Mechanism of Good Corporate Governance, Earnings Management on Financial Performance in Banks Listed in Indonesia Stock Exchange Using Path Analysis

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ABSTRACT
This study explain the phenomenon of the quality of financial reporting, in particular earnings are determined by factors of earnings management and corporate governance mechanism is good, that the mechanism of institutional ownership, the composition of the independent board and audit committee. The amount of the entire banking population there are thirty-one companies and which meet the criteria as a sample there are twenty six companies. This research is a causal research. This study analysis method using path analysis/path analysis to examine the causal relationships between variables exogenous and endogenous. The results showed that: (1.a) the simultaneous effect of institutional ownership mechanism, composition independent board and audit committee to earnings management is not significant; (1.b) Individually the influence of institutional ownership mechanism, the composition of the independent board and audit committee to earnings management are insignificant. (2a) the simultaneous effect of institutional ownership mechanism, composition independent komisarisi board, audit committee and earnings management on the financial statements is not significant; (2B) Individually pengaru of mechanisms of institutional ownership, the composition of the independent board, audit committee and earnings management to the financial statements to prove all these variabel no significant effect on the financial performance.

INTRODUCTION
Implementation and management of good corporate governance, better known by good corporate governance is a concept that emphasizes the importance of the right of shareholders to obtain correct, accurate, and timely. Therefore both public and closed to be looked good corporate governance (GCG) not as a mere accessory, but as an effort to improve the performance and value of companies. Corporate governance systems provide effective protection for shareholders and creditors so that they are sure to earn a return on their investment properly. Corporate governance kendusif help create an environment for the creation of an efficient and sustainable growth in the corporate sector. Financial Accounting Standards (GAAP) gives leeway (flexibility principles) in selecting the accounting methods used in the preparation of financial statements. Leeway in this method can be used to generate a return that is different in every company. Companies that choose straight-line depreciation method will be different earnings results reported by companies using the numeric method or declining balance. Practices such as these can have an impact on the quality of reported earnings. The behavior of managers manipulation can be minimized through a monitoring mechanism that aims to align (alignment) of the various interests. First with the ownership of shares by institutional investors, that the institutional investors are the ones that can monitor agent with great ownership, so the motivation manager to manage earnings to be reduced. Secondly, through the monitoring role by the board of directors (board of directors) that the higher representation in the board of managers involved in the management of earnings would be lower. Third, through the role of the audit committee is responsible for overseeing the financial reports, overseeing the external audit and internal control systems observed so as to reduce the opportunistic nature of management who do profit by overseeing management’s financial statements.

Formulation of the problem in this study is whether the corporate governance mechanisms affect the financial earnings management and whether the corporate governance mechanisms affect the financial performance.


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performance? The question of research on the problem formulation is as follows: (1) Is good corporate governance mechanism, in this case institutional ownership, the proportion of independent board of directors and audit committees affect either jointly or individually to earnings management? (2) Does good corporate governance mechanism in this respect institutional ownership, the proportion of independent board and audit committee as well as the effect on earnings management either together or individually on the financial performance?

**Review of Literature:**

**Good Corporate Governance:**

The term Corporate Governance (CG) was first introduced by the Cadbury Committee in 1992 in a report known as the Cadbury Report (Tjager et al., 2003). Various thoughts about corporate governance evolve with growth in agency theory where management is done with full compliance to various rules and regulations. In the application of good corporate governance in the company, the guidelines that govern how the GCG in the new Indonesia announced on October 17, 2006.

Corporate governance is (1) a structure which set the pattern for the harmonious relationship of the role of the board of directors, GMS and other stakeholders, (2) a system of checks and balances include consideration of authority over the control of the company which can limit the emergence of two opportunities: management one and misuse of company assets, (3) a transparent process on the determination of the company's goals, achievements and performance measurement. GCG at its core purpose is to create added value for all parties concerned. The party is an internal party which includes commissioners, directors, employees and external parties that include investors, creditors, governments, communities and other parties concerned (stakeholders).

Good Corporate Governance is the process and structure used to direct and manage the business and affairs of the company in order to enhance business prosperity and corporate accountability, with the main purpose of realizing shareholder value in the long term, with due regard to the interests of other stakeholders. Sunarto (2003) argues that corporate managers contribute effectively to good corporate governance by performing actions such as:

1. Identify properly, evaluate and manage risks and opportunities.
2. Follow company policies and explain the purpose of the company is complete;
3. Adhering to ethical standards;
4. The board of directors of the company looked at as an expert and a recognized legal authority

Corporate governance mechanism will be able to prevent manejemen profit. The proportion of corporate audit committees with negative associated with the level of earnings management. Activities affect the ability of directors and committee members to serve as an active monitor on the company.

