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Ownership Structure and Earnings Management in Indonesian Listed Banks

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Abstract

We do the study whether the ownership structure has any effect on earnings management in Indonesian listed banks during 2010-2017. Ownership structure consists of managerial, institutional, family and government ownership. Earnings management is measured using Jones modification formula by identifying the value of discretionary accruals. Since the financial ratios used in this sector are different with the ratios for other sectors, then we use two specific ratios: capital adequacy ratio and non-performing loans, together with return on assets, leverage, and size. We take samples from banking companies on the Indonesia Stock Exchange for the period 2010-2017. The analysis used in this study is the multiple linear regression analysis. The finding is that the ownership structure has a significant effect on earnings management.

Keywords: Ownership Structure, Earnings Management, Indonesian Listed Bank

1. Introduction

Earnings management is the use of policy or management discretion towards measuring accounting profits with opportunistic or specific objectives Walker (2013). Then there is management intervention in the process of preparing financial statements that are reported to external parties Fauziyah (2017). Earnings management arises as a result of agency problems due to differences of shareholders (principal) interest and the company's management (agent) interest. Agency conflict describes a conflict of interest where managers prioritize their own utility rather than maximizing the value of shares Jensen and Meckling (1976). Shareholders pursue their welfare with ever-increasing profitability, but sometimes, management is motivated to meet their personal needs by interfering the process of performance reporting so as not to reflect the true condition of the company Ningsaptiti (2010). Earnings management activities are perceived as an activity that could reduce the credibility of financial statements.

Based on the previous research, ownership structure could have effects on earnings management. Agusti & Pramesti (2009); Agustia (2013); Alves (2012); Chi-Yih Yang et al. (2008); Arifin & Destriana (2016); Sefiana (2010); Veronica & Utama (2005); Wedari (2004) investigated the influences of ownership structure and corporate

governance towards earning management. According to Veronica & Utama (2005), they found that ownership structure influences positively towards earning management. Ownership structure could reduce agency conflict, hence it will reduce earnings management, although companies with a greater agency of conflict tendencies have better governance mechanisms Dey (2008).

Corporate governance is a set of regulation that rules relations among shareholders, company management, creditor parties, government, employees, and also other internal and external stakeholders related to their rights and obligations, in other words, the systems that control FCGI companies (2011). According to Iskander & Chamlou (2000), corporate governance controls are divided into two groups, they are internal dan external mechanisms. Internal mechanisms are the ways for controlling the company by using shareholders general structures and processes (RUPS), direction board compositions, commissioner board compositions and meetings to the board of director. Whereas external mechanisms are controlling the company by the ways of controlling the company and controlling markets.

Corporate governance mechanisms proxied by institutional ownership, managerial ownership, independent commissioner and auditor qualities do not influence toward earnings management Pradipta (2011) and Abdillah (2014). Whereas according to Suryani (2010), institutional ownership, managerial ownership structures, and company sizes influence negatively toward profit management. Company size influences significantly toward earnings management Aji (2012). Effendi (2013) found that company size influences positively toward earnings management, managerial share ownership influences negatively toward profit management, and institutional share ownership does not influence toward profit management.

The are various kind of ownership structure in Indonesian listed bank, whether the controlling or majority interest are government-owned, institutional-owned, managerial-owned or family owned. Most companies in Indonesia have a concentrated ownership structure, meaning that the owner of the company can sit as a board of directors or commissioners. Banks have a certain size that can be an indicator used by investors to assess assets and performance such as large banks that are relatively able to generate large profits because they have enough funds to manage. Earnings management in banks has its own uniqueness, not because of the specificity of bank accounting but includes different governance structures and ownership structures Mehran and Mollineaux (2012).

2. Literature Review

According to Cornett et al. (2005), ownership structure has a significant influence to determine company performance. The ownership structure of banks can be an incentive for owners to carry out good practices. Therefore, owners and managers must create an internal supervision framework in carrying out the operations of the company and ensure that there are no unfavorable activities. Previous studies show that government-owned banks have better performance than institutional, managerial and family-owned banks.

