

The Effect of Profit Management on Company Performance

¹Widarti, ²Subiyanto, ³Jamilah Pramajaya

Lecturer, Department of Management for Tamansiswa University, Palembang - South Sumatra- Indonesia

To Link this Article: <http://dx.doi.org/10.6007/IJAREMS/v7-i4/4831>

DOI:10.6007/IJAREMS/v7-i4/4831

Published Online: 14 November 2018

Abstract

The purpose of this study is to determine earnings management that affects financial performance. Financial reporting provides corporate financial information that is useful for a number of users of the report in economic decision making. The main focus of users of financial reporting is information about the company's performance as measured by profit and its components. So that the financial statements have a very important meaning because it is a form of accountability in carrying out its activities during a performance-based budget year. The company's reported profit contains unclear or unparalleled observable accounting earnings and unobservable economic profits, called earnings opacity. The company's reported earnings may become unclear due to complex interactions between, at least three factors, namely managerial motivation, accounting standards, and the implementation of accounting standards. Reporting higher profits and hiding unfavorable profit realization (losses) that can trigger mixed the other hand. Furthermore, it was found that financial reporting could change due to management earnings.

Keywords: Profit Management, Financial Reporting.

Introduction

The development of the capital market has been able to contribute substantially to the development of the national economy. These developments indicate that many public companies can increase their capital by issuing valuable securities to the public. Through the capital market, available funds can be dialoxic to those who are most productive in using these resources. To realize the optimal allocation of resources in the capital market, companies must provide transparent information to the public and be useful in economic decision making. Financial reports provide company financial information that is useful for a number of users of the report in making economic decisions (SAK, 2017). The main focus of users of financial statements is information about company performance as measured by profit and its components (FASB 1978, SFAC No.1, para. 43). Investors and creditors as users of financial statements use past earnings information to help assess the company's prospects. Although investment and credit decisions reflect the expectations of investors and creditors about the company's performance in the future, these expectations are usually based at least in part on evaluating the company's financial performance in the past. Bhattacharya, Daouk

and Welker (2003), stated that the firm's reported profit contains unclear or unparalleled observable accounting earnings and unobservable economic profit, called earnings opacity. The company's reported profit may become unclear due to complex interactions between, at least three factors, namely managerial motivation, accounting standards, and the implementation of accounting standards. Managers have an incentive to manage corporate earnings reports using accrual policies that are permitted by accounting standards with the aim of covering the actual performance of the company, for example reporting higher profits and hiding unfavorable profit realization (losses) that can trigger another party's interference. Accrual accounting aims to assist users of a company's financial statements in assessing economic performance for a period through the use of accounting principles, such as the use of accounting for recognition of income and expenses. However, accrual accounting is often used by managers to increase or decrease reported earnings for personal gain so that the earnings report does not reflect the actual situation and can mislead the report users. Healy and Wahlen (1999, p. 92) define earnings management as a consideration used by managers in preparing transactions and financial reporting of companies to change financial statements with the aim of misleading interested parties about the company's economic performance or to influence the outcome of the contract. which is based on the accounting figures reported. Leuz, Nanda and Wysocki (2003) state that the practice of earnings management in a country depends on the size of the capital market, the spread of share ownership, the strength or weakness of the rights of investors, and legal enforcement. Large capital, diffuse ownership, strong investor rights, and strong legal enforcement. In the investment community in the United States there is great concern for earnings management practices that have eroded public trust and disrupted efficient capital flows in the capital market. The community states that managers misuse the flexibility provided by the generally accepted accounting principles (GAAP) and intentionally change the contents of information in financial statements that can mislead report users (Wooten, 2003).

Arthur Levit, chairman of the Securities Exchange Commission (SEC), in a speech in September 1998 on "the Numbers Game" stated that the SEC was concerned and gave full attention to earnings management practices and its negative influence on earnings quality and financial reporting (Levitt, 1998). The concern of the chairman of the American capital market commission and the investment community for the practice of earnings management has triggered many researchers to be able to provide empirical evidence for the practice of earnings management throughout the world. The findings of the Bhattacharya, Daouk and Welker (2003) research on the practice of earnings management throughout the world show countries in Asia including Indonesia have a high level of earnings management. Forms of earnings management are highlighted in the form of: 1) aggressive earnings reporting (earnings aggressiveness), namely by delaying the recognition of current burdens and losses and or accelerating recognition of future income and profits (Bhattacharya, et al. 2003), 2) avoiding reporting loss (loss avoidance), namely by avoiding negative earnings reporting, increasing earnings reporting, and meeting analysts' profit forecasts (Leuz, et al. 2003), 3) earning smoothing, namely the use of accounting policies to hide top economic surprises operating cash flow. For example, accelerating the recognition of future income to conceal bad current performance, so that reported earnings do not reflect actual performance (Leuz, et al. 2003, p.510).

