IFRS CONVERGENCE MODERATES MANAGERIAL OWNERSHIP AND INSTITUTIONAL TOWARDS EARNINGS MANAGEMENT ON THE INDONESIA STOCK EXCHANGE

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Abstract

This research aims to explore: (1) the effect of institutional and managerial ownership on earnings management; (2) the existence of managerial profit differences before and after IFRS (International Financial Reporting Standards); and (3) IFRS (International Financial Reporting Standards) convergence as a variable moderating the effect of institutional and managerial ownership on earnings management.

There are 78 sample companies during the period 2010-2015 for this research which is listed from purposive sampling method. Multiple regression and different test of *Wilcoxon signed rank test* are used as analytical tool.

The results indicate that managerial ownership significantly reduces earnings management. The existence of IFRS convergence is also proven to strengthen the effect of managerial ownership on earnings management. In contrast, institutional ownership cannot significantly affect earnings management. The existence of IFRS convergence cannot significantly strengthen the effect of institutional ownership on managerial earnings. Meanwhile, earnings management before the IFRS convergence are significantly different from the period after the adoption. For the control variables, audit quality has a significant influence on the management of earnings.

Keywords: Earnings Management, IFRS (International Financial Reporting Standards) Convergence, Institutional Ownership, Managerial Ownership

JEL classification: M41, M42

1. Introduction

Indonesia has imposed financial accounting standards referring to IFRS since 2012. All companies listed in the Indonesia Stock Exchange must present and disclose financial reports in accordance with IFRS.

Before getting to know IFRS, the presentation and disclosure of financial statements in Indonesia refers to IFRSs that are guided by Generally Accepted Accounting Principles (GAAP). IFRS is principles-based, while GAAP is rule-based. Nisbet & Sheikh (2007) argues that rules-based systems encourage management actions that are in the wrong direction, one of which is by applying creative accounting and loosening regulations; that are still in the

gray area but are legally permissible although morally less acceptable. Nisbet & Sheikh (2007) also explains that accounting standards that hold the rules-based principle are one of the reasons for the manager's increased opportunity to restructure transactions to produce misleading financial reports.

Adopting IFRS for presentation and disclosure of financial statements will create 7 benefits for Indonesia: (1) Improving the quality of Financial Accounting Standards. (2) Reducing the costs of Financial Accounting Standards. (3) Increasing financial statements' credibility and usefulness. (4) Improving financial statements' comparability. (5) Increasing financial transparency. (6) Reducing cost of capital through the use of capital market. (7) Improving the efficiency in preparing financial statements.

The purpose of IFRS convergence is to produce reliable, relevant and quality financial information. Hence, after implementing IFRS, the practice of earnings management can be minimized. As expressed by Daske & Gebhardt (2006), the adoption of IFRS may improve the quality of financial statements. Morais & Jose (2008) examined whether adoption of IFRS in Portugal. They have an impact on increasing earnings quality in relevant values finding that during the period when companies adopted IFRS, companies made fewer earnings management. Conflict between management and shareholders, which is caused by differences in interests between managers and shareholders, give rise to earnings management. Jensen & Meckling (1976) argued that agency conflict is a result of the separation between control and ownership. The cause of the conflict occurs when the proportion of manager's ownership of the company's shares is less than 100% so managers tend to act in pursuit of their interests and have no basis in maximizing value in decision making. This conflict can be minimized by a supervisory role to align these different interests. Several alternatives of control are proposed, such as increasing in the company's share ownership by management. By including management as the owner, they will be more careful in making decisions, since management will also bear the loss from making wrong decision. This ownership will align management interests with shareholders (Jensen & Meckling, 1976). Hence, share ownership brings incentive for managers to improve company's performance. Another alternative is to increase institutional ownership as a supervisory agent. Ali. et. al. (2008) that the distribution of shares between outside shareholders, namely institutional ownership can be a monitoring mechanism, because ownership can be used to support the existence of management. Along this background, this study aims to analyze (1) the effect of institutional ownership and managerial ownership on earnings management. (2) IFRS convergence that moderates the effect of managerial ownership and managerial ownership on earnings management. (3) differences in the effect of earnings management levels before and after IFRS convergence.

