other institutions is expected to reduce earnings management behavior carried out by managers. Institutional ownership has the ability to control management through an effective monitoring process (Naftalia & Marsono, 2013). Institutional ownership can monitor the relationship between leverage and earnings management. Institutional share ownership is not just fulfilling the existing regulations, but some of the existing tasks are not optimal. This is due to temporary institutional ownership and only hopes for a high return. So that institutional ownership has the ability to influence leverage relationships with earnings management by Rahmah & Soekotjo (2017) found that institutional ownership can weaken the influence of leverage on earnings management.

H8: Institutional ownership weakens the influence of leverage on earnings management

METHOD

The purpose of the study on the influence of firm size and leverage on earnings management with ownership structure as a moderating variable is to determine whether firm size and leverage can influence earnings management and to determine whether ownership structures (managerial and institutional ownership) can moderate the relationship between independent variables and variables dependent. The other purpose is to develop knowledge and the type of research conducted by researchers is deductive research that tests hypotheses through testing the application of theories that are relevant to earnings management.

The variables to be used in this study include firm size as the first independent variable (X1), leverage as the second independent variable (X2) and its effect on earnings management as the dependent variable (Y), and ownership structure that is proxied by managerial ownership (Z1) and institutional ownership (Z2) as a moderating variable. The data acquisition method will be carried out by the researcher by analyzing the data obtained from the firm's financial statements through the firm's official website or through the Indonesia Stock Exchange website at (<http://www.idx.co.id/>) to obtain research data.

Operational Definition of Variables and Measurements

The variables used in this study consisted of three types, namely the dependent variable, the independent variable, and the moderating variable. The following is an understanding and measurement of each variable:

Dependent Variables

The dependent variable used is earnings management from real activities. Real earnings management uses a formula from Roychowdhury (2006) that measures sales manipulation aimed at sustainable by through increasing price cuts or lighter credit requirements, reducing discretionary spending and over production or increasing production to report lower COGS. All variables are divided by total assets to reduce heteroscedasticity. The formula used is as follows:

$$\frac{PROD_t}{A_{t-1}} = \alpha_0 + \alpha_1 \left(\frac{1}{A_{t-1}} \right) + \alpha_2 \left(\frac{S_t}{A_{t-1}} \right) + \alpha_3 \left(\frac{\Delta S_t}{A_{t-1}} \right) + \alpha_4 \left(\frac{\Delta S_{t-1}}{A_{t-1}} \right) + \epsilon_t$$

Where:

PROD_t = The sum of COGS in event year t and the change in inventory

A_{t-1} = Lagged total assets

S_t = Net revenues in the current period

ΔS_t = Δ Change in net revenues)

ΔS_{t-1} = Change in net revenues in the prior period

ε = Unstandardized residual

Independent Variables

Independent variables are variables that can affect the dependent variable. The independent variables used in this study are firm size and leverage.

Firm Size

The size of the firm is the scale of the firm seen from the total assets for the year concerned until the next few years which shows the size of the firm. The bigger the assets, the more capital invested, the more sales, the more money will be circulated and the greater the market capitalization, the greater will be known in society (Sudarmadji & Sularto in Ningsaptiti, 2010), firm size is measured using the following formula:

$$\text{SIZE} = \text{Ln} (\text{Total Asset})$$

Leverage

Leverage is the use of assets and sources of funds by firms that have fixed costs in order to increase shareholder profits. Leverage is also a ratio that describes the source of operating funds used by the firm. In this study leverage measurement uses a debt-to-equity ratio proxy, the formula used is as follows:

$$\text{DER} = \frac{\text{Total Debt}}{\text{Total Equity}}$$

Moderation Variable

The moderating variable is a variable that can strengthen or weaken a relationship between the independent variable and the dependent variable. The moderating variable in this study is ownership structure. In this study, ownership structure is measured using managerial ownership and institutional ownership.