Earnings management is inappropriate, and abuse such as earnings management occurs when people take advantage of the flexibility inherent in GAAP implementation with the aim of obscuring actual financial volatility, and in turn will hide the true consequences of management decisions (Levitt, 1998, p. 16). Managers misuse the flexibility provided by accounting principles and intentionally change the contents of information in financial statements for personal gain that misleads report users. The opportunistic manager behavior can occur due to the weak control mechanism of the company. The cases of financial reporting violations by public companies handled by Bapepam mostly involve violations of the principles of accurate and transparent expression, this will be very detrimental to users of financial statements, especially investors, because the information published by the company containing errors has become the basis of the decision investment. When the published information error is announced, the stock price falls and the investor loses.

Many parties (regulators, investors, and researchers) realize that the weakness of corporate governance is the cause of fraud by management. Several studies, including Yeo et al (2002), Matsumoto (2002) and Balatbat et al (2004) have tried to explain how corporate governance factors as a corporate control mechanism influence manager behavior with decisions that benefit themselves and ultimately affect investor confidence. Bapepam as a capital market authority has required public companies to implement good corporate governance, where one of the characteristics of good corporate governance is the existence of an independent commissioner. The formation of independent commissioners is motivated in part by the desire to protect minority shareholders, where in general they are investors who suffer losses due to actions taken by the board of directors or commissioners under the control of the majority shareholder (Tjager, et al. 2003).

Independence of the board of directors is a condition that is important for effective corporate governance. The effectiveness of the board of commissioners in monitoring management activities depends on a composition between the board of the internal party and the board of outside parties who are members of the board of commissioners. The independence of the board of directors will be doubted if the composition of the board of commissioners has more executive boards, because how can it be independent if the executive board as management is also a supervisor (Kim and Nofsinger, 2004). The annual report of companies listed on the JSX shows that the company has an average board of commissioners of three or four people, this number includes independent commissioners. A good size of the board of commissioners must be sufficient to have an audit committee, compensation committee and other committees that assist the board's duties in overseeing the company. However, if the number of boards is too much, it will be long-winded, less active and reduce the productivity of the discussion in a short board meeting (Salmon, 2000, p.6).

Xie, et al (2003) show that large board sizes can monitor management activities in the financial reporting process more effectively than smaller board sizes. Other research, Yermak (1996), Eisenberg, et. al (1998) and Uzun, et al (2004) found opposite results, stating that the size of a large commissioner was considered less effective in carrying out its function because of difficulties in communication, coordination, and decision making. The results of his study concluded that smaller board sizes would more effectively monitor management actions compared to larger board sizes. In addition to the formation of independent commissioners, public companies are also required to form an audit committee that assists the supervisory

function of the commissioner. Regulators recognize that internal monitoring committees, namely the audit committee, play an important role in corporate monitoring and governance (Colley, et al. 2003). The Sarbanes-Oxley Act 2002 is a law that is seen as a major reform in America, requiring public companies to make an independent audit committee from its board of directors. Likewise, regulation in Indonesia requires all companies listed on the Jakarta Stock Exchange to have an audit committee (among others in Bapepam Circular No.SE-031PM / 2000, Kep. No. 41.PM/2003, Kep. No. 45 / PM / 2004, and PT BEJ Board of Directors Decree No. Kep-339 / BEJ / 07-2001 and Kep-305 / BEJ / 2004).

The practice of corporate governance, there is great attention to the importance of institutional ownership of shares to play a role in corporate governance. Cadbury Report (1992) states that because of its large shareholdings, institutional owners have the ability to influence actions or decisions taken by the company. As a shareholder, the institution's right to appoint the board of commissioners and is a "moral duty" to ensure that the company has been managed according to the interests of the shareholders (Cadbury, 2002). Company management is not in accordance with its interests, they will prefer to sell their shares rather than having to intervene in managing the company (Drucker, 1976 in Keasey, 1997). Therefore, institutional owners cannot be expected to play their role in overseeing the company. A good corporate governance mechanism is expected to monitor the actions of managers, so that companies can operate more efficiently and can improve company performance. Several studies provide different results about the effect of corporate governance mechanisms on company performance.

Definition of Profit Management

Before defining earnings management, it is necessary to consider the role of accrual accounting because certain forms of earnings management (such as income smoothing) are difficult to distinguish from a decent accrual accounting option. The following is outlined the purpose of financial reporting and how it relates to the definition of accrual accounting, as presented by the Financial Accounting Standard Board (FASB) in various Statement of Financial Accounting Concepts (SFAC). The main focus of financial reporting is financial information about company performance provided by measurement of earnings and its components (FASB 1978, SFAC No.1, para. 43). Accrual accounting attempts to record the financial effects on business transactions and other events and environments that have cash consequences on a company in a period in which transactions, events and the environment occur rather than only in the period in which cash is received or paid for by an entity (FASB 1985, SFAC No.6, para.139).

