Factors affecting Earnings Management of Publicly Listed Companies: Indonesia Perspective

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ABSTRACT. The aim of this study is to determine the partial and simultaneous effects of firm size and institutional ownership on the earnings management of Indonesian publicly traded enterprises. Using a quantitative approach and causal associative research methodology, this study demonstrates the cause-and-effect relationship between independent and dependent variables by collecting and processing data to provide the knowledge required for analysis and problem-solving. Six distinct statistics comprise the data analysis employed in this study: regression analysis (multiple, simple), significant test (t, f), coefficient of correlation analysis (r), descriptive statistics analysis (mean, maximum, and minimum values), and coefficient of determination analysis (r2). The analysis result of the research is that, partially, there is no effect of firm size on earnings management and there is no effect of institutional ownership on earnings management. Simultaneously, there is no effect of firm size and institutional ownership on earnings management.

Keywords: Firm Size, Institutional Ownership, Earnings Management.

INTRODUCTION

A company's financial situation and performance are presented in a systematic manner in financial statements. Additionally, the financial statements serve as a medium for managers to receive financial data about their accountability for meeting the demands of external parties, i.e., to learn about the success of the business in managing its resources. According to Pernyataan Standar Akuntansi Keuangan 1, the goal of financial statements is to provide information about the company's cash flow, financial situation, and financial performance that would help users make informed financial decisions (IAI 2016:1.2-1.3).

In Praditia's (2010) study, Iqbal claims that management frequently manipulates financial accounts by altering the company's accounting system, which has an impact on the amount of money shown in financial statements. Earnings management is the term used to describe this circumstance. Earnings management, according to Schipper (1989), is an intervention with a specific goal in processing external financial statements in order to generate some personal profit. One definition of earnings management is an action taken by managers with the goal of achieving consistent and predictable financial results. Scott et al (2001) in Antonia’s research (2008) stated that practice of earnings management does not violate the principles of accounting which are accepted generally. However, the existence of earnings management can scrape the trust of society towards external financial statement. Furthermore, the practice of earnings management can prevent the competence of capital flows in the capital market and reduce the quality of a company's financial statements.

Agency theory demonstrates that there is no reason to assume that managers will always operate in the principal's best interest, according to Godfrey (2010). The challenge of persuading a manager to act as though they were optimizing the welfare of the principal is known as the agency problem. By using earnings management, the managers may try to reduce personal stress from working too much and not be as diligent in their efforts to increase the firm's worth.

Earnings management can be influenced by many factors, one of which is the firm size. Grown companies tend to have good reputations. In order for them to maintain the reputation, some companies tend to manipulate their financial reports by practicing earnings management. Jao and Pagalung (2011) discovered that firm size and earnings management is an inverse relationship. Large companies have less motivation in exercising the practice of earnings management. This is for the reason that shareholders and external party of large companies are assumed to be more critical compared to small companies. In contrast to that, Rahmani and Mir (2013) discovered that firm size and earnings management are positively correlated. Large companies have quite reasonable motivations to exercise the practice of earnings management. The main reason is in light of the fact that large companies have to fulfill the shareholders' and investors' high expectations.

Earnings management can also be influenced by the ownership structure. One of the form of ownership is institutional ownership. By increasing the share held by an institutional, it is expected to be used as an effective monitoring tool for the company. In a research conducted by Arwindo (2013), institutional ownership does not react significantly towards earnings management. However, in another

research conducted by Hermanto (2015) it was found that institutional ownership reacts significantly towards earnings management. It can be assumed that the institutional ownership may compress the possibility of the existency of earnings management as institutional investors can monitor the company. It may be presumed that they are no longer easy to be fooled by the managers actions.

For the reasons mentioned above, it can be seen that firm size and institutional ownership can affected the practice of earnings management. Based on the descriptions in the research background the researcher is intent on writing this research proposal entitled: “The Effect Of Firm Size And Institutional Ownership On Earnings Management Of Publicly Listed Companies In Indonesia In 2013”.

The following are the question for this research, which are 1). Is there any effect of firm size on earnings management?; 2). Is there any effect of institutional ownership on earnings management?; 3). Is there any effect of firm size and institutional ownership on earnings management simultaneously?

LITERATURE REVIEW, CONCEPTUAL FRAMEWORK, AND HYPOTHESIS DEVELOPMENT

Theoretical Basis

Theories are made to explain, predict, and understand phenomena and, in many cases, to challenge and extend existing knowledge within the limit of critical bounding assumptions (Official Website of University of Southern California Libraries).