Managerial Ownership

Managerial ownership is the number of shares held by firm management. Managerial ownership is measured by calculating the percentage of shares held by firm management with the number of shares outstanding. The formula used to measure managerial ownership is as follows:

$$\text{MANAJ} = \frac{\text{amount of Managerial Share Ownership}}{\text{Number of outstanding shares}}$$

Institutional Ownership

The formulas used to measure institutional ownership are as follows:

$$\text{INST} = \frac{\text{Jamount of Institutional Share Ownership}}{\text{Number of Circulating Shares}}$$

The population in this study are manufacturing firms listed on the Indonesia Stock Exchange (IDX) for 2015-2017 period, using a purposive sampling method that is with non-random sampling techniques whose information can be obtained with certain terms and criteria, as follows: 1). Firms listed on the Indonesia Stock Exchange (IDX) for 2015 to 2017. 2). The firm belongs to the category of manufacturing firms. 3). The firm has published the audited financial statements from 2015 to 2017. 4). The firm uses the rupiah as a currency in disclosing its financial statements. 5). Firms that have not suffered consecutive losses during the 2015-2017 period

RESULTS AND DISCUSSION

This study uses secondary data from the financial statements of 65 manufacturing firms listed on the Indonesia Stock Exchange in 2015-2017 period that meet the specified criteria with the determination of the purposive sampling method, as follows:

Table 2. Research Sample Criteria

Information	Total
Firms that are listed on the Indonesia Stock Exchange in a row during the 2015-2017 period	555
Firms Not Manufacturing Firms	(408)
Firms that do not publish the audited financial statements from 2015 to 2017	(6)
Firms that do not present financial statements in rupiah	(40)
Firms that have suffered losses in a row during the 2015-2017 period	(36)
Uji <i>Outlier</i>	(6)
Number of Firm Samples	59
Number of Years of Research	3
Number of Samples During the Research Period	177

Source: data processed

Based on the description table of the research object data above, manufacturing firms listed on the Indonesia Stock Exchange (IDX) in 2015-2017 period were 147. Meanwhile, firms that did not present a complete report were 6 firms each. and firms that do not present financial statements in the rupiah were 40 firms. Meanwhile, firms that suffered losses in a row were 36 firms. So that the samples used in this study were 65 firms.

The outlier test aims to look at data that has a very large residual value (Gujarati, 2010). If the data has an outlier value, then it means that the sample element contains a very large residual value and must be excluded from the research data, the outlier test analysis on the regression model data to be analyzed, it is found that some data have very large values compared to other data, the outlier test results were as many as 6 firms per year or 18 firms for 3 years. Thus, the sample used in this study after an outlier test was 59 samples for three years or 177 firm samples per year.

The purpose study was to examine the effect of firm size and leverage on earnings management with ownership structure as a moderating variable. Thus, there are 2 independent variables, 1 dependent variable and 2 moderating variables.

Descriptive Statistics

Descriptive statistics are methods related to gathering, summarizing, presenting data in a more informative form, used to analyze and present quantitative data in order to describe the characteristics of the data, analysis of the object, the researcher will describe the calculation of minimum values, maximum values, mean values, standard deviations from firm size, leverage, earnings management, ownership structure (managerial ownership and institutional ownership).

The minimum value is the lowest value for each variable while the maximum value is the highest value for each variable. The average value (mean) is the average value of each variable studied. Standard deviation is the distribution of data used in research that reflects data that is heterogeneous or homogeneous in nature that is volatile. This study used 177 samples of manufacturing firms listed in IDX during 2015-2017 period or 59 firms per year.

Table 3 . Descriptive Statistics

	N	Minimum	Maximum	Mean	Std. Deviation
REM	177	-.74	2.32	.0090	.24417
SIZE	177	25.49	32.15	28.5316	1.64140
LEV	177	-10.19	162.19	1.8575	12.23550
MANAJ	177	.00	.49	.0453	.09836
INST	177	.00	.96	.6568	.23023
Valid N (listwise)	177				

It can be seen that the objects studied (N) in 2015-2017 were as many as 177 firms, it can be seen the minimum values, maximum, mean, and standard deviation of each variable. This table is used to assist in identifying the size of the deviations for each variable that affects variables with each other, shows the following results:

1. Real Earning Management (REM)

In the real earnings management proxy variable used is abs PROD, the statistical results show a minimum value of -0.74, namely PT Mayora Indah, Tbk in 2017. The maximum value is 2.32, namely PT Eterindo Wahanatama, Tbk in 2016. The real earnings management value is equal to 0.0090, which means that the average value of real earnings management sampled is 0.0090 and the standard deviation value is 0.24417.

2. Firm Size (SIZE)

On firm size variables, the statistical results show a minimum value of 25.49, namely PT Beton Jaya Manunggal, Tbk in 2016 and a maximum value of 32.15, namely PT Indofood Sukses Makmur, Tbk in 2015. The average value of firm size is 28.5316 and standard value deviation of 1.64140.