Accrual accounting uses accruals, referrals, and allocation procedures with the aim of connecting income, expenses, gains and losses in a period to reflect the company's performance over a period rather than just listing cash in and cash out. So, the recognition of income, expenses, profits and losses and their relation to the increase or decrease in assets and liabilities, includes bringing together expenses with income, allocation, and amortization, is the essence of using accrual accounting to measure entity performance (FASB 1985, SFAC No.6, para.145). The principle objective of accrual accounting is to help investors assess economic performance for a period through the use of basic accounting principles such as revenue recognition and matching (Dechow and Skinner, 2000). The definition of earnings

management is important for accountants because it allows for the development of an understanding of net income for reporting to investors and for a contract / agreement. a purposeful intervention in external financial reporting processes, with the intent of obtaining a private gain (Schipper, 1989, p. 92). Furthermore Earnings management occurs when managers use regulations in financial reporting and in structuring transactions to financial reports to either mislead some stakeholders about the underlying economic performance of the company, or the influence of outcomes that depend on reported accounting numbers "(Healy and Wahlen, 1999, p.368). Given that managers can choose accounting policies from a set of policies (for example, GAAP), it is natural to expect that they will choose policies so as to maximize their own utility and / or the market value of the firm. This is called earnings management (Scott, 2003, p.368).

From the description above it can be concluded that earnings management is a consideration of the choice of accounting policies used by management in the process of compiling transactions and financial reporting of a company to achieve certain objectives, for example: to influence contractual results that depend on the reported profit (debt or compensation contract) and or for affect the company's market value. Although the definition has been widely accepted, it is difficult to operationalize directly by using the attributes of the accounting numbers reported because it involves management intentions that are difficult to observe. In the statement of Arthur Levitt (1998), chairman of the Securities and Exchange Commission (SEC), earnings management (earnings management) is defined as financial fraud.

According to Mulford and Comiskey (2002), earnings management is a profit manipulation that is intended to create an impression of business performance, for example to meet targets determined by management or predictions made by analysts. Impression of the changed business performance does not always state that earnings management results in meaningless earnings measurements. For example, the number of managed earnings numbers is an indicator of better future earnings expectations. Furthermore, the volatility of earnings figures managed in the time series provides a more realistic financial risk index compared to unmanaged earnings. However, earnings management can result in material negligence and misstatement of appropriate numbers and disclosures, and this action is intended to deceive or cheat financial statement users.

Scott (2003) suggests two things about earnings management. First, earnings management can reflect opportunistic behavior (managers) to maximize their personal profits in the face of compensation, debt contracts and political costs. Second, viewed from the perspective of an efficient contract (efficient contracting perspective), earnings management can give managers the flexibility to protect themselves and the company in the face of conditions that cannot be anticipated from imperfect and rigid contracts. Furthermore, managers can influence the market value of the company's stock with earnings management. For example, managers want to give the impression that profits are smooth (smooth) and always increase over time, so (based on an efficient securities market) information is needed inside (inside information). So earnings management can be a tool to communicate information that managers have to investors.

Managers can be asked to do earnings management by reporting changes in permanent earnings separated from temporary earnings to help investors reduce errors in valuation. If a temporary profit that can be estimated statistically is eliminated in the report, the manager only reports permanent profit, then the reported profit will be smooth (smooth) over time. In this scenario, "manipulation" can not only be tolerated but also recommended by shareholders for its interests. In cases where managers manipulate company performance in their personal interests, shareholders usually have no choice because of their limited access to inside information, and generally shareholders prefer to allow managers to manage earnings rather than prevent it with expensive audit technology (Arya, et al. 2003).

Based on the description of the notion of earnings management, it can be interpreted that earnings management can be said to be useful if viewed from an efficient and justified agreement perspective if it is still within the limits of generally accepted accounting principles (GAAP). But earnings management can be detrimental when viewed from the manager's opportunistic behavior and is a fraud if done outside the GAAP limit.

Motivating Profit Management

Healy and Wahlen (1999) suggest that researchers have tested many different motivations for earnings management, including: 1) expectations and capital market assessments (2), 2) contracts made relating to accounting numbers and 3) government regulations. The use of widespread accounting information by investors and financial analysts to help assess stocks can create incentives for managers to manipulate earnings in an effort to influence stock price performance in the short term.

Research conducted to support earnings management motivation related to capital markets (capital market motivation), which are among others: 1) that managers have the incentive to 'manage' their profits by avoiding reporting of losses and decreasing profits (Burgstahler and Dichev, 1997), reporting growth and quarterly profit increase with the aim of meeting earnings expectations according to analysts (Degeorge, et al. 1999), and the consequences of non-fulfillment of profit benchmarks cause a large decline in stock prices (Skinner and Sloan, 2000), 2) showing that managers manage earnings at the time of equity offerings, namely by reporting high profits improperly and related to high discretionary accruals, and there is a strong relationship between earnings management and stock price performance in subsequent periods after the company's equity offer (Dechow et al., 2000), 3) shows that the participants the market is "fooled" by the practice of earnings management, namely when market participants overestimate the persistence of low current earnings quality and underestimate the persistence of high current earnings quality (Sloan, 1996).