Agency Theory

Perspective of agency theory is a base which is used to understand the issues of earnings management. Agency theory results asymmetry relationship between owner and manager. There are two different interests from owner and manager that each side tries to gain their own prosperity which result the asymmetry relationship.

According to Indriastiti (2008), perspective of the agency relation is the basis which is used to understand corporate governance. Managers have the obligation to maximize the wealth of shareholders. On the other hand, managers also have the interest to maximize their own wealth. These cases give rise to a conflict which is called agency conflict.

An agency relationship, according to Jensen and Meckling (1976), is a contract in which one or more people (the principle(s)) hire another person (the agent) to carry out a task on their behalf, including giving the agent some decision-making authority. It is reasonable to assume that the agent will not always behave in the principal's best interests if both parties are utility maximizers. In this situation, the principle can limit the diversity of his interests by providing the agent with suitable incentives and by imposing monitoring costs that are intended to curb the agent's deviant behavior.

According to Eisenhardt (1989), agency theory contributes to organizational thinking in two distinct ways. The first is how information is handled, which is seen as a commodity. It is available for purchase and has a price. For this reason, both formal information systems—like the board of directors and budgeting—and informal ones—like managerial supervision, which is distinct in organizational

research—have a significant influence. The inference is that a company may control the agent's opportunities by investing in information technology. The implications of agency theory for risk are its second contribution. The future of an organization is presumed to be uncertain. Prosperity, insolvency, or some other unpredictable consequence could be the future. Members of the organization have the power to shape its future. The future of the organization can be controlled by organization's members. Environmental effects such as government regulation, emergence of new competitors, and technical innovation can affect outcomes.

Agent-principal conflicts have progressed to the point where they must be referred to as agency problems. Information asymmetry between the management and owner may lead to an agency dilemma. According to Richardson (1998), information asymmetry is a prerequisite for earnings management, and the more information asymmetry there is, the more earnings management there will be. Stakeholders might not have the knowledge needed to reverse the inflated earnings when information asymmetry is high.

According to the aforementioned claims, agency theory—which holds that everyone has a tendency to maximize their utilities—is the foundation of earnings management. A principal-agent relationship or contract is the idea behind agency theory. To serve the interests of the principal, the principal employs agents to carry out the work.

Signaling Theory

The goal of signaling theory is to increase a company's worth. According to signaling theory, there is information imbalance between the company's managers and other stakeholders. According to the signaling hypothesis, a business should communicate with those who utilize its financial reports, particularly potential investors.

Signaling theory, according to Noor et al. (2015), is an effect of asymmetry information that explains how businesses communicate with the people involved in the information. Signaling theory is helpful in explaining behavior when two parties (individuals or organizations) have access to disparate information, according to Connelly et al. (2011).

"The logical consequences of signaling theory is that there are incentives for all managers to signal expectations of future profits because, if investors believe the signals, the shares price will increase and the shareholders (and managers acting in their interest) will benefit," according to Godfrey et al. (2010). (Page 376). The release of accounting data signals the company's future prospects, which may pique investors' interest in trading stocks. Changes in the volume of stock trades indicate how the market will respond to the signal.

According to the aforementioned claims, managers' decisions will be influenced by signaling theory because of the asymmetry of the information. In order to maximize a company's worth and satisfy the interests of the principals, managers will be tempted to manipulate earnings in ways that the proprietors may not even detect.

Firm Size

Firm size is a metric used to indicate the size of a business. Businesses are separated into three categories based on firm size: large, medium, and small businesses. Market capitalization, total assets, and total revenues are used to calculate a company's size. According to Suwito and Herawaty (2005), firm size is used to categorize businesses into three groups: small, medium, and big businesses. According to Ferry and Jones in Ardi and Lana (2007), a company's firm size indicates its size. The assertion that firm size is a scale that can categorize a company's size is corroborated by Machfoedz in Hesti (2010).

Sawir (2012) mentioned that firm size can be stated as a determinant from a financial structure in almost every study for different reasons:

a. First, firm size can determine the company's level of convenience to obtain funds from capital market. Generally, small companies lack access to the organized capital market, both for bonds and stocks. Even if they have access, the cost of the selling published securities can be an inhibitor.
b. Second, firm size determines the power of bargaining in financial contract. Generally, large companies can choose their funding from various form of debt, including special offer which is more profitable compared to the one which is offered to small companies.
c. Third, there is a possibility that the impact of scale in cost and return make larger companies may get more profit. In the end, firm size is followed by other characteristics which affect financial structure.