2. Literature Review and Hypothesis Development

2.1 Literature Review

a. Agency Theory

Differences in interests between agents and principals can lead to conflicts that mischief both parties. Principal as shareholder while agent as manager. Principal as a provider of funds for operational activities the company wants an agent to manage the funds of the company's operational interests and generate greater returns. Of course the principal has an obligation to provide compensation to the manager for the tasks that have been given. The difference of interest that usually arises is that the management of the company as an agent wants large profits so that the bonuses obtained are also large, while business owners who are usually called principals insist on disclosure of transparent information regarding their investments. This

will cause information asymmetry. Information asymmetry will cause more opportunity for managers to conduct earnings management. In particular, managers will conduct earnings management so that they mislead investors in assessing company performance.

b. IFRS Convergence

The standard for presenting financial statements and accounting standards must be a widely accepted standard. In 1970, Britain, Canada and the United States formed the Accounting International Study Group (AISG). In 1973, professional accounting organizations from the Netherlands, Canada, Australia, Mexico, Japan, France and New Zealand formed the International Accounting Standard Committee (IASC) and created the International Accounting Standard (IAS). In 2000, IASC became IASC Foundation (IASCF), in charge of the International Accounting Standard Board (IASB) and the International Financial Reporting Interpretation Committee (IFRIC). IASCF created IFRS as a standard for reporting the financial statements, which is adopted by the IASB and is accepted in various countries. IFRS is a single standard regarding accounting rules that emphasize revaluation and clear and transparent disclosures regarding company transactions.

c. Managerial Ownership

Jensen & Meckling (1976) states that share ownership by firm's management will encourage managers to improve firm value because managers also enjoy some portion of the wealth effect as shareholders. The advantage that can be obtained from large managerial ownership is the convergence of managerial and shareholder interests because shareholders also play a role as managers who share the same interests. But Bushee (1998) that increased managerial ownership can also provide greater opportunities for managers in conducting earnings management.

d. Institutional Ownership

Institutional ownership can also act as a supervisor of management performance in managing the company. Almazan. et. al (2005) states that investors from other institutions can provide more active supervision than small investors because institutional investors have the access and resources to supervise managers. In contrary, Bushee (1998) argues that institutional ownership usually focuses on short-term financial goals so that it cannot monitor management performance comprehensively and sustainably.

e. Earnings Management

Keiso. et. al (2011) states that financial statements must provide information that enabled investors and creditors to evaluate the amount and time of net cash receipts as well as its uncertainty. Matoussi & Kolsi (2006) state that corporate financial scandals usually occur when using extreme manipulation on earnings in order to change the firm's financial statements. Earnings management is defined by Akers. et al. (2007) as the management attempt to manipulate earnings through the use of accounting methods, manipulation on when to recognize costs and revenues, or influencing short-term earnings. Waweru & Riro (2013) revealed that earnings management is carried out for different purposes and in different ways. In principle, earnings management does not violate applicable accounting rules, but with the practice of earnings management, the financial statements presented are less accurate and can mislead users of financial statements.

2.2 Development of Hypotheses

a. The Effect of Institutional Ownership on Earnings Management

According to agency theory, supervision by institutional ownership is an important mechanism for governance. Research have shown mixed results on the relationship between institutional ownership and earnings management. Duggal & Millar (1999), Claessens & Fan (2002), Xie. et. al (2003) argue that institutional ownership is passive ownership for short-term interests rather than continuing their ownership to monitor and improve management performance.