Accounting data is used to help monitor and regulate contracts between companies and many interested parties. Management compensation contracts are used to harmonize management's incentives with other interested parties. Loan contracts are made to limit managers' actions that benefit the company's shareholders but impose creditors. Watts and Zimmerman (1986) state that these contracts create an impetus for earnings management. Research related to loan contracts that give rise to earnings management motivation, DeFond and Jiambalvo (1994) and Sweeney (1994) examine samples of companies that violate loan agreements. And the results of the study are inconsistent.

DeFond and Jiambalvo (1994) found that companies increased their profits one year before the breach of the agreement, and interpreted it as evidence that earnings management by the company was closely related to the loan agreement. Sweeney (1994) research also found that companies that violate agreements make changes in accounting

methods that increase profits, but this is done after the violation. This finding indicates that the company does not make changes to accounting methods specifically to avoid violations of loan agreements, but changes in accounting methods are made to reduce the possibility of future breach of the agreement.

Compensation contracts that give rise to earnings management are supported by many studies which state that managers use accounting considerations to increase bonuses on the basis of reported earnings. Healy (1985; in Healy & Wahlen, 1999) and Holthausen et al. (1995) shows that companies with bonuses reach the upper limit are most likely to report accruals that postpone earnings when the limit is reached from companies that do not have a bonus limit. Guidry et al. (1998) found that divisional managers for large multinational companies tend to postpone earnings when the profit targets in the bonus program cannot be achieved and when they are declared to have reached the maximum bonus allowed according to the program.

The compilers of accounting standards show concern for earnings management which aims to avoid industrial regulation. Actually, the whole industry is regulated in a certain level, but there are several industries (banking, insurance, and utility industries) facing regulatory monitoring which is explicitly related to accounting data. Banking regulations require that banks must meet capital adequacy requirements made in the form of accounting figures. Insurance regulations require that insurance companies must meet minimum financial health conditions. These regulations create the impetus to manage the income statement and balance sheet variables that are of concern to the regulator. Some research shows evidence that banks are approaching minimum capital requirements to tighten loan loss provisions, reduce loan elimination, and recognize abnormal profits for securities portfolios (Beatty and Petroni, 2002). There is also evidence that insurance companies that are financially weak and risk getting the attention of regulators will reduce claims loss reserves, and enter into reinsurance transactions (Healy & Wahlen, 1999).

Teknik Manajemen Laba

The most common earnings management techniques include the use of flexibility in generally accepted accounting principles. Levitt (1998) states that flexibility in accounting is allowed to deal with developments in the business environment. Earnings management is inappropriate, and abuse such as earnings management occurs when people take advantage of the flexibility inherent in GAAP implementation with the aim of obscuring actual financial volatility, and in turn will hide the true consequences of management decisions (Levitt, 1998, p. 16).

Mulford and Comiskey (2002) state that earnings management techniques can be carried out both within and outside the limits of generally accepted accounting principles (GAAP). Earnings management techniques that are within GAAP limits include: a) changes to the depreciation method, changes in the useful life used for depreciation purposes, changes in estimated residual value for depreciation purposes and changes to the amortization period for intangible assets, b) determination of allowance for doubtful accounts loan or loan receivables, deferred tax allowance and determination of assets that have expired, c) estimated completion stage of the percentage of contract completion, estimated deletion required for a particular investment, consideration needed for inventory elimination and consideration of whether the market value is reduced a temporary or long-term investment. Furthermore, efforts to manage profits result in material misstatement or negligence in amounts or appropriate disclosures. This action is intended to deceive users of financial statements, forms of accounting irregularities and fraudulent financial reporting are often

used for these actions (Mulford and Comiskey, 2002, p.66) or also called abusive earnings management (Levitt, 1998, p. 16) . Premature income recognition or fictitious income is the most common form of earnings management. Giroux (2004) provides an example of the most commonly used earnings management techniques, namely: aggressive revenue recognition (recognizing income earlier in the operating cycle), choosing capitalization rather than charging operating costs, and allocating costs over a longer period (extends the useful life of fixed assets). Because many accounting techniques provide alternatives and professional considerations, accounting choices (accounting choice) are important components in earnings management. Inventory methods, depreciation and accounting for securities are examples of accounting options used for earnings management (Giroux, 2004, p. 5).

Nelson, Elliott and Tarpley (2003) conducted research that focused on earnings management that greatly biased financial reports that were audited and opposed by the public and the SEC. Based on data obtained from auditors partnering with a Big5 KAP, the results of his research show that the main techniques in earnings management are efforts to influence: 1) other expenses and losses, namely: elimination of obsolete assets that are too low, over-capitalization, modification of depreciation or amortization of assets), 2) other income and profit, in order to increase profits (Lesi Hertati, 2015).

Pendeteksian Manajemen Laba

Accrual basis (accrual basis) is agreed as the basis for preparing financial statements because they are more rational and reasonable than the cash basis. Some studies indicate that earnings have a greater information content than operating cash flows, because earnings information generated from accrual use reduces the timing and mismatching problems that arise in cash flow measurement (Dechow, 1994; Sloan, 1996). Accrual-based financial statements involve many estimates and estimates.