According to the aforementioned remark, a company's firm size indicates its size. Large capitalization, medium capitalization, and small capitalization are the three categories of firm size. Market capitalization is one metric that may be used to measure the size of a company. The market price and outstanding shares of the company are used to calculate market capitalization.

Institutional Ownership

Institutional ownership is defined by Tarjo (2008) as the ownership of a company's shares by an institution. Institutional ownership plays a significant role in overseeing the operation of the business. The presence of institutional ownership is thought to improve the efficiency of keeping an eye on the administration of the business. The company's shareholders may become wealthier as a result of monitoring. Their significant capital market investment demonstrates the effect of institutional ownership as a monitoring agent.

According to Jensen and Meckling (1976), institutional ownership has a significant role in reducing the agency conflict that arises between owners and managers. It is believed that institutional investors can serve as an efficient monitoring system. They will keep an eye on every choice the manager makes. Because they participate in strategic decision-making, institutional investors are resistant to being duped by manipulating earnings. Corporate insiders are not the only people who may keep an eye on a business; outsiders can also do so under the guidance of institutional investors. Companies with institutional ownership will be

expected to have more effective monitoring, due to the fact that the institution is expected to have the ability to evaluate the company's performance.

The high rate of institutional ownership will generate bigger attempt of monitoring by the institutional investor so that they can block or at least decrease the opportunity of managers to manipulate the financial statements.

Earnings Management

Because earnings management has the ability to alter financial data and financial reports so they do not accurately reflect the state of the company, it has been linked to bad behavior. A specific goal of earnings management is typically to increase one's own wealth. According to Healy and Wahlen (1998), earnings management happens when managers use their judgment when structuring transactions and reporting financial information to change financial reports in order to either mislead stakeholders about the company's true economic performance or to influence contractual outcomes that rely on reported accounting numbers.

"Actions by division managers which serve to increase (decrease) current reported earnings of a division without a corresponding increase (decrease) of the long-term economic profitability of the division" is how Fischer and Rosenzweig (1995) describe earnings management.

Sulistyanto (2008) defines earnings management as an attempt by managers to manipulate financial statement data in order to mislead shareholders who are interested in the state and performance of the business. One element that can undermine the credibility of financial statements, enhance their bias, and make it

difficult for the user to believe the statistics in the financial statements is earnings management.

According to Hery (2015), accountants are the ones who have the most influence in changing the negative effects of profits management in the business sector. Perhaps the most significant ethical issue facing the accounting profession is earnings management. Earnings management is an accounting technique that managers who are attempting to meet the income target use to give themselves more freedom when creating financial statements.

As mention above, earnings management can be defined as an act which done by the managers that may be classified as fraud or deception in manipulating financial statement either by increasing or decreasing net income for the sake of gaining personal interest of the managers.

Institutional ownership is defined by Tarjo (2008) as the ownership of a company's shares by an institution. Institutional investors might become useful watchdogs for managers, keeping an eye on their actions that could limit their ability to manipulate earnings. Earnings management can be impacted by institutional ownership. A 2009 study by Yang, Chun, and Ramadili examined the relationship between institutional ownership and earnings management and found no discernible relationship between the two. However, Mitra (2002) also study the impact of institutional ownership and earnings management and the result is that the institutional ownership affects earnings management significantly.

Based on previous research, here are the summary of the previous research:

Table 1 Previous Research

No	Researcher	Title	Result of the Research

1	Yang, Chun, & Ramadili (2009)	The Effect of Board Structure and Institutional Ownership Structure on Earnings Management	There is no significant effect of institutional ownership on earnings management.
2	Mitra (2002)	The Impact of Institutional Stock Ownership on a Firm's Earnings Management Practice: An Empirical Investigations	There is significant effect of institutional ownership on earnings management.
3	Bassiouny, Soliman, & Ragab (2016)	The impact of firm characteristics on earnings management	There is no significant effect of firm size on earnings management.
4	Wuryani (2012)	Company Size in Response to Earnings Management and Company's Performance	There is significant effect of firm size on earnings management.