**Institutional Ownership:**

Institutional ownership has the ability to control the management through effective monitoring process so as to reduce earnings management. Wedari (2004) states that institutional investors have more time to analyze investment and has access to information that is expensive compared to individual investors. Therefore, institutional analysts, the investment has the ability to oversee the actions of better management than the individual investor. According to Jensen and Meckling (1976) institutional ownership is the main corporate governance mechanisms that help control the problem of agency (agency conflict). Faisal (2005) concluded that high institutional ownership can be used to reduce the agency problem.

The existence of institutional ownership such as insurance companies, banks, investment companies and ownership by other institutions will encourage more optimal monitoring of the performance of management. The percentage share of this industry is obtained from the sum of the percentage shares of the company owned by another company that is located within and outside the country as well as the government's share and abroad. Of the several theories in mind that the higher the institutional ownership will be smaller management opportunities to manipulate the figures in the form of earnings management that affect financial performance. A certain percentage of shares owned by institutions can influence the process of preparing financial statements which did not rule are appropriate Accrued interest management.

**BOC Independent:**

Independent commissioner is a member of board of directors who are not affiliated with management, other board members and controlling shareholders, as well as free of a business relationship or other relationship which could affect its ability to act independently. Commissioners in a company with more emphasis on the monitoring of policy implementation functions of directors. The role of the commissioner is expected to minimize agency problems that arise between the board of directors by shareholders. Commissioners is at the core of corporate governance that is assigned to ensure the implementation of corporate strategy, overseeing management in managing the company, as well as requiring the implementation of accountability.

Based on the guidelines of good corporate governance, kompisisi or an unspecified number of independent directors in a certain amount however the number or composition of the independent directors should be able to ensure that the monitoring mechanism works effectively and in accordance with
The criteria are set one of the independent directors should have a background in accounting or finance. Although guidelines for good corporate governance does not specify the number of independent directors, in Bapepam-LK, the Issuer or Public Company must have at least one independent commissioner while the Indonesian Stock Exchange requires that at least 30% of the commissioners are independent directors. Detailed criteria for independent directors stipulated in Bapepam-LK, namely:

a. from outside the issuer or public company
b. do not have shares listed or public companies either directly or indirectly
c. is not affiliated with the commissioners, directors and shareholders Main Public Company
d. does not have a business relationship with the issuer or public company either directly or indirectly.

Through the role of the board in conducting oversight of the company's operations by the management, the proportion of commissioners can make an effective contribution to the outcome of the process of preparing financial statements is qualified or allowed to avoid fraudulent financial statements. It can be said the percentage proportion of independent board of management has a tendency to affect the earnings and financial performance generated.

The Audit Committee:

Audit committee is a committee established by the board of commissioners to perform supervisory duties of corporate management. The audit committee is considered as a liaison between the shareholders and the board of commissioners with the management in dealing with control issues. The audit committee is responsible for overseeing the financial reports, overseeing the external audit and internal control system observing (including internal audit) may reduce the opportunistic management conduct earnings management (earnings management) by way of overseeing the financial reporting and control on an external audit.

Audit committees enhance the integrity and credibility of financial reporting through: (1) control over the reporting process teramasuk internal control system and the use of generally acceptable accounting principles, and (2) supervise the overall audit process. The existence of the audit committee have consequences on the financial statements: (1) reduction in the improper accounting measurement, (2) reduction in the improper disclosure of accounting and (3) reduction in fraud management measures and illegal actions. We can conclude the audit committee can reduce earnings management activities which will further reduce the quality of financial reporting that one of them is financial performance. Audit committee serves to provide views on matters related to financial policy, accounting and internal control.

Earnings Management:

Earnings management can be done through the accrual policy. In applying policies used accrual accrual, deferral and allocation procedures are intended to adjust the load and income by period and not to associate expenses with revenues and expenditures based on cash receipts (cash basic). Therefore, in applying the policy of accrual accounting standards can be used to manage earnings.

Meutia (2004) stated that earnings management is the management of a deliberate attempt to manipulate the financial statements within the limits allowed by accounting principles with the aim of providing misleading information the users of the financial statements for the benefit of the manager. Earnings management can occur because managers are given the freedom to choose accounting methods that will be used to record and disclose its financial information private. Furthermore manipulation behavior can occur because of high information asymmetry between management and those who do not have resources, encouragement or adequate access to information to monitor the actions of managers. So the management will try to manipulate the performance of companies that reported for its own sake.

In general, research on earnings management using accrual-based measurement (accrual-based measure) in detecting the presence or absence of manipulation. One of the advantages in total accruals approach is the approach has the potential to uncover ways to reduce or increase the profit gain, because these ways less attention to unknown outsiders. Gumanti, (2000) total accruals consist of components discretionary and non-discretionary accruals accruals. Discretionary accrual is located in the accrual component management policies. This means that managers provide intervention in the financial reporting process. Whereas non discretionary accruals are beyond the accrual component management policy. Empirical evidence shows that managers perform earnings management with an assortment of patterns: taking a bath (Healy, 1985), income minimization (Cahan; 1992), income maximization (Dempsey, 1993), and income smoothing (Beattie; 1994).