Agency theory is a theory that describes contractual relations between shareholders as principals and management as agents. Agency relations arise because of one or more individuals who can be referred to as shareholders (principals) who employ one or more individuals who are referred as management to do a service on behalf of the principal and authorize management to make decisions Ichsan (2013). This relationship occurs to regulate usage, control resources, and delegate decision-making authority to management as an agent.

According to Arifin and Destriana (2016), earnings management is a form of management expertise to determine profits by taking the right choice in order to achieve the desired level of profit. Earnings management is done by engineering financial statements that are carried out through opportunistic actions of managers to maximize the profits they want although, for some cases, management does not think about the impact of potential losses for shareholders. According to Scott, earnings management is often carried out by management by utilizing loopholes of accounting standards Larastomo (2016).

Corporate governance should be applied to control each corporate achieves its goals (Irma et al., 2015). The goals set by the company in order to create efficiency and effectiveness of the company's operations. Corporate

governance is carried out to supervise management behavior so that the shareholders' goals are met. Since the management is the party being given the responsibility to manage the company's, then management should ensure that all processes of the company's management are in accordance with the good governance practices (Sirat, 2012). Considering the context of Indonesian bank, Indonesian central bank had published the regulation (Number 8/4/PBI/2006) about Good Corporate Governance implementations for common banks, to strengthen national banking conditions according to Indonesian Banking Architecture (API).

2.1. Hypothesis Development

The interesting concern regarding government ownership in state-owned banks is who actually holds the ownership, whether the people (taxpayers) or bureaucrats. Bureaucrats tend to maximize expenditure, including a large number of staff. This causes banks owned by the government to tend to be managed inefficiently. This lack of clarity about who owns the state bank can lead to earnings management practices Arun and Turner (2004). Ben-nasr et al. (2015), examined the quality of earnings generated by government ownership companies by using discretionary accruals (Modified Jones Model) as a measure of earnings quality and concluded that government ownership is associated with low earnings quality. Government-owned companies generally show agency problems with conflicting goals.

H1.*Government ownership has an effect on earnings management*

Institutional ownership has a function to monitor the management's performance and has a positive impact that can reduce earnings management behavior carried out by managers. Majority or controlling parties who have large ownership could monitor the agent's performance. The occurrence of fraudulent practices that benefit only to one party will be reduced. If institutional ownership does not have the ability to control management so that it cannot reduce earning management, it could be that investors do not act as sophisticated investors who have many opportunities to monitor managers to focus more on company value Subhan (2015).

H2.*Institutional ownership has an effect on earnings management*

Managerial ownership has a function to suppress opportunistic actions taken by management, by giving a portion of the bank's shares to management. According to Agusti & Pramesti (2009), management share ownership has a good purpose of aligning the interests of managers and owners so as to reduce the existence of earnings management. Managerial ownership strongly affects earnings management behavior (Sun and Rath, 2009, Agusti and Pramesti, 2009). Bank managers will be more responsible in making decisions because if the decision makes the bank suffer losses, the manager will also directly impacted.

H3.*Managerial ownership has an effect on earnings management*

Family ownership is ownership of individuals and private-owned companies (more than 5% interest), which is not a public company, state-owned company, or financial institution. Family companies often raise issues about company disclosures, especially regarding the quality of company disclosures. According to Stockmans et al. (2013), the issue of the low quality of corporate disclosures related with earnings management is due to the high level of concentration of share ownership which causes the high possibility of controlling shareholders to take over non-controlling shareholders.

H4.*Family ownership has an effect on earnings management*

3. Research Method

3.1. Samples

The populations in this study were listed bank on the Indonesia Stock Exchange (IDX) in 2010-2017. Determination of this quite long periods (8 years) is to have a complete set of data for a better description of the listed bank's dynamic changing ownership structure in Indonesia. The population is all banks listed on the Indonesia Stock Exchange, consists of 45 banks, during the period 2010-2017. So that there should be 360 data. The samples available are 344 data after excluding financial statements that are incomplete or not published on the IDX website.

3.2 Variables Operationalization

The independent variable used in this study is the ownership structure. The ownership structure has several properties such as government ownership structures, institutional ownership structures, managerial ownership structures, and family ownership structures.