Based on the above statement, researcher is motivated to make a research about firm size, institutional ownership, and earnings management. The preceding literature review suggest the that firm size and institutional ownership may affect earnings management. The conceptual framework is summarized as on figure 2.1.

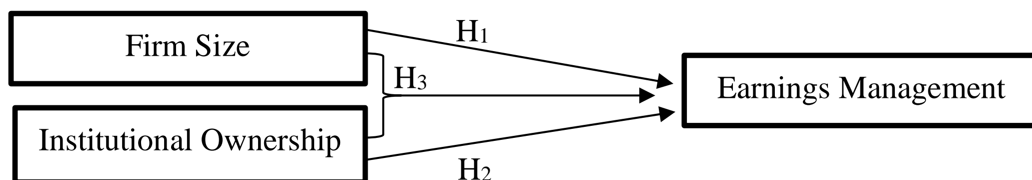

Figure1 Conceptual Framework

Hypothesis

The impact of firm size on earnings management is the subject of the first hypothesis. The researcher made the assumption that firm size had no discernible impact on earnings management. The impact of institutional ownership on earnings management is the subject of the second hypothesis. The researcher made the assumption that institutional ownership had no discernible impact on earnings

management. The third hypothesis examines how institutional ownership and business size affect earnings management at the same time. The researcher made the assumption that institutional ownership and business size had no discernible impact on earnings management.

Based on the above, the hypotheses are:

H_{01} : There is no effect of firm size towards earnings management on top 50 publicly listed companies in Indonesia.

H_{a1} : There is an effect of firm size towards earnings management on top 50 publicly listed companies in Indonesia.

H_{02} : There is no effect of institutional ownership towards earnings management on top 50 publicly listed companies in Indonesia.

H_{a2} : There is an effect of institutional ownership towards earnings management on top 50 publicly listed companies in Indonesia.

H_{03} : There is no effect of firm size and institutional ownership towards earnings management on top 50 publicly listed companies in Indonesia.

H_{a3} : There is an effect of firm size and institutional ownership towards earnings management on top 50 publicly listed companies in Indonesia.

RESEARCH METHODOLOGY

The causal descriptive method, which aims to determine the cause-and-effect relationship between independent and dependent variables and uses inferential statistics to draw conclusions based on the research's findings, is the research methodology that the investigator will employ in putting together this research. proposal.

This research is of the quantitative variety. The collected data is processed and analyzed by the researcher before being given, allowing the researcher to make a conclusion based on the findings. The purpose of this study is to examine how institutional ownership and business size affect earnings management. The sample for this study is the top 50 publicly traded corporations as determined by the Asian Development Bank.

As stated above, here are the samples of the research:

Table List of Research Samples

No.	Listing Code	Publicly Listed Company Name
1	ABMM	ABM Investama
2	ADMF	Adira Dinamika Multi Finance
3	AKRA	AKR Corporindo
4	ANTM	Aneka Tambang (Persero)
5	ASII	Astra International
6	BBCA	Bank Central Asia
7	BNGA	Bank CIMB Niaga
8	BDMN	Bank Danamon
9	BNII	Bank International Indonesia
10	BMRI	Bank Mandiri (Persero)
11	MEGA	Bank Mega
12	BBNI	Bank Negara Indonesia (Persero)
13	NISP	Bank NISP
14	PNBN	Bank Pan Indonesia
15	BNLI	Bank Permata

16	BBRI	Bank Rakyat Indonesia (Persero)
17	BBTN	Bank Tabungan Negara (Persero)
18	BTPN	Bank Tabungan Pensiunan Negara
19	BJBR	BDP Jawa Barat dan Banten
20	BUMI	Bumi Resources
21	CTRA	Ciputra Development
22	EXCL	Excelcomindo Pratama
23	GIAA	Garuda Indonesia (Persero)
24	GEMS	Golden Energy Mines
25	HERO	Hero Supermarket
26	SMCB	Holcim Indonesia
27	ITMG	Indo Tambangraya Megah
28	INTP	Indocement Tunggal Prakasa
29	ICBP	Indofood CBP Sukses Makmur
30	INDF	Indofood Sukses Makmur
31	ISAT	Indosat
32	JSMR	Jasa Marga (Persero)
33	KLBF	Kalbe Farma
34	LPKR	Lippo Karawaci
35	LPFF	Pacific Utama
36	PWON	Pakuwon Jati
37	PGAS	Perusahaan Gas Negara (Persero)
38	LSIP	PP London Sumatera Indonesia
39	SIMP	Salim Inovas Pratama
40	SMGR	Semen Indonesia (Persero)
41	AMRT	Sumber Alfaria Trijaya
42	SCMA	Surya Citra Media
43	PTBA	Tambang Batubara Bukit Asam (Persero)
44	TLKM	Telekomunikasi Indonesia (Persero)
45	TBIG	Tower Bersama Infrastructure
46	UNVR	Unilever Indonesia
47	UNTR	United Tractors
48	INCO	Vale Indonesia
49	WSKT	Waskita Karya (Persero)
50	WIKA	Wijaya Karya (Persero)