Accrual options available in generally accepted accounting principles and the vulnerability of accruals to manipulation allow earnings management to occur (Belkaoui, 2004). In the accounting literature, discretionary accruals have the same meaning as earnings management (Kothari, 2001, p.161). Detecting accounting policy manipulations related to accruals (discretionary accruals) is difficult, for example companies increase depreciation and amortization costs, this may occur due to excessive recording of liabilities for product guarantees, conditional obligations, and discounted prices, or perhaps because noted a large number of bad debts and obsolete inventories (Scott, 2003, p. 281).

The use of discretionary accruals is intended to make financial statements more informative, namely financial statements that can reflect the true situation. However, in reality the discretionary accrual is utilized by the management to increase or decrease the reported profit for personal gain so that the earnings report does not reflect the actual situation. Researchers often use discretionary accrual measurements to test earnings management and market efficiency. According to Dechow, Sloan and Sweeney (1995), the most widely used discretionary accrual models to detect earnings management are: DeAngelo Model (1986), Healy Model (1985), Jones Model (1991), Modified Jones Model (Dechow's research , Sloan, and Sweeney, 1995), the Industry Model (Dechow, Sloan, and Sweeney, 1995), and the Cross Sectional Jones Model (DeFond and Jiambalvo, 1994).

Healy (1985) examines earnings management by comparing the average total accruals scaled by lagged total assets to partitioning variables in earnings management. The Healy Study is different from most other earnings management studies where it predicts systematic earnings management that occurs in each period. Variable dividers divide the sample into

three groups, namely one group for the predicted profit increase, and two groups for derived earnings. Then the average total accrual from the estimation period is used to measure nondiscretionary accruals (Lesi Hertati, 2015).

The ability of industrial models to reduce measurement errors in discretionary accruals critically depends on two factors, namely: 1) the industrial model only removes variations in nondiscretionary accruals that are common in companies in the same industry, if there is a change in nondiscretionary accruals then it reflects the reaction to changes in certain corporate environments, so that the model industry cannot explore all of the nondiscretionary accruals from proxy discretionary accruals, 2) industrial models eliminate variations in discretionary accruals relating to companies in the same industry, potentially causing problems. The severity of the problem depends on the extent of the stimulus of earnings management related to companies in the same industry (Lesi Hertati, 2015).

Dechow, Sloan and Sweeney (1995) examined five models of discretionary accruals (namely the Healy 1985 model, DeAngelo 1986, Jones 1991, Jones Modification and the industrial model used by Dechow and Sloan 1991), the results of which show that the Jones model and modification model developed by Jones (1991) most popularly used and provide the most powerful (powerful) earnings management testing. However, earnings management testing has the potential to misspecified for all models when earnings management dividing variables correlate with firm performance (Lesi Hertati, 2016).

Corporate Financial Performance

Performance is the end result of an activity. The company's performance is the accumulation of all the final results of the company's work activities and processes (Robbins and Coulter, 2005, p.465). Managers need to provide a tool to monitor and measure company performance. Financial reports provide financial information that is useful for managers to analyze their work in managing the company (Lesi Hertati, 2016), and is beneficial for other users in making economic decisions. Measurement of financial performance can be done based on accounting performance (accounting measure of performance), and can also be based on market performance (market based measure). (Rhoades, et al., 2001, p.313; Dutta & Reichelstein, 2005, p. 1069).

The debate about measuring financial performance based on the cash flow model or profit model has been ongoing. Advocates of cash flow based performance measurement say that cash is reality while profit is only an opinion (Penman, 1992 & Rappaport, 1998; in Hirst & Hopkins, 2000, p. 14). Cash flow performance proponents state that accounting profit is the subject of manipulation by managers, there is a conservative bias in accounting standards, and sometimes ignores important elements of economic profit. Using operating cash flow as a measurement for financial performance has the advantage of not relying on stock returns which assume that the capital market is inefficient in its ability to detect opportunistic management behavior (Bowen, et al 2004). Furthermore, any mechanical relationship between current accruals and future earnings regarding accrual reversals is avoided. However, operating cash flows have problems with timeliness as performance metrics (Dechow, 1994). In particular, negative cash flows can generate investment in projects whose NPV is positive and does not result in poor operating performance. Therefore, operating cash flow is likely to be a good measure of financial performance only for stable companies. This motivates the use of profitbased metrics as other measurements for financial performance, such as return on assets, return on investment, and others.