Financial Performance:

Performance or performance of a pattern of actions taken to achieve the objectives as measured by basing on a comparison with various standards. Performance is the achievement of a goal of a certain activity or work to achieve the objectives of the company as measured by the standard. Performance measurement company aims to determine the effectiveness of company operations. The financial performance is the determination of certain sizes that can measure the success of a company that can produce profits. At first, the financial statements of a company merely as a "tester" of the work bookkeeper,
but for the next financial reports not only as testers only but as a basis to determine or assess the financial position of the company, where the results of the analysis parties interest in taking a decision. Thus, to determine the financial position of a company needed a financial report. According Munawir (2002), the financial statements is basically the result of the accounting process that can be used as a communication tool between the financial data or activities of a company with the parties concerned with the data or its activities.

According to the Financial Accounting Standards (2007) The financial statements are part of the financial reporting process. Financial statements consisting of balance sheet, income statement, cash flow statement, statement of changes in capital and notes to the financial statements which describe the achievements of the company in a certain period. The main objective of financial statements is to provide information that is useful in credit and investment decisions, useful information in the possession of the prospective cash flow as well as information regarding the company's resources, claims on those resources and the changes that occur in it. Users of financial statements include current investors and potential investors, employees, lenders, suppliers and other business creditors, customers, governments and institutions and society.

Research related to corporate governance include institutional ownership, the proportion of independent board and audit committee with various implications, has previously been investigated by some previous investigators, namely: Xie et al (2003) examined the role of the board of directors with a background in finance to prevent earnings management. Xie's research is known more often commissioners met the accrual managed smaller companies. This is indicated by a significant negative coefficient. The study also showed that the percentage of board of directors from outside the company independent significant negative effect on the accrual managed.

Baesley (1996) suggest that the inclusion of commissioners who come from outside the company improve the effectiveness of the board in overseeing management to prevent fraudulent financial statements. Beasley (1996) states that the inclusion of commissioners who come from outside the company to improve the effectiveness of the board in overseeing management to prevent fraudulent financial statements. Balsam et al. (2003) found that companies are audited by industry specialists have lower discretionary accruals and earnings response coefficient is higher than the companies audited by the auditors of non-specialists. Boediono (2005) test on the quality of earnings: study of the influence of corporate governance mechanisms, and the true financial performance discover the influence of good corporate governance mechanism to decrease discretionary accruals as a measure of earnings management and positively associated with CFROA found that good corporate governance mechanism in this regard institutional ownership, managerial ownership and composition of the board of directors together to earnings management, tested with a degree of influence is weak. In a partial test, the study also found that the mechanism of institutional ownership provides a strong enough influence on earnings management while the composition of the board of commissioners mechanism provides a very weak influence on earnings management. Good corporate governance mechanism can reduce the urge managers perform earnings management, so CFROA reported reflect the real situation. Chutchley et al (1999) suggest that institutional ownership can reduce agency costs, because of the presence of effective monitoring by the institutional parties can reduce earnings management will be undertaken by the manager. Faisal (2005) indicates that institutional ownership has not been effective as a tool to monitor the management in increasing the value of the company.

This contrasts with the results Cornett et. Al (2006) found the influence of corporate governance mechanism to decrease discretionary accruals as a measure of earnings management and positively associated with CFROA.Yermack, 1996 states that a high proportion of outside board is positively associated with firm performance, are not a factor of the performance of the company (Kesner & Johnson, 1990) in Bugshan (2005) and negatively associated with performance (Goodstein and Boeker, 1991).Veronica and Main (2005) investigated the influence of corporate governance practices to earnings management. Corporate governance practices under study is the proportion of independent board. Results from this study is the conclusion that the proportion of independent board no proven effect on earnings management performed by the company. This study found that a variable percentage of independent board did not correlate significantly to the accrual under management, despite all the interactions between variables accrual under management and independent board showed a significant positive coefficient on the value of the company.

Research results of research supported by Klein (2002), Pope and Young (2001), Chtouroa et al (2001), Midiastuti and Mackfudz (2003), and Xie Biao, Wallace and Peter (2003) gives the conclusion that the company that owns the proportion commissioners who come from outside the company or outside director can affect performance.

Thus, if the commissioners from outside increase surveillance measures, it will be associated with increasingly lower use of discretionary accruals. Lastanti (2004) examined the relationship of corporate governance structure with the company's performance and market reaction to the use of variable independence of commissioners,
The results showed that the size of the independence of the board of commissioners of 30% of the number of commissioners have a positive relationship to the value of the company but institutional ownership structure can not affect the financial performance and the value of the company significantly.