Source: Asian Development Bank (ADB)

Definition of Operational Variable and the Measurement

Operational variable is a method that is used to measure a concept which contained some variables that are affecting each other, as the title of this research

proposal "The Effect of Firm Size and Institutional Ownership on Earnings Management of Publicly Listed Companies in Indonesia in 2013".

1. Firm Size

   Firm size (X1) is measured by market capitalization. It uses the market price and outstanding share. Regarding to the large value of market capitalization and to avoid heteroskedasticity, researcher will convert it with natural logarithm.

   Formula to measure firm size:

   $$\text{Size} = \text{Ln}\ (\text{P x S})$$

   Where:

   Size : Firm Size

   Ln : Natural Logarithm

   P : Market Price

   S : Outstanding Shares

   Source: Apriansyah (2016)

2. Institutional Ownership

   Institutional ownership (X2) will be measured by the dividing the shares owned by institutional with the outstanding shares of the company.

   Formula to measure institutional ownership:

   $$Institutional\ Ownership = \frac{Shares\ Owned\ by\ Institutional}{Outstanding\ Shares}$$

   Source: Hanggarwati (2013)

b. Dependent Variable

Helmi (2010) defined dependent variable as a variable that become the main focus of the research (Pp. 8). The dependent variable in this research is earnings management.

Formula of Earnings Management:

$$TA = \frac{(\Delta CA - \Delta CL - \Delta Cash + \Delta STD - Dep)}{A_{t-1}}$$

Where:

TA	: Total Accruals
At_{-1}	: Total Assets in Previous Year
ΔCA	: Changes in Current Assets
ΔCL	: Changes in Current Liabilities
ΔCash	: Changes in Cash and Cash Equivalent
ΔSTD	: Changes in Debt Included in Current Liabilities
Dep	: Depreciation and Amortization Expense

Source: Dechow et al (1995)

Interpretation: If TA > 0 or TA < 0, means that earnings management practice is present. If TA = 0, there is no earnings management practice.

Source: Padmantyo (2012)

Method of gathering data in this research is done by documenting secondary data. Secondary data is the data that is indirectly obtained by the researcher from the research object. It was obtained from other party that supported the research, for example company's financial report, literature, book, article, and journal. The

secondary data that is used in this research is the company's annual report published in 2012 and 2013 from top 50 publicly listed companies in Indonesia according to Asian Development Bank.

RESULTS AND DISCUSSION

Descriptive Statistics Analysis

The following are the result of descriptive analysis

Table – Descriptive Statistics

	N	Min	Max	Mean	SD
EarMan	50	-.57	.21	-.1110	.17910
FSize	50	28.99	33.25	30.9547	1.05999
InsOwn	50	00.00	0.99	0.6005	0.25798
Valid N (listwise)	50				

In table above, the minimum value is 28.99 which means that the minimum value of firm size is Rp. 3,901,055,580,000 which is the firm size of PT. Waskita Karya (Persero). The maximum value is 33.25 which means that the maximum value of firm size is Rp. 275,288,161,352,000 which is the firm size of PT. Astra International. The mean value of firm size is 30.9547 which means that the mean value of firm size for the research sample which is the 50 companies is around Rp. 27,762,500,000,000. Also, for institutional ownership, the minimum value is 0.00 which means that the minimum value of institutional ownership is none which is

the institutional ownership of PT. Waskita Karya (Persero). The maximum value of institutional ownership is 0.99 which is the institutional ownership of PT. Bank Internasional Indonesia. The mean value of institutional ownership is 0.6005 which means that the mean value of institutional ownership for the research sample which is the 50 companies is 60.05%. Lastly, the minimum value of earnings management is -0.57 which is the earnings management of PT. Holcim Indonesia. The maximum value of earnings management is 0.21 which is the earnings management of PT. Hero Supermarket. The mean value of earnings management is -0.111 which represent the value of earnings management for the top 50 companies in Indonesia in 2013.