The role of securities markets and information in securities markets justifies the use of predictions of market reactions in accounting formulations. According to one interpretation of the predictive approach, observation of capital market reactions can be used as a guide for evaluating and choosing among various accounting measurement alternatives (Belkaoui, 2004, p. 408). For example, Gonedes (1972) states that observations of market reactions as recipients of accounting output determine the evaluation of the actual information content of accounting numbers generated through accounting procedures. Likewise, Beaver and Dukes (1972) stated that the method that produces the highest profit numbers related to securities prices is the most consistent with information that results in efficient pricing of securities which is the method that must be reported. In other words, predictive approaches favor the adoption of accounting numbers that have the highest link with market prices. This requires evaluating the usefulness of accounting numbers transmitted to capital market transactions as an aggregate, which means the focus is on the reaction of the securities market not to the individual investors who make up the market (in Belkaoui, 2004, p. 408).

Corporate Governance

Corporate governance has been practiced since 1600, when British companies traded to East India. The British trading company has 218 members and is managed by the Court of Directors. The governance structure consists of: 1) Court of Proprietors is a court of owners who all have voting rights, but rarely hold meetings because of the large number of them, and 2) Court of Directors is the executive body responsible for the running of the company, but its policy decisions endorsed by court of proprietors. This executive body consists of governors, deputy governors, and 24 directors. The governance structure in the East Indian company is slightly different from the current structure of the company. The Court of Proprietors is now a general meeting of shareholders, while the Court of Directors is a classic function of the board of directors where they elect the chief executive. (Cadbury, 2002).

Compared to current company problems, not only the corporate governance structure, but also there are problems faced by the board, namely the problem of differences in the motivation of shareholders to invest in the company. Short-term investors want profits from their money in the near future, while others see profits to be gained in the longer term. The board of directors also has a problem to oversee those who are appointed who act not only for the benefit of the company but often for their own sake. In the 18th century, agency problem was introduced by Adam Smith (1776) who paid attention to the wealth of Nation for governance issues that were important in his message about the joint stock company. Adam Smith stated that company directors are managers of other people's money rather than their own money, it cannot be expected that they can keep other people's money with the same vigilance compared to keeping their own money.

Governance is a word that connects wisely and responsibly. Governance in Latin is 'gubernare' which means directing and setting balance values. The term corporate governance was first introduced by the Cadbury Committee in 1992 using the term in the Cadbury Report, and defined corporate governance as "the system by which companies are directed and controlled" (Cadbury, 2002, p.1). A set of rules that define the relationship between shareholders, managers, creditors, the government, employees and other internal and external stakeholders in respect to their rights and responsibilities. Denis and McConnell (2003, p.2) define corporate governance The set of mechanisms, both institutional and market based, that induce the self-interest controllers of a company (those that make decisions regarding how the company will be operated) to make decisions that maximize the value of

the company to its owners (the suppliers of capital). Then the Organization for Economic Cooperation and Development (2004, p. 11) defines corporate governance as a structure whereby shareholders, directors, managers form corporate objectives and means to achieve these goals and monitor performance.

The principles of good corporate governance have been developed by the OECD, where the corporate governance framework must be able to improve an efficient and transparent market, consistent with legal rules and clear responsibilities between the position of supervisor, regulator and implementing authority. The principles developed by the OECD cover five main areas, namely: 1) the rights of shareholders and their protection, 2) equal treatment for all shareholders, 3) the rights of interested parties (stakeholders) are protected by law or through mutually beneficial agreements, 4) disclosure and transparency must ensure the accuracy and accuracy of disclosures made on all material issues relating to the company, including the financial situation, performance, ownership and corporate governance, 5) board accountability must ensure the company's strategic guidelines, effectiveness of management oversight by the board, and board responsibilities to the company and shareholders (OECD, 2004).

Corporate Governance Mechanisms

A mechanism is needed so that activities in the organization can run in the direction that has been set. The governance mechanism is defined as a rules of the game, procedures and clear relationships between parties who make decisions with those who supervise the decision (Kim & Nofsinger, 2004). The governance mechanism is directed to guarantee and supervise the running of the corporate governance system (Syakhroza, 2005, p. 27). In general there are two mechanisms in the corporate governance system, namely internal control mechanisms, and external control mechanisms (Weston, et al 2004). Internal mechanisms also called institutional or organizational mechanisms are primarily board of directors and equity ownership structures (Denis & McConnell, 2003, p. 2). The equity ownership structure, namely managerial ownership of shares, is one of the important internal governance mechanisms (Weston, et al 2004, p.568). The following is discussed in detail the board of commissioners and managerial ownership of the company.

Prior Research on Profit Management, Financial Performance and Corporate Governance Mechanisms

Some previous studies on earnings management, company performance and corporate governance, can be divided into two groups, namely: 1) research on the effect of corporate governance mechanisms on earnings management, and 2) research on the influence of earnings management and governance mechanisms on financial performance company. Several studies have tried to explain how corporate governance factors influence managers' behavior with decisions that benefit themselves and ultimately affect investor confidence. Weak governance is often used by company management for personal gain through the choice of accounting policies in preparing financial statements. Previous research shows that there is a relationship between earnings management and the mechanism of corporate governance, and means that there is evidence that weak governance results in excessive managerial opportunism.