**Theoretical Framework:**

OECD (2004) defines corporate governance as a set of rules that define the relationship between shareholders, management, creditors, government, employees and holders of other internal and external interests with respect to the rights and obligations, or in other words a system that directs and control of the company. Good corporate governance is a key element in improving economic efficiency, which includes a series of relationships between the company's management, board of directors, shareholders and other stakeholders. Financial performance can be measured by the presence of earnings management factors and mechanisms in corporate management (good corporate governance mechanism). The mechanisms include: institutional ownership, the proportion of independent board and audit committee.

Financial Accounting Standards (GAAP) gives leeway (flexibility principles) in selecting the accounting methods used in the preparation of financial statements. Leeway in this method can be used to generate a return that is different in every company. Companies that choose straight-line depreciation method will be different earnings results reported by companies using the numeric method or declining balance. Practices such as these can have an impact on the reported financial performance.

The reason management did earnings management are: (1) management compensation schemes linked to the performance of the company presented in the reported accounting profit; and (2) fluctuations in performance management can lead to intervention by owners to replace the management with direct takeover (Ujiyatho, 2007). One of the most efficient way in order to reduce conflicts of interest and ensure the achievement of the objectives of the company, required the existence of regulatory and control mechanisms that effectively direct the operations of the company as well as the ability to identify parties who have different interests. Mechanism (internal control) in the company, among others, the structure of ownership and control is done by the board of commissioners in this case the composition of the board. This thinking is supported by the results of Lang and McNichols (1997), Rajgopal et al. (1999), Bushee (1998), Porter (1992), Rajgopal and Venkatachalam (1998), and Pratana Midiantuty and Mas'ud Mahfoedz P. (2003). Conclusion The overall results of their research are institutional ownership has the ability to influence the actions of earnings management. Institutional ownership can be measured using indicators percentage of shares owned by institutional parties of the total shares of the company.

Characteristics commissioners in general and in particular the composition of the board may be a mechanism that determines earnings management action. Through the role of the board in conducting oversight of the company's operations by the management, the composition of the board of directors can make an effective contribution to the outcome of the process of preparing financial statements is qualified or avoid the possibility of fraudulent financial statements. It can be said that the composition of the board of directors consisting of members from outside the company have a tendency to affect earnings management.

This thinking is supported by the results of research Dechow et al. (1996), Klein (2002), Peasnell et al. (2001), Chtouro et al. (2001), Pratana P. Midiantuty and Mas'ud Mahfoedz (2003), and Xie et al. (2003). The results provide the conclusion that the company that owns the composition of commissioners who come from outside the company or the director outsider can influence the actions of earnings management. Indicators used to measure the composition of the board of directors is the percentage of board members from outside the company, of the total members of the board of commissioners of the company.

The audit committee is responsible for overseeing the financial reports, overseeing the external audit, and observe the internal control system (internal audit) may reduce the opportunistic management conduct earnings management (earnings management) by way of overseeing the financial reporting and control on an external audit. This thinking is supported by the results of research Effendi (2005) concluded their audit committee role in improving corporate performance. Price Waterhouse (1980) in Mc.Mullen (1996) stated that investors, analysts and regulators consider the audit committee contributes to the quality of financial reporting. It can be concluded that audit committees can reduce earnings management activities which affect the quality of reported financial performance.

**Hypothesis:**

Based on the theoretical overview, a review of previous studies and the framework that has been described above, then the hypothesis proposed in this study are as follows:

H1: Good Corporate Governance Mechanism in this case institutional ownership, the proportion of independent board and audit committee effect on earnings management.

H2: Good Corporate Governance Mechanism in this case institutional ownership, the proportion of independent board and audit committee influence on financial performance.
Methodology, Finding and Discussion:
Research conducted a study causal relationship (causal effect), which is a study of the facts to prove it empirically about the effect of a variable to another variable (Supranto, 2009), the empirical facts influence of institutional ownership, the proportion of independent commissioners, audit committee, management earnings and financial performance. The data used in this research is secondary data include the financial statements and annual reports published in the Capital Market Directory, the official website of Indonesia Stock Exchange (www.idx.co.id) and www.finance.yahoo.com. This study observation period from 2008 to 2010. The data used in this study are: financial statements audited by an independent auditor, along with notes of financial statements, data on institutional ownership, the proportion of independent board, audit committee as well as the addition of the company's website in question.

The population in this study are all banking companies listed in Indonesia Stock Exchange (IDX) totaled 31 companies, Companies that the sample in this study were selected based on certain criteria (purposive sampling), the method of sampling because it meets the criteria specified researchers (have now, 2006: 136). After meticulous that meet the criteria to be analyzed there are 26 (twenty-six) companies. The criteria used in this study as follows:
1. All banking companies listed in Indonesia Stock Exchange
2. Issuing financial statements from 2008-2010
3. Has the data to calculate the institutional ownership, independent board, audit committee, management earnings and financial performance.
4. The financial statements have been audited by an independent auditor.