A similar opinion was expressed by Alves (2012) who said that there will be pressure on management to meet short-term earnings expectations when institutional ownership has a positive effect on earnings management, so that management tends to make earnings management to exceed expectations and increase management incentives.

Research conducted by Cornett. et. al (2008) revealed that institutional ownership can prevent management from practicing earnings management. This finding is in line with previous research by Chung. et. al (2002) which showed the effect of institutional ownership in reducing the opportunity for managers to conduct earnings management. Sumanto & Kiswanto (2014) also stated that the greater institutional ownership means the greater the oversight carried out by investors towards management, thus limiting management to take earnings management actions. Thus the hypothesis can be drawn as follows.

H1: The proportion of institutional ownership has a negative effect on earnings management.

b. The Effect of Managerial Ownership on Earnings Management

Agency theory states that managerial ownership encourages managers to increase company value due to their role as shareholders in the company. Managerial ownership according to Alves (2012) is share ownership owned by company management and is one of the supervisory tools that can be used to reduce agency conflict. Agency conflicts occur when there are differences of interests between shareholders and company management. The existence of these differences can be minimized by increasing the proportion of managerial ownership. That way, managers can further optimize the decisions that will be taken in order to align their interests as investors and managers.

Denis & McConnell (2003) revealed that as managerial ownership increases, it opens opportunities for management to conduct earnings management. This is because the desire to increase management incentives and stock prices is greater than the motivation to present good financial statements. Yang. et al (2008) states the fact that managers with high share ownership can benefit from earnings management practices to maintain high share price and value.

Research conducted by Ebrahim (2007) concluded that managerial ownership is able to reduce agency conflict and earnings management practices. It is consistent with Klein (2002) and (Mahariana. et.al 2014), which showed the negative effect of managerial ownership on earnings management. In Indonesia, Nundini & Lastanti (2014) also showed similar result. Hence, the hypothesis is as follows.

H2: The proportion of managerial ownership has a negative effect on earnings management.

c. IFRS Convergence moderates Institutional and Managerial Ownership of Earnings Management

IFRS convergence aims to improve financial statements' quality so as to present information that is relevant and free of material misstatements. Not only free from material misstatements but also from the practice of earnings management that can influence the decision making process.

Wulandari & Lastanti (2015) study concluded that IFRS convergence is not significant in affecting earnings management practices because IFRS is an external factor, while earnings management practices are more influenced by internal factors. Ball. et. al (2003) argues that the adoption of the latest standards does not always improve accounting quality even though the country has implemented the latest standards at the time, as happened in Hong Kong, Malaysia, Thailand and Singapore. (Lin & Paananen (2006) states that changes in earnings management patterns make the IASB unable to reduce overall earnings management actions. Callao & Jarne (2010) compared discretionary accruals before and after the adoption of IFRS in 11 firms from European stock market, and found that IFRS encouraged discretionary accounting and opportunistic behavior.

The results of different studies were found by Iatridis & Kadorinis (2009) which stated that in the UK, earnings management practice decreases after the adoption of IFRS. This result is similar to Ward (2009) which showed the negative effect of IFRS convergence on discretionary accruals, hence decreasing the level of earnings management practices. Jeanjean & Stolowy (2008) also stated the same thing, namely countries that adopt or carry out IFRS convergence have lower earnings management. Cai. et. al (2012) revealed a low conduct of earnings management in countries that do not adopt IFRS but have standards similar to IFRS. Chen. et. al (2010) conducted similar research for EU countries and showed that earnings management declined after the adoption of IFRS.

In Indonesia, Rohaeni & Aryati (2012) showed the negative effect of IFRS convergence on earnings management, and argued that following the implementation of IFRS, fewer accounting methods are used so companies cannot manipulate their financial statements and practices earnings management diminishes. Research conducted by Widyawati & Anggraita (2013) and other researchers showed similar results.