1. Government Ownership Structure

Government ownership is the amount of share ownership by the government of all share capital managed (Farooque et al., 2007).

$$\text{Government ownership} = \frac{\text{The number of shares of the government}}{\text{Total outstanding shares}} \times 100\% \quad (1)$$

2. Institutional Ownership Structure

Institutional ownership is shareholders from institutional parties such as insurance institutions, investment companies and other institutions (Darwis, 2009). Institutional ownership in this study is domestic institutional ownership.

$$\text{Institutional ownership} = \frac{\text{Number of institutional shares}}{\text{Total outstanding shares}} \times 100\% \quad (2)$$

3. Managerial Ownership Structure

Managerial ownership is shares owned by management in private or shares owned by subsidiaries of the company concerned and their affiliates. The indicator for measuring ownership is the percentage comparison of the number of shares held by management with all outstanding share capital (Agustia, 2013). Managerial ownership can be measured by formula:

$$\text{Managerial Ownership} = \left(\frac{\sum \text{Shares of Directors \& Commissioners}}{\sum \text{Shares Outstanding}} \right) \times 100\% \quad (3)$$

4. Family Ownership Structure

Family ownership is ownership that leads to the founder or family members, that is an employee, or director, both individually and as a group (Villalonga et al., 2012).

$$\text{Family ownership} = \frac{\text{Number of family shares}}{\text{Total outstanding shares}} \times 100\% \quad (4)$$

5. Corporate Governance

The corporate governance mechanism is measured with proportion of the Independent Board of Commissioners divided by the total number of commissioners

$$\text{Independent Commissioner Board Proportion (PDKI)} = \frac{\sum \text{PDKI}}{\sum \text{Commissioner Board}} \quad (5)$$

These control variables had been used in previous studies since they were proven to have an effect on earnings management in banks. The control variables used in this study have been adjusted to the object of research, the following are the control variables used in this study:

1. Capital Adequacy Ratio (CAR)

This ratio is used to protect depositors and promote the stability and efficiency of financial systems throughout the world. The bank adequacy ratio is the ratio of bank capital to regulatory risk.

$$\text{CAR} = \frac{\text{Tier One Capital} + \text{Tier Two Capital}}{\text{Risk Weighted Assets}} \quad (6)$$

2. Non-Performing Loan

Non-Performing Loan is a sum of money borrowed by a debtor, but the debtor has not made payments in accordance with the specified period. The specified period also varies depending on the industry and type of loan. But in general, the period is 90 days or 180 days. One of the keys of the Non-Performing Loan is assessing the quality of the performance of the bank. If the non-performing loan continues to increase, it will have a negative impact on the bank, namely reducing the amount of capital owned by the bank, because the interest rate that should be the source of bank income is hampered by not receiving installments in accordance with the period that should.

3. Return on Asset (ROA)

ROA ratio is the ratio between net income and assets. According to (Setiawati, 2010), this ratio shows the effectiveness of asset management, the higher the number, the more productive asset management is.

$$ROA = \frac{\text{Net profit before tax}}{\text{Total assets}} \times 100\% \quad (7)$$

4. Leverage

Leverage is the use of assets or funds that are useful for closing costs or fixed expenses of the company. In this study used financial leverage. (Riyanto 2005)in (Dewi 2010)states financial leverage is the use of funds accompanied by fixed costs.:

$$\text{Debt to total assets} = \frac{\text{Total liabilities}}{\text{Total assets}} \quad (8)$$

5. Size

Size is an indicator that shows the characteristics of a company with several parameters that can be used to determine the size of the company. In this case, size is measured by total assets.

$$\text{Size} = \frac{\text{Total Asset Bank}}{\text{Population Asset Total}} \times 100\% \quad (9)$$

Earnings management as the dependent variable will be calculated with a modified Jones model, with the following formula:

$$NDA_t = \alpha_1 \left(\frac{1}{A_{t-1}} \right) + \alpha_2 \left(\frac{\Delta REV_t - \Delta REC_t}{A_{t-1}} \right) + \alpha_3 \left(\frac{PPE_t}{A_{t-1}} \right) \quad (10)$$

Where:

NDA_t = non-discretionary accruals of company i in period t

α = fitted coefficients obtained from regression results in calculating total accruals

$\Delta REV_{i,t}$ = change in revenue for companies from year t .