Variables, Indicators and Measurements:
Institutional Ownership:
Institutional ownership has the ability to control the management through effective monitoring process so as to reduce earnings management. A certain percentage of shares owned by the institution can affect the process of preparation of financial statements that do not rule out there Accrued accordance with the interests of the management. Cornet et al., (2006) concluded that control measures by the institutional investors may encourage managers to focus more attention on the performance of companies that will reduce opportunistic behavior. Institutional ownership is the percentage of voting rights held by the institution. In this study were measured using indicators percentage of shares owned by institutions of all the outstanding share capital.

The proportion of independent board:
Independent commissioner is a member of board of directors who are not affiliated with management, other board members and controlling shareholders, as well as free of a business relationship or other relationship which could affect its ability to act independently or act solely in the interest of the company (the national committee governance policy, 2004). Commissioners are in a position to ensure that the management has really worked in the interest of the company in accordance with a predetermined strategy and safeguard the interests of the shareholders is to increase the economic value of the company. The proportion of independent board was measured using percentage indicator board members who come from outside the company of all sizes commissioners companies.

The Audit Committee:
Audit committee is a committee consisting of three or more members who are not part of management or company to do the testing and assessment of the fairness of the report made by the company. The audit committee has a very important role and strategic in terms of maintaining the credibility of the financial reporting process as well as keep the creation of an adequate system of supervision of the company as well as the implementation of good corporate governance. The existence of an audit committee is measured by the percentage of the audit committee who comes from the independent commissioner of the audit committee and the entire amount was measured by using a ratio scale.

Profit Management:
Earnings management is a purposeful intervention by the manager of the external financial reporting process with the purpose to gain some personal advantage. The use of discretionary accruals as a proxy for earnings management is calculated using the Modified Jones Model (Dechow et al., 1995). Discretionary accrual is the recognition of accrued income or expense that are free are not regulated and is the choice of management policies. While non-discretionary accrual is the recognition accrual reasonable profit, which is subject to a standard or generally accepted accounting principles. The use of discretionary accruals as a proxy for discretionary accruals earnings management is now widely used to test the hypothesis of earnings management. Indications that occurred earnings management DA indicated by a positive coefficient. Conversely, if the DA negative means there is no indication that management has made efforts to increase profits through income increasing discretionary accruals.

Measurement variables:
Discretionary Accrual:
Discretionary accrual for variable measurements were performed by using a modified model of Jones
(1995). The stages in determining the value Discretionary Accrual is as follows:
a. Calculating total accruals $TA_{it} = NI_{it} - CFO_{it}$  

(1)

**Specification:**

$TA_{it}$: Total accrual firm i in year t

$NI_{it}$: The net profit of firm i in year t

$CFO_{it}$: cash from operations firm i in year t

b. Determine the normal accrual rate (non-discretionary Accrual) $TA_{it} / A_{it} = (1 / A_{it-1}) + (\Delta REV_{it} / A_{it-1} - \Delta REC_{it} / A_{it-1}) + (PPE_{it} / A_{it-1})$ (2)

d. Audit committee variables influence to earnings management

$X_{1}$, the proportion of independent board (X2), and audit committee (X3) on earnings management (Y).

The analysis showed a direct donation institutional ownership variable (X1), the proportion of independent board (X2) and audit committee (X3) on earnings management (Y) is $1.44% + 4.41 + 3.53% = 9.38\%$, while the indirect contribution of institutional ownership variable (X1), the proportion of independent board (X2) and audit committee (X3) and donations through correlation $r_{1}, r_{2}, r_{3}$ on earnings management (Y) is $-0.0604 \text{ or } -6.04\%$. so that the overall amount of donations $X_{1}, X_{2}, X_{3}$ to Y is $0.0938 + (-0.0604) = 0.0334\% \text{ or } 3.34\%$. Thus demonstrating good corporate governance mechanism in this respect institutional ownership, the proportion of independent board and audit committee has no effect jointly to earnings management. As for the other factors that influence in addition to institutional ownership, the proportion of independent board and audit committee were not studied symbolized by $e_{1}$ is equal to 96.66%.

b. The influence of institutional ownership variable to earnings management:

Results of the analysis as presented in Table 4.1 shows the influence of institutional ownership variable (X1) on earnings management (Y) with grades obtained path coefficient 0.120. statistically it can be stated that institutional ownership has no effect on earnings management. The amount of direct donations institutional ownership variable (X1) on earnings management (Y) is $(0.120 \times 0.120 \times 100) = 1.44\%$.

c. The influence of managerial ownership variable to earnings management:

Results of the analysis as presented show the proportion of variable contribution of independent board (X2) on earnings management (Y) with grades obtained path coefficient of 0.210. Statistically, it can be said that the proportion of independent board has no effect on earnings management. The amount of direct donations institutional ownership variable (X1) on earnings management (Y) is $(0.210 \times 0.120 \times 100) = 4.41\%$.

d. Audit committee variables influence to earnings management:

Results of the analysis shows the variable contribution of the audit committee (X3) on earnings management (Y) with grades path coefficient obtained at -0.188. Statistically, it can be said that the audit committee not significant effect on earnings management. The magnitude of the direct contribution of the audit committee variables (X3) on earnings management (Y) is $(-0.188 \times -0.188 \times 100) = 3.53\%$.