In addition to the proportion of the board, the number of commissioners can affect the effectiveness of supervisory activities. The number of councils is subject to serious debate and discussion, some view that the relatively small number of councils is more effective because

board members can get to know each other more closely and allow for effective discussions at board meetings and board duties. While others view a large number of boards that can bring broader experience and knowledge needed to carry out board duties (Cadbury, 2002, Kim & Nofsinger, 2004).

The findings of Francis et al (1999) supported by Krishnan's (2003a) study, showed that companies audited by the Big 6 had higher total accruals than companies audited by the Non-Big 6, but Big 6 clients reported lower discretionary accruals. These findings provide evidence that companies that tend to generate more accruals are more likely to employ big-six auditors to increase the credibility of reported earnings, and prove that Big Six auditors reduce the potential for earnings management based on accrual policies. Industry specialization owned by big-six auditors is able to detect earnings management and offer higher audit quality than non-specialist auditors (Lesi Hertati, 2016).

Thinking Framework

The framework of thinking in this study starts from the existence of the organization as a basis for analyzing corporate governance, then followed by a discussion of agency theory that raises agency problems, namely opportunistic behavior of management in corporate financial reporting. The capital market provides a place for testing positive accounting theory, because accounting provides information to the capital market and changes in stock prices are related to certain accounting changes. An organization is a social entity that is consciously coordinated, consisting of two or more people, whose function is based on continuity to achieve a general goal or set of goals (Robbin, 2003, p.465).

The company is a business organization which is an instrument in which capital is collected for the activities of making and distributing goods and services, as well as for investment. Companies must always be able to increase profits from their business activities and profits for shareholders (Monks & Minow, 2004, p.8). The main objective of a company is to create an environment that is conducive to obtaining long-term benefits, originating from two main sources, namely increasing profits from core operations, and increasing profits from sales growth of existing products or sales resulting from the introduction of new products (Kim and Nofsinger, 2004).

Development of business activities requires additional capital and also carries risks. The ability to obtain capital and control risk is important in the success or failure of a company. Capital gains and the ability to control risk are influenced by the way or form of company arrangements. Lukviarman (2001) proposes three main foundations of corporate governance, namely philosophical foundations, historical foundations, and psychological foundations. Philosophical foundation is a structural functionalist approach, which describes the governance system as rules about how companies manage their activities in pursuit of goals. Organizational structures and functions are designed to provide a mechanism that can maintain balance in the company with interested parties. strength between executive management in a public company and its shareholders.

Conclusion

The company's financial performance shows a long-term downward trend. If earnings management has a negative relationship with the company's financial performance. Earnings management negatively affects the company's market performance (stock return), but the effect is very small. The negative effect of earnings management on stock returns shows that the market is aware of the opportunistic motivation of earnings management practices by the

company. Consequently, greater earnings management will lead to lower returns on stocks (stock returns). Accounting reports are not the only source of information used in economic decision making. But large companies affect the company's financial performance. The weakness of the rupiah exchange rate makes it difficult for companies to be able to generate the expected profit and cash inflows, as well as investors who find it difficult to profit from their shares. Associated with business ethics, earnings management is unethical if there is a fictitious transaction by deliberately deceiving the users of the company's financial statements.

References

- Agrawal, A., & Knoeber, C. R. (1996). Firm performance and mechanisms to control agency problems between managers and shareholders. *Journal of Financial and Quantitative Analysis* 31 (September): 377-397
- Alijoyo, A., & Zaini, S. (2004). *Independent Commissioner: Driving GCG Practices in the Company*. PT Index - Gramedia Publisher. Jakarta.
- Arya, A. J. C., Glover, & Sunder, S. (2003). Are Unmanaged earnings always better for shareholders? *Accounting Horizon*. Supplement: 111-116.
- Asian Development Bank. (2000). *Corporate Governance and Finance in East Asia: A Study of Indonesia, Republic of Korea, Malaysia, Philippines, and Thailand*. Manila: ADB Publication.
- Balatbat, M. C., Stephen, S. L., & Walter, T. S. (2004). Corporate Governance, insider ownership and operating performance of Australian initial public offerings. *Journal of Accounting and Finance* 44: 299-328.
- Ball, R. S. Kothari, & Robin, A. (2000). The effect of international institutional factors on the properties of earnings. *Journal of Accounting and Economics*, 29: 1-15.
- Bartov. E. D. Givoli, & Hyan, C. (2002). The rewards to meeting or beating earnings expectations. *Journal of Accounting and Economics*, 33: 173-204.
- Beasley, M. S. (1996). An empirical analysis of the relationship between the board of directors of composition and financial statement fraud. *The Accounting Review* 71 (October): 433-465.
- Beatty, A. L. B. Ke, & Petroni, K. R. (2002). Earnings management to avoid earnings declines across publicly and privately held banks. *The Accounting Review* 77 (3) July: 547-570.
- Becker, C. L. M. L. DeFond, Jiambalvo, J. & Subramanyam, K. R. (1998). The effect of audit quality on earnings management. *Contemporary Accounting Research*. Spring, 15: 4-24
- Bedard, J. S. M. Chtourou, & Courteau, L. (2001). *Corporate governance and earnings management*. Working Paper University Laval, Quebec City, Canada.
- Bedard, J. S. M., Chtourou, & Courteau, L. (2004). The effect of audit committee expertise, independence, and activity on aggressive earnings management. *Auditing: A Journal of Practices & Theory* 23 (2) September: 13-35
- Belkaoui, A. R. (2004). *Accounting Theory*. Fifth Edition. Thomson Learning, USA.
- Bhagat, S. & B. Black. (2002). The non-correlation between boards independence and long-term firm performance. *Journal of Corporation Law*, Winter: 231-273
- Bhattacharya, U. H. D & Welker, M. (2003). The world price of earnings opacity. *The Accounting Review* 78 (3): 641-678.
- Bobko, Philip. (1995). *Correlation and Regression: Principles and Applications for Industrial / Organizational Psychology and Management*. McGraw-Hill, USA.