From some of the results of previous studies, namely institutional and managerial ownership of earnings management and with the existence of IFRS convergence, companies will be difficult to manipulate financial statements because IFRS adoption uses more fair value which results in a measurement more relevant because it reflects current values. Thus the hypothesis proposed is as follows:

H3a: IFRS convergence strengthens the influence of constitutional ownership on managerial earnings.

H3b: IFRS convergence strengthens the effect of managerial ownership on earnings management.

d. Difference in the Level of Earnings Management: Before and After the IFRS Convergence

IFRS convergence aims to improve the quality of financial information. One of the qualities in question is whether the financial statement is free from the practice of earnings management that can lead users to wrong decisions. Some studies that compare the level of earnings management pre and post IFRS convergence include Callao & Jarne (2010) which showed an increase in opportunistic behavior and earnings management actions.

Jeanjean & Stolowy (2008) explored the evidence of earnings management in Australia, France and the UK from 2005 to 2006 after adopting IFRS, and showed that earnings management did not decline, and it even increased in France, after the adoption of IFRS. Barth. et. al (2008) examined accounting quality of 327 companies in 21 countries which have adopted IAS. They found out that after the introduction of IFRS, earnings management declined, value relevance increased, and loss recognition became more timely,

compared to the period before IFRS, when local GAAP was the standard. The hypothesis is as follows.

H4: There is a difference in the level of earnings management before and after the IFRS convergence.

3. Research methods

3.1 Research Design

This research focuses on the annual report of manufacturing firms listed on the stock exchange in 2010-2015. The period is divided into two categories, where the period before IFRS convergence is 2010-2011, and the period after IFRS convergence is 2013-2015.

3.2 Operational Definitions and Variable Measurements

a. Independent Variables

Institutional ownership comprises the government, financial institutions, legal entities, and other institutions. It is measured as the ratio of share ownership owned by institutions (Σ $saham_ins$) over the total outstanding shares (Σ $total\ saham$). This method refers to Murwaningsari (2012), Nundini & Lastanti (2014). i.e. INS_OWN = Σ $saham_ins$ / Σ $total\ saham$ X 100%.

Managerial ownership is managers' shares. It is measured as the ratio of shares owned by the company manager (Σ $saham_man$) over the total outstanding shares (Σ $total\ saham$). This method refers to Ali. et. al (2008), that is MAN_OW = Σ $saham_man$ / Σ $total\ saham$ X 100%.

b. Dependent Variables

Earnings management is measured by the accrual approach. As stated by Healy & Wahlen (1999), accruals are a variety of earnings management methods. In this study, the accrual method used is discretionary accruals, referring to the formula from Gul. et. al (2009) and Wulandari & Lastanti (2015) as follows:

$$\begin{aligned} ACC_T = {} & \alpha_1 + \alpha_2\, CFO_t + \alpha_3\, CFO_{t-1} + \alpha_4\, CFO_{t+1} + \alpha_5\, \Delta REV_t + \alpha_6\, PPE_t \\ & + \alpha_7\, ROA_{t-1} + \alpha_8\, \Delta CFO_t + \alpha_9 DUM\Delta CFO_t + \alpha_{10} \Delta CFO_t \\ & * DUM\Delta CFO + \varepsilon_t \end{aligned}$$

where: ACCt = Difference between income before extraordinary items with cash flow from operating activity, CFOt = Cash flow from operating activities, Δ*REV*t = Change in income, PPEt = Value of Property, Plant and Equipment, ROAt-1= Return on Assets in the previous period, Δ*CFOt* = Change in cash flow from operating activity, DUMΔCFOt = Variable dummy 1 for changes in CFO negative and 0 for others.

c. Moderation Variable

IFRS convergence is a series of processes carried out before the implementation of IFRS as a whole. To measure IFRS convergence, dummy variables are used. The selection of dummy variables refers to Cai. et. al. (2012) and Osesoga & Uang (2015), where 1 indicates firms that have implemented IFRS and 0 otherwise.