ΔREC_t = change in company receivables i from year $t-1$ to year t

A_{t-1} = total company assets at the end of year $t-1$

PPE_t = company fixed assets in period t

3.3 The Model of Analysis

The analysis model used in this research uses the research model available in the research of Chi-Yih Yang et al. (2008). The model uses two independent variables, and they are ownership structure and corporate governance and one dependent variable, i.e., earning management.

$$DA_{i,t} = \beta_0 + \beta_1 (INS_{i,t})^2 + \beta_2 INS_{i,t} + \beta_3 CGOV_{i,t} + \beta_4 CFO_{i,t} + \beta_5 LEV_{i,t} + \beta_6 SIZE_{i,t} + \beta_7 ROA_{i,t} + \varepsilon_{i,t} \quad (11)$$

Where:

$DA_{i,t}$ = Firm i 's discretionary accruals at year t .

$INS_{i,t}$ = Total insider holding ratio.

$CGOV_{i,t}$ = Corporate governance at year t.

$CFO_{i,t}$ = Cash flow from operation at year t.

$LEV_{i,t}$ = Financial leverage at year t.

$SIZE_{i,t}$ = Firm size at year t.

$ROA_{i,t}$ = Return on asset at year t.

$\varepsilon_{i,t}$ = Error term.

4. Results of Analysis and Discussion

Descriptive statistical analysis was carried out to find a simple description of all the variables used as the object of research. Following are the results of processing descriptive statistical data from 344 companies sampled. Based on table 4.1, it can be seen that the Bad Credit Risk variable owned by a bank can be measured by NPL, with the average value being 1.41%, this indicates that bad credit at the sample bank is still below the provisions of Bank Indonesia regarding the NPL ratio of $\leq 5\%$. While bank CAR, which is a component of bank health assessment, in this study the average CAR value of the bank is 29.17%. This explains that the average bank sample in this study has CAR above the standard determined by Bank Indonesia, which is 8%.

Table 4.1 Descriptive statistics

Variable	N	Min	Max	Mean	Std, Dev
Earning Management	344	-0,02	0,00	-0,0108	0,00321
Government	344	1,19	55,88	20,6981	13,39797
Institusional	344	0,86	52,54	21,1574	13,86283
Manajerial	344	0,01	49,90	17,8939	14,07297
Family	344	0,42	87,02	24,6020	16,21418
Corporate Governance	344	0,00	3,20	0,5472	0,32110
CAR	344	0,01	4,86	0,2917	0,54069
NPL	344	1,E8	1,E13	1,41E12	2,356E12
ROA	344	-11,14	4,55	0,9165	1,80364
LEV	344	1,09	16,41	8,2612	2,77175
SIZE	344	9,33	14,07	12,2426	0,88595

To determine whether the regression coefficient obtained was valid (correct, acceptable), it is necessary to perform testing of a possible violation of the assumptions of classical. The results of classical assumptions are as follows: The normality test in this study applies to u_i (residual) if the residual (u_i) is normally distributed by itself all research variables used will be normally distributed. The following are the results of the residual normality test:

Table 4.2 Normality Test Results on Residuals

N	Kolmogorov-Smirnov Z	Significant	Information
344	1,289	0,072	Normal

Table 4.2 shows that the residual data distribution is fulfilling the normal distribution because the Kolmogorov-Smirnov value produced is 1,289 with a significant level of 0,072 over 5%. If the residual (u_i) is normally distributed by itself the dependent variable is Earning Management (Y) and the independent variables are Government (X1), Institutional (X2), Managerial (X3), Family (X4), Corporate Governance (X5), CAR (X6), NPL (X7), ROA (X8), LEV (X9), and SIZE (X10) have normal distribution. So that multiple linear regression analysis can be continued.