3. Leverage (LEV)

In the leverage variable, the statistical results show a minimum value of -10.19, namely PT Eterindo Wahanatama, Tbk in 2017 and a maximum value of 162.19, namely PT Eterindo Wahanatama, Tbk in 2016. The average value of leverage is 1.8575 and the standard deviation is 12.23550.

4. Managerial Ownership (MANAJ)

In managerial ownership variables, the statistical results show a minimum value of 0.00 and a maximum value of 0.49, namely PT Intan Wijaya International, Tbk. The average value of managerial ownership is 0.0453 and the standard deviation value is 0.09836.

5. Institutional Ownership (INST)

In managerial ownership variables, the statistical results show a minimum value of 0.00 and a maximum value of 0.96, namely PT Sekar Laut, Tbk in 2016. The average value of institutional ownership is 0.6568 and the standard deviation value is 0.23023.

The data analysis process uses the classic assumption test and the research hypothesis testing. The classic assumption test process is carried out because the analytical method used in this study is a multiple regression method, while the research hypothesis testing is done to test whether there is an influence of independent variables statistically, where the test method uses analysis multiple regression.

Normality Test

In normality testing uses the Kolmogorov Smirnov (KS) method and was carried out on a regression model between variable firm size and leverage on earnings management with ownership structures (managerial ownership and institutional ownership) as moderating variables, a data in the analysis model is said to follow a normal distribution if the calculated KS value is smaller than the KS table or the significance value is greater than alpha 5%, and conversely a data is said to not follow the normal distribution if the KS value is more big from KS table or the significance value is smaller than alpha 5%.

**Table 4 . Normality Test
One-Sample Kolmogorov-Smirnov Test**

		Unstandardized Residual
N		177
Normal Parameters ^{a,b}	Mean	.0000000
	Std. Deviation	.15027028
Most Extreme Differences	Absolute	.063
	Positive	.035
	Negative	-.063
Test Statistic		.063
Asymp. Sig. (2-tailed)		.087 ^c

a. Test distribution is Normal.

b. Calculated from data.

c. Lilliefors Significance Correction.

Source: data processed with SPSS 24

The results of the residual normality test, it is known that the residual regression equation model has the value of Asymp. Sig > alpha 0.087 (0.087 > 0.05). Then H0 is accepted, meaning that the distribution of residual values in the regression equation model is declared to be normally distributed and shows that the regression model of the dependent variable and the independent variable has a normal or close distribution so that the assumptions of normality required by the model are met.

Multicollinearity Test

The results of processing statistical data obtained the multicollinearity testing as follows:

Table 5. Multicollinearity Test Results - Coefficients

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.	Collinearity Statistics	
		B	Std. Error	Beta			Tolerance	VIF
1	(Constant)	.866	.775		1.117	.266		
	SIZE	-.035	.027	-.234	-1.287	.200	.068	14.647
	LEV	.056	.024	2.812	2.318	.022	.002	652.841
	MANAJ	10.244	2.701	4.127	3.792	.000	.002	525.221
	INST	-1.019	1.061	-.960	-.960	.339	.002	444.222
	SIZE_MANAJ	-.395	.098	-4.309	-4.015	.000	.002	510.949

	SIZE_INST	.043	.037	1.164	1.154	.250	.002	450.676
	LEV_MANAJ	.402	.206	.121	1.952	.053	.591	1.692
	LEV_INST	-.088	.050	-2.115	-1.743	.083	.002	652.957

a. Dependent Variable: REM

Source: data processed with SPSS 24

It was known that all variables have a tolerance value of <0.10 and VIF value > 10 . Then H_0 is rejected, meaning that between independent variables there are symptoms of multicollinearity, between independent variables in the regression model one has a very weak correlation with other independent variables. Regression modeling with moderating variables, there is a high probability that multicollinearity will occur. This is the limitation of researchers because multicollinearity cannot be cured. Thus, it can be concluded that the regression model used is a multicollinearity problem.

In the Moderating Regression Analysis model there will be high multicollinearity between independent variables, for example between X_1 variables and moderate variables ($X_1.X_2$). This is because in moderate variables there are elements X_1 and X_2 . With regression modeling with moderate variables, multicollinearity is likely to occur (Liana, 2009). However, the emergence of multicollinearity does not become a serious problem, because it can be seen from high R^2 values (Gujarati, 2009).

Autocorrelation Test

Autocorrelation shows that there is a correlation between the error of the previous period error which in the classical assumption this should not happened. The autocorrelation test was carried out using Durbin Watson, its value ranges between the upper limit value (d_U), it is estimated that there is no violation of autocorrelation, as follows.