d. Control Variables

Audit quality measures the process done by external parties to decrease the asymmetry between shareholders and managers, as well as to provide endorsement to the

financial statement. Ajina. et. al (2013) argued that audit quality is one of the monitoring mechanisms that can be used to limit opportunistic behavior. Christiani & Nugrahanti (2014) argued a negative effect from the size of public accountant on earnings management. In contrary, Luhgiatno (2010) said that the quality of audit cannot limit the practice of earnings management. In this study audit quality is measured by the size of public accountant, referring to Gerayli. et. al (2011) and Rachmawati (2016). Public accountant size variables are measured using a dummy variable, where 1 indicates companies audited by Public accountant incorporated in The Big Four, and 0 for non-Big Four.

Accountability (Audit Committee) is also one of the principles in good corporate governance, where all stakeholders are expected to know and carry out their respective roles. Accountability is measured from the frequency of audit committee meetings. The Forum for Corporate Governance in Indonesia (FCGI) requires audit committees to hold meetings at least 4 times a year. The dummy variable is used to measure the frequency of audit committee meetings. Value 1 for companies that conduct audit committee meetings at least 4 times a year, 0 for companies whose audit committee meetings are less than 4 times a year. This measurement refers to research (Xie. et. al. 2003).

3.3 Procedure for Data Collection

Annual reports in the period 2010-2015 were gathered for manufacturing companies listed in the stock exchange, obtained from the IDX website at www.idx.co.id. The sampling technique for this study used a purposive sampling method, that is by looking at certain criteria.

3.4 Data Analysis Methods

Before conducting multiple regression tests, classical assumptions will be tested, including data normality, multicollinearity, autocorrelation, and heteroscedasticity following Ghozali (2009). The multiple regression models of this study are:

Model I : EM: α + β1 INSOWN + β2 MANOWN + β3 AK + β4 AKUN+ e

*Model II : EM: α + β1 INSOWN + β2 MANOWN + β3 INSOWN * IFRS + β4MANOWN * IFRS + β5 AK + β6 AKUN + e*

Note : EM : Earnings Management , Inst : Institusional Ownership, Manaj : Managerial Ownership, IFRS : IFRS convergence, AK : Audit Quality, AKUN : Accountability

The goodness of fit will be measured through the coefficient of determination (Adj.R^2), F test, and T test. Difference tests in this study will use paired sample t-test for normally distributed data, and Wilcoxon signed rank test for non-normal data.

4. Analysis and Discussion

4.1 Descriptive Statistics

This study uses a sample of 78 companies in the period of 2010 – 2015, resulting in 468 observations. Table 1 shows the descriptive statistics. It can be seen that the variables namely Audit Quality and Accountability in this study have a standard deviation value that is greater than the average, except the Earnings Management variable, Institutional Ownership

and Managerial Ownership, which means that the Quality Audit and Accountability variables have outlier data. For more details, it can be displayed as follows:

Table 1 Descriptive Statistics

	Earnings Management	Institutional Ownership	Managerial Ownership	Audit Quality	Accountability
Mean	-2.14E-08	71.805	2.882	0.388	0.895
Maximum	0.544	99.140	46.410	1.000	1.000
Minimum	-0.479	0.000	0.000	0.000	0.000
Std. Dev.	0.085	18.589	7.312	0.488	0.306

Source: data processed (Eviews 9.0)

From table 1 above, it is shown that the dependent variable used in the study is earnings management which has a minimum of -0.479, a maximum of 0.544, an average from 468 observations of -2.14E-08 with a standard deviation of 0.085. In this study there are 2 independent variables namely institutional ownership and managerial ownership. institutional ownership has a minimum of 0, a maximum of 99,140, an average of 468 observations of 71,805 with a standard deviation of 18,589. Managerial ownership has a minimum of 0, a maximum of 46,410, an average of 468 observations of 2.882 with a standard deviation of 7,312