Significant Test (F Test)

The result of t test from the effect of firm size with the indicator of market capitalization and institutional ownership on total accruals as the indicator of earnings management can be seen on table .

Table F Test for Firm Size and Institutional Ownership on Earnings Management

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	.043	2	.022	.662	.521[a]
	Residual	1.529	47	.033		
	Total	1.572	49			

a. Predictors: (Constant), FIRM SIZE, INSTITUTIONAL OWNERSHIP

b. Dependent Variable: EARNINGS MANAGEMENT

Source: Bursa Efek Indonesia, processed by SPSS 19

Table shows the significant value of firm size with the indicator of market capitalization and institutional ownership is 0.521 which is more than 0.05 and the value of F counted is 0.662 which is less than F table = 3.195 (which can be seen from appendix 5), which mean on the value of significant test above, it can be concluded that H_0 is accepted and H_a is rejected. The result of no significant effect of institutional ownership on earnings management.

Significant Test (T Test)

The result of t test from the effect of firm size with the indicator of market capitalization on total accruals as the indicator of earnings management can be seen on table below:

Table t Test for Firm Size on Earnings Management

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	.415	.752		.552	.584
	FIRM SIZE	-.017	.024	-.101	-.700	.487

a. Dependent Variable: EARNINGS MANAGEMENT

Source: Bursa Efek Indonesia, processed by SPSS 19

Table 4.6 shows the significant value of firm size is 0.487 which is more than the rate of significance 0.05 and the value of t counted is -0.7 which is lower than the value of t table = 2.010 (which can be seen from appendix 6). The negative sign (-) indicates that the increase of firm size will decrease the earnings management. However, because of the significant value of firm size is more than the rate of significance and the value of t counted is less than the value of t table, it can be concluded that there is no significant effect of firm size on earnings management of top 50 publicly listed companies in Indonesia.

Based on the value of significant test above, it can be concluded that H_0 is accepted and H_a is rejected. The result of no significant effect of firm size on earnings management is in line with the research conducted by Bassiouny, Soliman, and Ragab (2016). When a company is classified as large companies, it may have less motivation to perform earnings management. Shareholders and external parties of large companies are assumed to be more critical compared to small companies.

Large companies tend to be in demand by the analyst and broker more than small companies. When a company is classified as large companies, the published financial statements will be more transparent which decrease the possibility of asymmetry information that may lead to the practice of earnings management.

Table t Test for Institutional Ownership on Earnings Management

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	-.162	.065		2.500	.016
	INSTITUTIONAL OWNERSHIP	.085	.099	.123	.858	.395

b. Dependent Variable: EARNINGS MANAGEMENT

Source: Bursa Efek Indonesia, processed by SPSS 19

Table shows the significant value of firm size is 0.395 which is more than the rate of significance 0.05 and the value of t counted is 0.858 which is lower than the value of t table = 2.010 (which can be seen from appendix 6). The t counted is positive which indicates that the increase of institutional ownership will increase the earnings management. However, because of the significant value of firm size is more than the rate of significance and the value of t counted is less than the value of t table, it can be concluded that there is no significant effect of institutional

ownership on earnings management of top 50 publicly listed companies in Indonesia.

Based on the value of significant test above, it can be concluded that H_0 is accepted and H_a is rejected. The result of no significant effect of institutional ownership on earnings management is in line with the research conducted by Yang, Chun, and Ramadili (2009). When a company has big percentage of institutional ownership, it may have more motivation to perform earnings management. The institutional investors may not take the role of monitoring tool. Other than that, institutional investors may take a role as transient investors that make the managers take decisions and policy to achieve the profit target that investors want. The existence of institutional ownership will not always affect significantly to the prevention and the process of monitoring which will decrease the existence of earnings management.