Table 6. Autocorrelation Decision

Zero Hypothesis (H_0)	Decision	Criteria
There is no positive autocorrelation	H_0 is rejected	$0 < d < d_L$
There is no positive autocorrelation	no decision	$d_L \leq d \leq d_U$
There is no negative autocorrelation	H_0 is rejected	$4 - d_L < d < 4$
There is no negative autocorrelation	no decision	$4 - d_U \leq d \leq 4 - d_L$
There is no autocorrelation (positive or negative)	H_0 is accepted	$d_U < d < 4 - d_U$

Source: Basic Econometrics, Gujarati, (2010)

The autocorrelation testing table is obtained as follows:

Table 7. Testing of Autocorrelation

N	dL	Du	4-dU	4-dL	DW	Conclusion
177	1.679	1.788	2.212	2.321	2.119	There is no autocorrelation

Source: data processed with SPSS 24

Total observation of 162, with the number of independent variables of 4 variables, Watson Durbin test were obtained in the area where there was no autocorrelation.

Heteroscedasticity Test

The results of heteroscedasticity testing are shown in the following table:

Table 8. Heteroscedasticity Test Results - Coefficients

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.	Collinearity Statistics	
		B	Std. Error	Beta			Tolerance	VIF
1	(Constant)	-.188	.455		-.414	.679		
	SIZE	.014	.016	.241	.876	.382	.068	14.647
	LEV	-.034	.014	-4.372	-1.384	.118	.002	652.841
	MANAJ	-3.670	1.584	-3.810	-1.316	.122	.002	525.221
	INST	.414	.623	1.007	.665	.507	.002	444.222
	SIZE_MANAJ	.138	.058	3.870	1.385	.118	.002	510.949
	SIZE_INST	-.020	.022	-1.383	-.908	.365	.002	450.676
	LEV_MANAJ	-.262	.121	-.203	-1.173	.131	.591	1.692
LEV_INST	.069	.029	4.316	1.353	.120	.002	652.957	

a. Dependent Variable: abs

Source: data processed with SPSS 24

It is known that all independent variables have sig values. > 0.05. Then H0 is accepted, meaning that the error variance is declared homogeneous. Furthermore, it was concluded that there were no problems with heteroscedasticity and its assumed that in the regression equation model has been fulfilled.

Hypothesis testing

There are six hypotheses that need to be empirically tested. All the tested hypotheses are conjectures about the influence of firm size and leverage on earnings management with ownership structures (managerial ownership and institutional ownership), the results of data analysis on logarithmic regression models to test the proposed hypothesis:

F Test (Simultaneous Test)

In testing simultaneously using the F Test or ANOVA (analysis of variance). This test is conducted to see the joint effect of the independent variables (firm size and average) on earnings management with ownership structures (managerial ownership and institutional ownership) as moderating variables and taking the simultaneous test is as follows:

If Sig. < alpha 0.05 then H0 is rejected

If Sig. > alpha 0.05 then H0 is accepted

Table 9. Simultaneous Test Results

ANOVA^a

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	6.518	8	.815	34.443	.000 ^b
	Residual	3.974	168	.024		
	Total	10.493	176			

a. Dependent Variable: REM

b. Predictors: (Constant), LEV_INST, INST, SIZE, LEV_MANAJ, MANAJ, SIZE_INST, SIZE_MANAJ, LEV

Source: data processed with SPSS 24

The F test above it is known that the significance value $< \alpha 0.05$. Then H_0 is rejected, and means there is a joint effect between all independent variables of firm size and leverage on earnings management with ownership structure (managerial ownership and institutional ownership) as a moderating variable.

Goodness of Fit Test

Testing the coefficient of determination is used to explain how much variation in the dependent variable can be explained by variations in independent variables. Test the coefficient of determination is observed through the adjusted R² value.

Table 10. Determination Coefficient Test Results

Model Summary^b

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Durbin-Watson
1	.788 ^a	.621	.603	.15381	2.119

a. Predictors: (Constant), LEV_INST, INST, SIZE, LEV_MANAJ, MANAJ, SIZE_INST, SIZE_MANAJ, LEV

b. Dependent Variable: REM

Source: data processed with SPSS 24

In the table above it is known that the coefficient of determination seen from the value of Adj.R² is 0.603. This means that 60.3% of the variation of the dependent variable earnings management can be predicted from a combination of all independent variables. Meanwhile, the remaining 39.7% (100% -60.7%) is influenced by other variables outside the research.