**Results of the Second Hypothesis Testing Analysis:**
a. The influence of institutional ownership variable (X1), the proportion of independent board (X2), the audit committee (X3) and earnings management (Y) on financial performance (Z). The analysis showed a direct donation institutional ownership variable (X1),
the proportion of independent board (X2), the audit committee (X3) and earnings management (Y) on financial performance (Z) is the% + 0.04 0.39 1.06% + 3.80% = 5.29%, whereas indirect donations and donations through correlation r1, r2, r3 institutional variables (X1), the proportion of independent board (X2), the audit committee (X3) and management income (Y) on financial performance (Z) was 0.76%. the contribution together X1, X2, X3, Y to Z is 5.29% + 0.76% = 6.05%. Thus demonstrating that good corporate governance mechanisms in this respect institutional ownership, the proportion of independent board and audit committee as well as earnings management does not have a significant effect on the issuer's financial performance in the Indonesia Stock Exchange banking sector are analyzed. The factors other than institutional ownership, the proportion of independent board, audit committee and earnings management is not examined which is symbolized by the notation e2 is 93.95%.

b. The influence of institutional ownership variable (X1) to financial performance (Z) Results of the analysis as presented in Table 4.1, shows the contribution of institutional ownership variable (X1) to financial performance (Z) with a path coefficient values obtained at 0.021. Statistically, it can be stated that institutional ownership has no effect on the financial performance. The magnitude of the direct influence of institutional ownership variable (X1) to financial performance (Z) is (0021 x 0021 x 100) = 0.39%.

c. The effect of variable proportion of independent board (X2) on financial performance (Z) Results of analysis as presented in Table 4.1, show the proportion of variable contribution of independent board (X2) on financial performance (Z) with a path coefficient values obtained at -0103. Statistically, it can be stated that the proportion of independent board has no effect on the financial performance. The amount of contribution is not directly variable proportion of independent board of financial performance (Z) is (-0103 x -0103 x 100) = 1.06%.

d. The influence of the audit committee variables (X3) on financial performance (Z) Results of analysis as presented in Table 4.1, show the contribution of the audit committee variables (X3) on financial performance (Z) with a path coefficient values obtained at -0063. Statistically, it can be stated that the audit committee has no effect on the issuer's financial performance in the Indonesia Stock Exchange banking sector. The magnitude of the direct contribution of the audit committee variables (X3) on financial performance (Z) is (-0063 x -0063 x 100) = 0.39%.

e. Effect of earnings management variables (Y) on financial performance (Z) Results of the analysis as presented in Table 4.1, shows the contribution of earnings management variables (Y) on the financial performance of the path coefficient value obtained for 0195. Statistically, it can be stated that earnings management has no effect on the financial performance. The magnitude of the direct contribution earnings management variables (Y) on financial performance (Z) is (0195 x 0195 x 100) = 3.80%.

Discussion:

Discussion of Results Analysis of First Hypothesis Testing:

1) Effect of good corporate governance mechanisms together to earnings management The analysis showed that the hypothesis put forward in this study that the mechanisms of good corporate governance, in this case institutional ownership, the proportion of independent board and audit committee to earnings management thus can not be tested. Donations of good corporate governance mechanism on earnings management is 3.34% is not significant with a significance level of 5%. It means that the earnings management can only be explained by the institutional ownership, the proportion of independent board and audit committee of only 3.34%. while the remaining 96.66% is explained by other variables not examined in this model. If the magnitude of this effect is interpreted based on the size of the strong relationship that good corporate governance mechanism of this effect is very weak.

2) The influence of institutional ownership individually to earnings management Results of this analysis showed a direct contribution is not significant institutional ownership positively to earnings management in the amount of 0.0144% or 1.44. This finding suggests that institutional ownership is not able to influence the actions of earnings management. The results of this study do not support the research conducted by the Institution and Mas'ud (2003) who found a significant negative effect. The results are consistent with the concept that says that institutional owners who are more focused on current earnings or short-term profit advanced by Porter (1992). As a result, managers are forced to take action to improve short-term earnings, for example by earnings manipulation to meet the desire of certain parties.

