



FACULTY OF ECONOMICS  
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THESIS

THE INFLUENCE OF BOARD OF COMMISSIONERS'  
CHARACTERISTICS ON EARNING MANAGEMENT  
*(The case of Banking Company Listed in Jakarta Stock Exchange)*

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## ABSTRACT

*This study observes about the influence of Board of Commissioners' characteristics such as, Board of Commissioners' size, composition, and annual meeting on the earnings management practice in public bank companies listed in Indonesia Stock Exchange in 2003-2005. Result show that Board of Commissioners' size has negative significant influence on earning management in banking company as a whole and in small company, Board of Commissioners' composition is insignificantly influencing the earning management in all conditions and Board of Commissioners' annual meeting has significant negative influence to earning management as a whole, but it found to be insignificant in big and small company. These results mean that board of commissioners' function in monitoring and supervising the efficiency of management does not have big influence on earning management practice done by banking company listed in Indonesia Stock Exchange.*

*Keyword: Board of Commissioners' Characteristic, Earning Management*

## CHAPTER I

### INTRODUCTION

#### 1.1 Background

Financial reporting is the way to communicate with party outside the corporate about the accounting information. Accounting information is one source of information that is available for investors and creditors to evaluate manager's efficiency in managing their fund (Setiawati and Na'im 2001). In arranging the financial report, accrual basis is chosen since it is more rational and fair in reflecting company's financial condition. However, the use of accrual basis could give a freedom to management in choosing accounting method as long as not deviate from approved accounting standards. Accounting method is chosen by management for certain objective. This is known as earning management which can create unreliable information.

In Agency theory, the relation of agency occur when there is one or more people (principal) hired other people (agent) to give services then delegate the authority to make decision to the agent (Jensen and Meckling 1976). Manager as supervisor of the company knows the internal information and company's prospect in the future more than the shareholders. That is why, manager has to give a signal about the condition of the company to the owner. However, sometime the information, which is reported, is not accurate with the real condition. This condition is known as information asymmetry (Haris 2004). The

asymmetry between an agent and principal could give a chance for manager to do earning management.

Earning management practice has been created some scandals involving once well-respected companies such as Enron, Worldcom and Xerox. In Indonesia, there was financial scandal in public company which is involved financial statement manipulation by PT Lippo Tbk and PT Kimia Farma Tbk (Boediono 2005). One of the reasons why this situation is still exists because the lack of corporate governance practices implementation. The decision making deficiency and act in a company as evident that show corporate governance in Indonesia is weak (Alijoyo 2004)

Corporate governance is a concept to increase company performance through supervising or monitoring management performance and guarantee management accountability to stakeholder based on rule's framework. The objective of this concept is to achieve a company management transparency for the users of financial statement. If the company could implement this concept so the economics growth could keep on going well together with company management transparency that is also going well and give benefit for many side.

Corporate governance system gives an effective protection to company's stakeholder and creditor so they are sure to get an appropriate return from their investment. Corporate governance also helps to make conducive environment for creating an efficient and sustainable growth in corporate sector. Corporate governance defined as a set of rule which determine the relationship between

## CHAPTER V

### CONCLUSION

#### 5.1 Conclusion

The purpose of this research is to observe the corporate mechanism influences: Board of Commissioners' size (BoCSize), Board of Commissioners' composition (BoCComp) and Board of Commissioners' annual meeting on earning management. The population of this research is banking company listed in Indonesia Stock Exchange in 2003-2005. This research use size of company as controlling variable to avoid bias in analyzing data. The results of hypothesis test are:

The conclusion based on hypothesis test is:

1. Hypothesis 1: there is significant positive influence of the Board of Commissioners' size on earning management.

From the hypothesis test, the significant value of Board of Commissioners' size (BoCSize) in alpha level is  $0.004 < 0.05 (\alpha)$ .

Conclusion: first hypothesis (H1) is rejected, which is there is negative significant relationship between Board of Commissioners' size and earning management.

2. Hypothesis 2: there is a significant negative influence of Board of Commissioners' composition on earning management.

From the hypothesis test, the significant value of Board of Commissioners' composition in alpha level ( $\alpha$ ) 0.05 is  $0.304 > 0.05 (\alpha)$ .

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