T Test (Partial Test)

In partial testing carried out using the t test, the regression analysis was:

Table 11. Partial Test Results

Variable	Coefficient of Regression	Sig.	Decision
Constant	0.866	0.266	
SIZE	-0.035	0.200	Ho rejected
LEV	0.056	0.022	Ha accepted
MANAJ	10.244	0.000	Ho rejected
INST	-1.019	0.339	Ho rejected
SIZE_MANAJ	-0.395	0.000	Ho rejected
SIZE_INST	0.043	0.250	Ho rejected
LEV_MANAJ	0.402	0.053	Ho rejected
LEV_INST	-0.088	0.083	Ha accepted

Source: data processed with SPSS 24

Regression Model :

$$\text{REM} = 0.866 - 0.035 \text{ SIZE} + 0.056 \text{ LEV} + 10.244 \text{ MANAJ} - 1.019 \text{ INST} - 0.395 \text{ SIZE_MANAJ} + 0.043 \text{ SIZE_INST} + 0.402 \text{ LEV_MANAJ} - 0.088 \text{ LEV_INST} + e$$

The results of partial regression testing (t-test) shown in Table 11, it is known that the variable size of the firm has a sig value. amounting to 0.200 ($0.200 / 2 = 0.100$) $0.100 > 0.05$, this indicates the variable size of the firm is not significant at the level of 5% with a regression coefficient of -0.035, so the decision is Ha rejected. This indicates that firm size *does not have a positive* effect on earnings management. The firm size variable has a sig value. amounting to 0.022 ($0.022 / 2 = 0.011$) $0.011 < 0.05$, this indicates a significant leverage variable at the level of 5% with a regression coefficient of 0.056, so the decision is Ha accepted. This indicates that leverage *has a positive effect* on earnings management.

Managerial ownership variables have sig values. amounting to 0,000 ($0,000 / 2 = 0,000$) $0,000 < 0.05$, this shows a significant managerial ownership variable at the level of 5% with a regression coefficient of 10,244, so the decision is Ha rejected. This indicates that managerial ownership *does not negatively* affect earnings management. Managerial ownership variables have sig values. amounting to 0.339 ($0.339 / 2 = 0.167$) $0.167 > 0.05$, this shows that institutional ownership variables are not significant at level 5% with a regression coefficient of -1.019, so that the decision is Ha rejected. This indicates that institutional ownership *does not negatively* affect earnings management.

Firm size variables that are moderated by managerial ownership have sig values. amounting to 0.000 ($0.000 / 2 = 0.000$) $0.000 < 0.05$, this shows the variable size of the firm that is moderated by managerial ownership is significant at the level of 5% with a regression coefficient of -0.395, so the decision is Ha rejected. This indicates that managerial ownership does not strengthen the influence of firm size on earnings management. firm size variables moderated by institutional ownership have a sig value. amounting to 0.250 ($0.250 / 2 = 0.125$) $0.125 > 0.05$, this shows the variable size of the firm that is moderated by institutional ownership is not significant at the level of 5% with a regression coefficient of 0.043, so the decision is Ha rejected. This indicates that Institutional ownership *does not strengthen* the influence of firm size on earnings management.

Leverage variables that are moderated by managerial ownership have sig values. amounting to 0.053 ($0.053 / 2 = 0.027$) $0.027 < 0.05$, this shows that the leverage variable is moderated by significant managerial ownership at the level of 5% with a regression coefficient of 0.402, so that the decision is H_a accepted. This indicates that managerial ownership does not weaken the influence of leverage on earnings management. Leverage variables that are moderated by institutional ownership have sig values. amounting to 0.083 ($0.083 / 2 = 0.044$) $0.044 < 0.05$, this shows that the leverage variable is moderated with institutional ownership significant at the level of 5% with a regression coefficient of -0.088, so that the decision is H_a accepted. This indicates that institutional ownership *weakens* the influence of leverage on earnings management.