3) The influence of the proportion of independent board individually to earnings management The analysis showed good corporate governance mechanisms proportion of independent board has no direct effect on earnings management are direct donations proportion of independent board on financial performance only by 4.41%. These results contradict the results of research Klein (2000), Peasnell et al (2000), Chtourou et al. (2001), Xie et al. (2003) which says that the proportion of independent board negatively affect earnings management. This can be explained, the greater the proportion of commissioners from outside / independent, the possibility can lead to decreasing the ability of the board to perform a supervisory
function since the onset of problems in coordination, communication and decision-making. This relates to the independence of the board of directors both at the level of institutions and individuals who are directly related to the quality of the board's decision, especially relating to the process of preparation of financial statements. This condition is also confirmed from the results of a survey of the Asian Development Bank that the strong control of the company's founder and majority ownership makes the commissioners are not independent and supervisory functions should be the responsibility becomes ineffective. There is a possibility of placement or the addition of independent board members only meets the formal conditions, while the majority shareholder (controlling) still plays an important role so that the performance of the board does not increase even be declining.

4) The influence of individual audit committee to earnings management Results of this analysis showed a direct contribution to earnings management audit committee is not significant to the variable earnings management is only for 3.53%. Of the research indicates that the audit committee is not able to influence the actions of earnings management. This is because the placement of the audit committee in Indonesia only meets the formal conditions, so the board does not increase performance could even decrease. Results of this study contradicts the studies conducted by Xie, et al (2003) who found that an audit committee from outside to protect the interests of shareholders from the profit management actions undertaken by management.

Discussion Results of the Second Hypothesis Testing Analysis:

1) Effect of good corporate governance mechanism and earnings management jointly on financial performance. The analysis showed that the hypothesis put forward in this study that the mechanisms of good corporate governance, in this case institutional ownership, the proportion of independent board and audit committee as well as earnings management influence on the financial performance therefore can not be tested. This means that the mechanism of institutional ownership, the proportion of independent board and audit committee as well as earnings management impact together on the financial performance is not significant, which is only at 5.29%. While the rest, amounting to 94.71% explained by other variable not examined in this model.

2) The influence of institutional ownership of financial performance The analysis showed a direct contribution to the financial performance of institutional ownership amounted to 0.00044% or 0.04. If seen from the pattern of the relationship, then the contribution of institutional ownership on financial performance only at 0.04%. Interpretation strong this effect shows that institutional ownership has a very small contribution and not significant to the financial performance. Results of this study indicate that institutional ownership has not been effective as a tool to monitor management in influencing financial performance and enhance shareholder value. Based on a review of previous studies, this study shows that contrary to the results of research suggested by Rajgopal and Venkatachalam (1998), Pratana and Mahfoedz (2003) which states that institutional ownership has a positive impact on financial performance. This is consistent with the view that institutional ownership is the owner while the more focusing on short-term profit. If the change in short-term profit is not perceived benefit by investors, investors will liquidate their shares. Therefore, institutional investors have a stake in a large amount, if investors liquidate the number of shares it will affect the overall value of the stock. On the basis of this perspective, the suspect in order to avoid liquidation of investors, managers will conduct earnings management actions that ultimately degrade the performance of the company.

The same view was also raised by Cornett et al., (2006) which states that institutional ownership will make managers feel bound to meet the profit targets of the investors, so presumably they will still tend to engage in acts of earnings manipulation. In addition, banking issuers are analyzed including concentrated ownership structure at an institution that usually has a sizeable share allegedly reflecting power, so as to have the ability to intervene against the running of the company and set up the process of preparing financial statements, resulting in decreased performance.

3) The influence of the proportion of independent board to financial performance The analysis showed the magnitude of the direct contribution proportion of independent board on the financial performance of 0.0106% or 1.06. The proportion of independent board was not able to explain the responsive strength of earnings or financial performance, the composition of the board of directors deemed to have capabilities that are less effective in performing supervisory functions. The study's findings do not correspond with the results of a previous study conducted by Andersen (2003), that the composition of the board of commissioners effect on financial performance. This is because the ineffectiveness of the board of directors independent in carrying out the functions of monitoring and implementation of the policy directors. Most of the independent commissioners comes from public officials and community leaders, who do not necessarily have the expertise in the context of the company's management. Former government officials or are still active, usually appointed as a board member of a company in order to have access to the relevant government agencies. In this respect the integrity and ability of the board of commissioners often becomes
less important. The strength of the control of the company's founder and majority ownership makes the commissioners are not independent. This is evident from the proportion of the presence of commissioners meeting, where commissioners are not independent overall attending board meetings. According Kusumawati and RJ (2005) the existence of an independent commissioner in the company tends to seem a mere formality to comply with existing regulations but are not intended to enforce good corporate governance within the company.