Multicollinearity testing is done to find out that one independent variable with another independent variable in the regression is not related perfectly or is near perfect. From the presumed existence of multicollinearity, it is necessary to prove statistically the presence or absence of symptoms of multicollinearity that can be done by calculating VIF. If VIF is greater than 10, multicollinearity occurs, if it is smaller than 10, multicollinearity does not occur.

The VIF values generated by the independent variables are Government (X₁), Institutional (X₂), Managerial (X₃), Family (X₄), Corporate Governance (X₅), CAR (X₆), NPL (X₇), ROA (X₈), LEV (X₉), and SIZE (X₁₀) are as follows:

Table 4.3. VIF Value for Multicollinearity Testing

No	Research Variable	Tolerance	VIF	Information
1	Government (X ₁)	0,842	1,188	There is no multicollinearity
2	Institutional (X ₂)	0,919	1,088	There is no multicollinearity
3	Managerial (X ₃)	0,913	1,096	There is no multicollinearity
4	Family (X ₄)	0,901	1,110	There is no multicollinearity
5	Corporate Governance (X ₅)	0,947	1,056	There is no multicollinearity
6	CAR (X ₆)	0,914	1,094	There is no multicollinearity
7	NPL (X ₇)	0,780	1,281	There is no multicollinearity
8	ROA (X ₈)	0,788	1,269	There is no multicollinearity
9	LEV (X ₉)	0,792	1,263	There is no multicollinearity
10	SIZE (X ₁₀)	0,604	1,655	There is no multicollinearity

Table 4.3. Shows that between independent variables does not occur multicollinearity, judging from the value of VIF on variables are Government (X₁), Institutional (X₂), Managerial (X₃), Family (X₄), Corporate Governance (X₅), CAR (X₆), NPL (X₇), ROA (X₈), LEV (X₉), and SIZE (X₁₀) which are less than 10 and tolerance values are more than 0,1.

Variants of independent variables are not constant or different for each particular value of the independent variable. In the linear regression, the residual value or absolute value of the residual cannot have a relationship with the independent variable. This can be identified by calculating the Rank Spearman correlation coefficient between unstandardized residuals and all independent variables.

The results of heteroscedasticity tests on variables are Government (X₁), Institutional (X₂), Managerial (X₃), Family (X₄), Corporate Governance (X₅), CAR (X₆), NPL (X₇), ROA (X₈), LEV (X₉), and SIZE (X₁₀) are as follows:

Table 4.4. Results of the Spearman Rank Correlation Test

No	Research variable	Spearman Rank Correlation	P-value	Information
1	Government (X ₁)	0,057	0,291	There is no heteroscedasticity
2	Institutional (X ₂)	-0,026	0,631	There is no heteroscedasticity
3	Managerial (X ₃)	-0,029	0,598	There is no heteroscedasticity
4	Family (X ₄)	-0,033	0,545	There is no heteroscedasticity
5	Corporate Governance (X ₅)	-0,043	0,428	There is no heteroscedasticity
6	CAR (X ₆)	-0,129	0,016	There is no heteroscedasticity
7	NPL (X ₇)	0,002	0,977	There is no heteroscedasticity
8	ROA (X ₈)	0,039	0,475	There is no heteroscedasticity
9	LEV (X ₉)	-0,015	0,784	There is no heteroscedasticity
10	SIZE (X ₁₀)	-0,063	0,247	There is no heteroscedasticity

Table 4.4. Shows that between residuals with independent variables there is no heteroscedasticity, it can be seen from the significant level of Government (X₁), Institutional (X₂), Managerial (X₃), Family (X₄), Corporate Governance (X₅), CAR (X₆), NPL (X₇), ROA (X₈), LEV (X₉), and SIZE (X₁₀) variables which have a p-value (sig.) of more than 5%.

Autocorrelation test to see whether there is a correlation between a period t and the previous period (t -1). In this study using the Durbin Watson test (D-W test) with the following results:

Table 4.5. Autocorrelation Test Results

Durbin-Watson
0,938

A regression model is said to have autocorrelation if the DW value is less than -2 ($DW < -2$), while a regression model is said to have no autocorrelation if the DW value is between -2 and +2 ($-2 > DW < +2$), so that the model does not have autocorrelation because it has a value of 0,938.