Discussion

The study results are the size of the firm does not have a positive but not significant effect on earnings management and not in line with Medyawati & Dayanti (2016) and Sutikno et al., (2014) research has proved that there *is a positive influence* of firm size on earnings management, and its explained that the size of the firm *does not affect* the actions of managers in conducting earnings management, both large firms and small firms both have *the ability to influence* the amount of corporate earnings management and if earnings management is carried out efficiently making large and small firms can improve earnings management. Increased earnings management because large and small firms both have operational activities that are equally complex. Leverage has *a positive effect* on earnings management and in line with Naftalia & Marsono (2013) and Wardana (2012) researched there was *a negative effect* of leverage on earnings management, its explained that the higher the firm's debt, the management must also be able to convince the creditors that the firm can return the loan and interest (Wulandari, 2013). In addition, the higher the level of leverage describes the management error in managing the firm's finances or the implementation of an inappropriate strategy. Therefore, the higher the leverage ratio can increase earnings management actions by firm management. Leverage is a measure of the proportion of total assets financed by creditors or firm debt (Gitman & Zutter, 2015). The higher the leverage ratio, means the higher the firm's debt or in other words the debt proportion is higher than the proportion of the firm's assets. This shows that the firm *has a large dependence* on debt which can make investors careful and raise doubts to invest in the firm because if the operating firm has a dependence on debt, the risk of investors will be higher. So the firm management can be encouraged to take earnings management actions to make investors interested in investing in the firm.

Managerial ownership *does not negatively affect* earnings management, and not in line with Anggraeni & Hadiprajitno (2013) and Maharianta & Ramantha (2014) proved that managerial ownership is proven to have a negative effect on earnings management, Its explained that the high and low managerial ownership cannot reduce management actions in conducting earnings management, managerial ownership *has a positive effect* on earnings management, Its explained that the higher ownership shares held by managers can improve earnings management practices in the firm. The greater proportion of management ownership in a firm shows that ownership also produces incentives for executives to manipulate stock prices opportunistically. The ability of an executive to demonstrate opportunistic behavior is limited by internal control.

Institutional ownership *does not negatively affect* earnings management, and not in line with Wulandari (2013), Abdillah (2015) and Rice (2013) that there was *a negative influence* of corporate governance on the proxy of institutional ownership of earnings management and Its explained that supervisory actions carried out by firms and institutional investors cannot influence manager behavior. It can be said that institutional ownership *does not use the ability* to reduce the incentives of managers who prioritize personal interests through a strict level of supervision. The existence of this institution is not able to be an effective monitor for firm management in performing earnings management actions. In addition, institutional investors do not have the authority to make decisions regarding firm policies.

Managerial ownership *does not strengthen* the influence of firm size on earnings management. These results explain that the size of managerial ownership in the firm cannot strengthen the influence of firm size in determining management actions in earnings management. In this study, managerial ownership weakens the influence of firm size on earnings management. Managerial ownership is one mechanism that can limit managerial opportunistic behavior in the form of earnings management, refers to existing theories that state managerial ownership can function as a corporate governance mechanism so that it can reduce large-sized firms and will also reduce the actions of managers in manipulating earnings. Institutional ownership *does not strengthen* the influence of firm size on earnings management and not in line with Umami (2016) found that institutional ownership can strengthen the influence of firm size on earnings management and its explained that the size of institutional investors cannot strengthen large and small firms to take earnings management actions, institutional investors *do not have a large* share in the firm in determining policies relating to the firm, they only have the authority to oversee the firm's operational activities carried out by managers and can only provide input, but decisions in carrying out actions and policies are carried out by manager.

Managerial ownership *does not weaken* the influence of leverage on earnings management and not in line with Jao & Pagalung (2011) found that managerial ownership *weakens* the influence of leverage on earnings management and It's explained that managerial ownership *strengthens* the influence of leverage on earnings management. This is due to the fact that managers avoid losses caused by the number of obligations that must be paid by the firm so that it can reduce the stock profits it has and managers take opportunistic actions by manipulating profits that can provide profits for shares owned and get incentives from majority shareholders. Institutional ownership weakens the influence of leverage on earnings management and in line with Rahmah & Soekotjo (2017) found that institutional ownership *can weaken* the influence of leverage on earnings management. It's explained that institutional ownership *can monitor* the relationship between leverage and earnings management. Institutional share ownership *was not just fulfilling* the existing regulations, but some of the existing tasks are not optimal. This is due to temporary institutional ownership and only hopes for a high return. So that institutional ownership has the ability *to influence* leverage relationships with earnings management.

CONCLUSION

The conclusions, the advice given is to use a sample of research from other industries in order to see the difference in results by using industries other than manufacturing. Add other variables that can affect earnings management. For firms it is recommended to pay attention to

leverage and institutional ownership because both of these factors can affect earnings management. For investors it is recommended to pay attention to leverage and institutional ownership because both of these factors influence the firm's actions in conducting earnings management.

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