4) The influence of the audit committee on financial performance The analysis showed the magnitude of the direct influence of the audit committee on the financial performance of 0.0039% or 0.39. Pattern audit committee relationship to financial performance is not significant known. Composition of the board of commissioners deemed not to have the ability to reduce acts earnings manipulation by management. From this it can be seen that the audit committee in the banking company does not carry out their duties with semestisnya in controlling the company by upholding the principles of corporate governance, transparency, accountability, responsibility, independence and fairness that the process can increase the value of the company. This is because the lack of audit committee responsible for overseeing the financial reporting, external audit and internal control system so it can not avoid the opportunistic nature of the management who commit fraud in the form of earnings management. This study is contrary to the results of research and Wilopo Wedari (2004) which states that the audit committee can improve the performance of the company because it can suppress the occurrence of accounting irregularities that are often carried out by many companies in Indonesia. While research Barry (2003) concluded that the existence of an audit committee is negatively related to the integrity of financial statements. Contrary to Nuryanah study (2004) found that the audit committee did not affect the value of the company significantly.

5) The effect of earnings management on financial performance The analysis showed the effect of earnings management on the financial performance for 0038, or 3.80%. The absence of these effects can be said that the cash flow return on assets is one measure of company performance in the category of cash flow measures that may negate the effect of using different accounting treatment of the transaction. Cash flow shows the results for which funds are received in cash by the company and burdened with a load of cash that actually has been issued by the company. If seen from the pattern of earnings management relations on a positive financial performance is not significant. These findings contradict the findings of the research conducted by Pae (1999) and Feltham and Pae (2000) that the positive effect of earnings management on the financial performance. This provides an explanation that earnings management provides responsive due to the strength of earnings as reflected in high and low market response as a manifestation of the level of market confidence on the financial statements. Users of financial statements assume that the reported earnings may show the performance of management. Very weak impact on the quality of earnings of earnings management can be said that the existence of earnings management can not be detected by those who use the financial statements information, so the market does not provide an overreaction. This identifies that the financial statements prepared by the company was inevitable still have a chance to the management company to manage earnings within the limits of the provisions stipulated in the financial accounting standards.

Conclusion and Suggestion:
From the results of the testing and analysis of data in the previous chapter, it can be concluded as follows:

1. Effect of good corporate governance mechanism, in this case institutional ownership, the proportion of independent board and audit committee together to earnings management, tested the effect is not significant.
2. Effect of good corporate mechanism governance individually to earnings management are as follows:
   a. Mechanisms of institutional ownership provides a level of contribution to earnings management is very weak. Statistically institutional ownership has no effect on earnings management. This indicates that the application of the mechanism of institutional ownership can not contribute to earnings management action.
   b. Mechanism proportion of independent board provides tingat contribution to earnings management is very weak. This indicates that the implementation mechanism of the proportion of independent board was not able to contribute in curbing earnings management action.
   c. Mechanism audit committee provide the level of contribution to earnings management is very weak. This indicates that the audit committee can not control the actions of earnings management.
3. Effect mechanism governance and good corporate earnings management jointly on financial performance, tested with the level of contribution is very weak and insignificant.
4. Effect mechanism governance and good corporate earnings management individually on financial performance are:
   a. Institutional ownership does not contribute to the financial performance. This indicates that the level of institutional ownership as a mechanism pengenali in the preparation of consolidated statements, failed to give effect to the market through earnings information.
b. The proportion of independent board provides a very weak contribution to financial performance. Statistically, the influence of the proportion of independent board of financial performance is not signifikan. Ini indicate that the number of independent board members in controlling the process of preparation of the financial statements by the weak response from the market.

c. Audit committees contributed very weak on financial performance. This indicates that the number of audit committees in controlling the process of preparing the financial statements less able to become the controlling mechanisms in the preparation of the consolidated statements.

d. Earnings management influence on financial performance is very weak. This indicates that the presence of earnings management in response to the above market information company reported earnings less powerful. Adopted the accrual basis accounting system allows the management actions profit, which depends on the motive level to be achieved by the management company.

Suggestions:

Some suggestions with a view to giving efforts towards the reduction of earnings management actions and improving the quality of reported financial performance, as follow:

1. Management good company requires an optimal balance between mechanisms that exist, and it does not provide assurance that the parties that manage the company can carry out their functions properly. Another mechanism is required to support, namely: the labor market, business ethics and legal certainty.

2. To support the process of preparing a proper financial report, we need a board of directors that has the characteristics, namely: independent, capable and credible both as institutions and individuals.

3. As well as any corporate governance mechanisms as a control mechanism against those who manage the company, its success will return to the values espoused actors.

4. Earnings management perspective used in this study were opportunistic perspective. For further research earnings management needs to be reviewed from the perspective of others, for example the perspective of efficiency. Efficiency perspective states that the manager does the choice of accounting policy to provide better information about future cash flow and to minimize agency costs that occur because of a conflict of interest between stakeholders and managers.

REFERENCES