The results of processing multiple linear regression analysis of the dependent variable are Earning Management (Y) and independent variables are Government (X1), Institutional (X2), Managerial (X3), Family (X4), Corporate Governance (X5), CAR (X6), NPL (X7), ROA (X8), LEV (X9), and SIZE (X10) can be seen in the table below:

Table 4.6 Equations of Multiple Linear Regressions

Independent variable	Regression coefficient
Constant	-0,011
Government (X ₁)	-0,03384
Institutional (X ₂)	0,04031
Managerial (X ₃)	0,02836
Family (X ₄)	0,03842
Corporate Governance (X ₅)	0,001
CAR (X ₆)	0,001
NPL (X ₇)	0,01646
ROA (X ₈)	0,0001
LEV (X ₉)	0,05675
SIZE (X ₁₀)	0,0001

Based on table 4.6 above, the regression equation obtained is:

$$Y = -0,011 - 0,03384X_1 + 0,04031X_2 + 0,02836X_3 + 0,03842X_4 + 0,001X_5 + 0,001X_6 + 0,01646X_7 + 0,0001X_8 + 0,05675X_9 + 0,0001X_{10} + e$$

The results of the F test can be used to determine the compatibility of multiple linear regression models of the dependent variables namely Earning Management (Y) and the independent variables are Government (X1), Institutional (X2), Managerial (X3), Family (X4), Corporate Governance (X5), CAR (X6), NPL (X7), ROA (X8), LEV (X9), and SIZE (X10). The results of the F test are as follows:

Table 4.7 F Test Results

Model	F	Sig
Regression	6,623	0,000

Table 4.7 shows that the calculated F value is 6,623 with a significant level smaller than 5% which is equal to 0,000. This means that Government (X1), Institutional (X2), Managerial (X3), Family (X4), Corporate Governance (X5), CAR (X6), NPL (X7), ROA (X8), LEV (X9), and SIZE (X10) simultaneously affects Earning Management (Y). This means that the resulting regression model is appropriate to find out the effect of the independent variables are Government (X1), Institutional (X2), Managerial (X3), Family (X4), Corporate Governance (X5), CAR (X6), NPL (X7), ROA (X8), LEV (X9), and SIZE (X10) on the dependent variable namely Earning Management (Y).

The magnitude of the effect of the independent variables Government (X1), Institutional (X2), Managerial (X3), Family (X4), Corporate Governance (X5), CAR (X6), NPL (X7), ROA (X8), LEV (X9), and SIZE (X10) to the dependent variable namely Earning Management (Y) can be seen from the value R², namely:

Table 4.8 Results of the Multiple Linear Regression Summary Model
Model Summary^b

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Durbin-Watson
1	0,407	0,166	0,141	0,00297	0,938

a. Predictors: (Constant), SIZE, Family, Governance, Institutional, CAR, Managerial, LEV, Government, ROA, NPL

b. Dependent Variable: Y

Table 4.8 shows that the R² value produced is 0,166, which means that the independent variables are Government (X₁), Institutional (X₂), Managerial (X₃), Family (X₄), Corporate Governance (X₅), CAR (X₆), NPL (X₇), ROA (X₈), LEV (X₉), and SIZE (X₁₀) are able to explain the value of the dependent variable namely Earning Management (Y) of 16,6% and the remaining 83,4% is explained by other variables not discussed in this study.

To test the effects partially on the independent variables Government (X₁), Institutional (X₂), Managerial (X₃), Family (X₄), Corporate Governance (X₅), CAR (X₆), NPL (X₇), ROA (X₈), LEV (X₉), and SIZE (X₁₀) on the dependent variable namely Earning Management (Y) carried out the t test.