Coefficient of Determination Analysis

Coefficient of determination shows how much contribution independent variables does on dependent variable. The value of coefficient of determination (r^2) from firm size on earnings management can be seen on table

Table Coefficient of Determination Analysis from Firm size and Institutional Ownership on Earnings Management

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Sig.
1	.166[a]	.027	-.014	.18035	.541

a. Predictors: (Constant), INSTITUTIONAL OWNERSHIP, FIRM SIZE

b. Dependent Variable: EARNINGS MANAGEMENT

Source: Bursa Efek Indonesia, processed by SPSS 19

Table shows that the value of coefficient of determination from firm size with the indicator of market capitalization and institutional ownership on total accruals as the indicator of earnings management is 0.027 which mean that 2.7% of variable earnings management can be explained from firm size and institutional ownership, the other 97.3% is explained from other variables. The result of coefficient of determination analysis will indicate the percentage of contribution from firm size and institutional ownership on earnings management.

Multiple Linear Regression Analysis

Multiple regression linear analysis is used to know how much impact of independent variables on dependent variable. It can be seen from table 4.19.

Table Multiple Regression Linear for Firm Size and Institutional Ownership on Earnings Management

Model		Unstandardized Coefficients		Standardized Coefficients
		B	Std. Error	Beta
1	(Constant)	.416	.753	
	FIRM SIZE	-.019	.024	-.111
	INSTITUTIONAL OWNERSHIP	.092	.100	.132

a. Dependent Variable: EARNINGS MANAGEMENT

Source: Bursa Efek Indonesia, processed by SPSS 19

Table shows that the value of constant is 0.416 with the value of coefficient (β_1) is -0.019 and the value of coefficient (β_2) is 0.092. Therefore, the value of earnings management is 0.416 with every 1 increase value of firm size will decrease the value of earnings management as much as 0.019 and every 1 increase value of percentage of institutional ownership will increase the value of earnings management as much as 0.92. The equation of regression model which is created as follows:

EM = 0.416 + (-0.019)FSZ + 0.092InsOw

Coefficient of Correlation for Firm Size, Institutional Ownership and Earnings Management

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Sig.
1	.166[a]	.027	-.014	.18035	.541

a. Predictors: (Constant), INSTITUTIONAL OWNERSHIP, FIRM SIZE

b. Dependent Variable: EARNINGS MANAGEMENT

Source: Bursa Efek Indonesia, processed by SPSS 19

On table above, the value of coefficient of correlation (r) is 0.166, which mean that there is a very weak correlation between firm size, institutional ownership and earnings management. The positive sign shows that every increase of firm size with the indicator of market capitalization and institutional ownership will be followed with the increase of total accruals as the indicator of earnings management.

CONCLUSION AND RECOMMENDATIONS

Based on the result and the discussion of the research which has been done regarding the effect of firm size and institutional ownership on earnings management on top 50 publicly listed companies in Indonesia in 2013, the researcher take conclusion as follows:

1) The result of significant test for the effect of firm size on earnings management shows that the effect of the independent variable of firm size on dependent variable of earnings management is not statistically

significant. Therefore, to answer the problem statements for number one, it can be concluded that H_0 is accepted and Ha is rejected, which means that there is no effect of firm size on earnings management.

2) The result of significant test for the effect of institutional ownership on earnings management shows that the effect of the independent variable of institutional ownership on dependent variable of earnings management is not statistically significant. Therefore, to answer the problem statements for number two, it can be concluded that H_0 is accepted and Ha is rejected, which means that there is no effect of institutional ownership on earnings management.
3) The result of significant test for the effect of firm size and institutional ownership on earnings management shows that the effect of independent variable of firm size and institutional ownership on dependent variable of earnings management is not statistically significant. Therefore, to answer the problem statements for number three, it can be concluded that H_0 is accepted and Ha is rejected, which means that there is no effect of firm size and institutional ownership on earnings management.

Based on the research of the effect of firm size and institutional ownership on earnings management and the conclusion of the research, the researcher intent to give recommendations as follows:

1) For investors and potential investors in making investment, advisable to see the firm size of the company because based on the result of the

research, firm size does not react in line with earnings management and consider the institutional ownership because it react in line with earnings management. Investor and potential investor should choose company with big market capitalization and less institutional ownership which may decrease the practice of earnings management.

2) For companies, advisable to pay attention to the factor that affecting earnings management with the indicator of total accruals, because with low value of total accruals defines less practice of earnings management will attract the potential investors to invest their fund which can be used for the company to expand the company.
3) For other researchers, considering the existence of the limitation in this research, it is advisable for other researcher to expand this research with many other factors regarding earnings management specifically the effect from firm size and institutional ownership. Moreover, the sample of this research is determined by purposive sampling, other researcher can used other sampling method to describe the population which is all publicly listed companies in Indonesia.

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