Table 2 Frequency Test Result

Variable	Category	Absolute Frequency	Frequency Relative (%)
IFRS	Not applying IFRS	234	50.0
	Implementing IFRS	234	50.0
Audit Quality	Not The Big Four	286	61.1
	The Big Four	182	38.9
Accountability	Audit Committee Meeting < 4 times	49	10.5
	Audit Committee Meeting ≥ 4 times	419	89.5

Source: data processed (Eviews 9.0)

From table 2, the moderating variable is the adoption of IFRS, whch will affect the relationship of the independent variable to Earnings Management. Of the 468 samples used in this study there were 234 samples or as many as 50 percent had implemented IFRS and 234 other samples had implemented IFRS. In this study there are 2 Control variables namely Quality Audit and Accountability. A total of 286 samples or as many as 61.1 percent of companies have been audited by public accountant who are members of The Big Four, while the rest were audited by non-Big Four. Of the total sample of 468, there were 49 samples or as many as 10.5 percent of companies whose frequency of audit committee meetings was less than 4 times a year, while as many as 419 or as many as 89.5 percent of companies conducted audit committee meetings at least 4 times a year.

4.2 Model Selection

a. Chow Test

As can be seen in table 3, the null hypothesis is the common effect, with the chi-square probabilities of both 0, hence resulting in the rejection of the null hypothesis, implying fixed effect model.

Table 3 Selection between Common Effect and Individual Effect Model

Model	Chi-Square Probability	Decision	Information
Without Moderating Variable	0.000	Ho denied	Fixed effect
With Moderating Variable	0.000	Ho denied	Fixed effect

Source: data processed (Eviews 9.0)

b. Hausman Test

As can be seen in table 4, the null hypothesis is the random effect, with the chi-square probabilities of 1 and 0.933 respectively, hence resulting in the failure to reject the null hypothesis, implying random effect model.

Table 4 Selection between Fixed Effect and Random Effect Model

Model	Chi-Square Probability	Decision	Information
Without Moderating Variable	1.000	Ho accepted	Random Effect
With Moderating Variable	0.933	Ho accepted	Random Effect

Source: data processed (Eviews 9.0)

4.3 Individual Test Results

Table 5 Individual Test Results

Variable	Prediction	Model 1		Model 2	
		Coeff.	Prob.	Coeff.	Prob.
EM		-0.014	0.409	-0.012	0.556
INST	-	-0.000	0.497	-7.530	0.737
MANAJ	-	-0.001	0.040*	-0.002	0.000*
IFRS		-0.011	0.000*	-0.005	0.606
INST*IFRS	+	-	-	-0.000	0.181
MANAJ*IFRS	+	-	-	0.001	0.000*
AK	+	0.053	0.004*	0.053	0.004*
AKUN	+	0.013	0.044*	0.009	0.200
Adjusted R^2		0.053		0.060	
F Test		0.000		0.000	

Model I : EM: α + β1 INSOWN + β2 MANOWN + β3 AK + β4 AKUN+ e
Model II : EM: α + β1 INSOWN + β2 MANOWN + β3 INSOWN*IFRS + β4MANOWN*IFRS + β5 AK + β6 AKUN+ e
Note : *Significant 5%; *EM : Earnings Management , Inst : Institusional Ownership, Manaj : Managerial Ownership, IFRS : IFRS convergence , AK : Audit Quality, AKUN : Accountability*
Source: data processed (Eviews 9.0)

Looking at the estimation results in table 6, for the model without moderating variables, institutional ownership cannot significantly affect the management of earnings. On the

contrary, an increase in managerial ownership will significantly decrease the management of earnings. For the model with moderating variables, it is clear that IFRS convergence cannot significantly strengthen the influence of institutional ownership on the management of earnings, while on the contrary, it will significantly strengthen the influence of managerial ownership on the management of earnings. From the difference test, earnings management after IFRS convergence is significantly different (smaller) than before IFRS convergence, where earnings management value before IFRS convergence is -0.025 (-0.014 + -0.011) whereas after IFRS convergence is -0.014.