Table 4.9 t-Test Results for Multiple Linear Regressions

Independent variable	t-count	Significant level	Conclusion
Constant	-3,832	0,000	Significant effect
Government (X ₁)	-2,591	0,010	Significant effect
Institutional (X ₂)	3,337	0,001	Significant effect
Managerial (X ₃)	2,375	0,018	Significant effect
Family (X ₄)	3,684	0,000	Significant effect
Corporate Governance (X ₅)	2,107	0,036	Significant effect
CAR (X ₆)	2,609	0,009	Significant effect
NPL (X ₇)	2,134	0,034	Significant effect
ROA (X ₈)	1,545	0,123	No effect
LEV (X ₉)	0,872	0,384	No effect
SIZE (X ₁₀)	-1,215	0,225	No effect

Table 4.9 shows that Government (X₁), Institutional (X₂), Managerial (X₃), Family (X₄), Corporate Governance (X₅), CAR (X₆), and NPL (X₇) variables partially effect Earning Management (Y). This is seen from the value of the calculated variable and the significant level of less than 5%. While the variables ROA (X₈), LEV (X₉), and SIZE (X₁₀) partially have no effect on Earning Management (Y). This is seen from the value of the calculated variable and the significant level of more than 5%.

Based on the results of the regression model estimation, it is obtained as follows:

1. The results of this study indicate that government ownership has a negative effect on earnings management. From the results of this study, government ownership does not agree to the practice of earnings management that occurs in a company, and it shows the government has a good performance in the company. There are 7 (seven) banks in Indonesia owned by the government and the government also invests shares in several companies. Government control can be used to solve conflicts between shareholders and management.
2. The existence of institutions that have a major role in a bank can support or vice versa to management, but based on the results of this study the greater the institutional ownership in a bank will effect on earnings management at the bank. Based on the results of this study it is known that the greater institutional ownership will reduce the practice of earnings management that can be done by management. This happens because one of the functions of institutional ownership is as monitoring agents. Institutions as the largest shareholders of banks have the power to replace bank managers who commit fraud in reporting bank performance, thus causing control holders to be wrong in deciding a policy. The results of this study support the results of research conducted by (Rezai, F & Roshani, M 2012) and (Alves, S 2012) which concluded that institutional ownership has a positive effect on earnings management.

3. Hypothesis test results indicate that management ownership has an effect on bank earnings management with a positive direction of effect. Based on these findings, the more shares owned by management and bank employees will improve management behavior to use the excess information they have on reporting bank profits. This happens because when bank profits increase and the board of directors decides to distribute dividends, management with share ownership will receive dividends as much as the shares they have. Although giving shares to management is considered as one way to reduce agency problems, it does not necessarily make management more cautious in making policies on the accounting methods applied to the banks they manage. They actually use the policy to increase bank profits so they can get dividends on shares they own. This result does not support previous research conducted by (Jensen & Meckling, 1976), (Warfield et al. 1995), (Dhaliwal et al. 1982), (Morck et al. 1988) (Cornett et al. 2006), also (Ujiyantho and Pramuka 2007) who found a negative effect on managerial ownership and earnings management. Nevertheless, the results of this study support the research (Wedari 2004) and (Boediono, 2005) found that managerial ownership has a positive effect on earnings management. Overall, the results of this study indicate that there are still agency problems with bank companies in Indonesia. One reason is the proportion of manager's ownership of the company's shares is very low from the number of company shares so that it cannot be able to unite the interests of managers and owners because managers as managers of companies do not feel they have the same interests as the owners.
4. In this study found evidence that family ownership has a positive effect on earnings management. This indicates that the higher the family ownership in the company, the better the management of profits in a family-controlled company. With a family-controlled ownership structure, it can reduce conflicts between shareholders and creditors, where creditors consider family ownership to protect creditors more.

5. Conclusion

Based on the results of the analysis and discussion, the conclusions from the results of this study are as follows:

1. Government ownership has a negative effect, but not significant on earnings management.
2. Institutional ownership has a significant effect on earnings management.
3. Managerial ownership has a positive effect, but not significant on earnings management.
4. Family ownership has a positive and significant effect on earnings management.
5. Corporate Governance variables are proven to have an effect on earnings management.
6. Capital Adequacy Ratio (CAR) has a significant effect on earnings management.
7. Non-Performing Loans (NPL) has a significant effect on earnings management.
8. Return on Assets (ROA), Size, Leverage, does not have an effect on earnings management

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