Goodness of fit as shown by the Adj R-squared for both models with and without moderating variables are 6.0% and 5.3% respectively, which suggest that there are variations of other independent variables that are not included in the model. From the F-test, the significance value of the model without the moderating variable (and with moderating variable) is 0,000 (0,000), which implies that at least one independent variable affected the dependent variable.

4.4 Discussion

The results of the study indicate that managerial ownership significantly and negatively affects earnings management. This finding is consistent with Ebrahim (2007) and Nundini & Lastanti (2014). This is because managerial ownership is ownership owned by company managers so managers also want their companies to be more successful. Managers will pay more attention to the company's performance, including earnings' quality. Effective supervision is expected to avoid earnings management practices. The existence of IFRS convergence is also proven to strengthen the effect of managerial ownership on earnings management. It shows that the combination of high managerial ownership and IFRS convergence will reduce management of earnings.

Institutional ownership cannot significantly affect earnings management. This result is not consistent with Chung. et. al (2002) which argued that institutional ownership can increase supervision of earnings management. This is likely because institutional ownership is short-term ownership, so it lacks a sense of responsibility for the company's success. Furthermore, the existence of IFRS convergence cannot significantly strengthen the effect of institutional ownership on managerial earnings. Thus IFRS convergence cannot be a moderating variable. This is due to the more short-term nature of an institutional ownership compared to managerial ownership.

Earnings management before the IFRS convergence are significantly different from the period after the adoption. In the period before IFRS, the average manufacturing company did earnings management by increasing profits, it can be seen from the average earnings management value before IFRS is worth (-0.025). In the period after the implementation of IFRS, the average manufacturing company did earnings management by decreasing profits, this can be seen from the average earnings management value after the application of IFRS of (-0.014). This difference can be due to the principles in IFRS which limit the occurrence of earnings management, such as the application of fair value that makes financial statements more relevant, as well as the principle of prudence which increasingly directs the entity to be more careful in presenting financial information, especially recognition of profits.

Audit quality positively influences earnings management and it is statistically significant. This result is in contrary with Christiani & Nugrahanti (2014), which suggested an insignificant effect. The result is also not consistent with Apriliawan. et. al (2013) which stated a negative effect. The positive and significant result may be due to the size of the public accountant, when the size increases, public accountant is not only focused to reduce earnings management but rather to increase the credibility of financial statements.

There is no significant influence between accountability, measured by the frequency of meetings, and the reduction in earnings management. This shows that even though meeting frequency meets the rules, it may turn out that there are no effective meeting substances that can reduce the level of earnings management.

5. Conclusions, Implications and Suggestions

5.1 Conclusion

The results indicate that managerial ownership significantly reduces earnings management. The existence of IFRS convergence is also proven to strengthen the effect of managerial ownership on earnings management. In contrast, institutional ownership cannot significantly affect earnings management. Furthermore, the existence of IFRS convergence still cannot significantly strengthen the effect of institutional ownership on managerial earnings. Earnings management before the IFRS convergence are significantly different from the period after the adoption. For the control variables, audit quality has a significant influence on the management of earnings.

5.2 Implications and Suggestions

The research implications are (1) For companies, they should pay more attention to better managerial ownership in carrying out their functions to reduce earnings management compared to institutional ownership, (2) For regulations, it should improve rules on institutional ownership so that it can function more as a function of monitoring corporate performance. Likewise for IFRS convergence to be fought continuously so that practices related to earnings management can be prevented.

Based on the discussion above, there are some suggestions that might be useful for subsequent research, including: (1) Developing this research by adding good corporate governance variables, and looking for other proxies for accountability. (2) Add research samples, not only manufacturing companies, and additional years of observation so that research results can be generalized.

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