- Bonn I., T. Yoshikawa & Phan, P. H. (2004). Effects of board structure on firm performance: A between Japan and Australia comparison. *Asian Business and Management*, 3: 105-125
- Bowen, R. S. Rajgopal & Venkatachalam, M. (2004). Accounting discretion, corporate governance and firm performance. Working Paper. University of Washington & Duke University.
- Burgstahler, D. and Dichev, I. (1997). Earnings management to avoid earnings decreases and losses. *Journal of Accounting and Economics* 24 (1): 99-126.
- Bushee, B. (1998). Institutional investors, long-term investment, and earnings management. *The Accounting Review*, 73 (3): 305-333.
- Cadbury, A. (2002). *Corporate Governance and Chairmanship A Personal View*. Oxford University Press.
- Carcello, J. V. and Nagy, A. L. (2004). Audit firm tenure and fraudulent financial reporting. *Auditing: A Journal of Practice and Theory* 23 (3): 55-69.
- Casterella, J. W. R. K., & Walker, P. L. (2002). The relationship of audit failures and auditor tenure. Working Paper. University of Florida.
- Cheng, Q. & Warfield, T. D. (2005). Equity incentives and earnings management. *The Accounting Reviews* 80 (2): 441-476.
- Chung, H. (2004). Selective mandatory auditor rotation and audit quality: An empirical investigation of auditor designation in Korean politics. Working Paper. Purdue University. Through: <http://www.mgmt.purdue.edu>
- Claessen, S. S. D. & Lang, L. (2000). The separation of ownership and control in East Asian corporations. *Journal of Financial Economics*, 58: 81-112
- Coles, J. W. V. B. M & Sen, N. (2001). An examination of the relationship of governance mechanisms to performance. *Journal of Management*. 27: 23-50
- Colley, J. L. J. L. D., Logan, G. W. & Stettinius, W. (2003). *Corporate Governance*. McGraw-Hill Companies, Inc. USA.
- Collins, J. D. S. & Wahlen, J. (1995). Bank differences in the coordination of regulatory capital, earnings and taxes. *Journal of Accounting Research* 33: 263-291.
- Cooper, D. R. & Schindler, P. S. (2003). *Business Research Methods*. Eight Edition. McGraw-Hill. New York.
- Dechow, P. M. (1994). Accounting earnings and cash flows as measures of firm performance: The role of accounting accruals. *Journal of Accounting and Economics* 18: 3-42.
- Dechow, P, R. G. S. & Sweeney, (1995). Detecting Earnings Management. *The Accounting Review* 70 (2): 193-225.
- DeFond, M. & Jiambalvo, J. (1994). Debt covenant violation and manipulation of accruals. *Journal of Accounting and Economics* 17: (1-2): 145-176.
- DeGeorge, F. J. Patel, & R. Zeckhauser. (1999). Earnings management to exceed thresholds. *Journal of Business* 72: 1-33.
- Denis, D. & McConnell, J. (2003). International corporate governance. *Journal of Financial and Quantitative Analysis*. 38 (1). March: 1-36
- Dutta, S. & S. Reichelstein. (2005). Stock price, earnings and book value in managerial performance measures. *The Accounting Review* 88 (4): 1069-1100
- Eddy S. & Mas'ud, M. (2003). Analysis of ownership structure, company value, investment and board size. National Symposium on Accounting VI. Surabaya, October: 214-223
- Eisenberg, T. S. S. & Wells, M. (1998). Larger board size and decreasing firm value in small firm. *Journal of Financial Economics* 48: 35-54

- Fama, Eugene F. (1980). Agency problem and the theory of the firm. *Journal of Political Economy* 88 (21): 134-145.
- Farid H. & Siswanto, S. (2001). *Investment Analysis Tools and Techniques in the Indonesian Capital Market*. First Revised Edition. Publisher of the Jakarta Stock Exchange.
- Financial Accounting Standard Board (FASB). (1978). *Objectives of Financial Reporting by Business Enterprises*. Statement of Financial Accounting Concept (SFAC) No.1. And FASB, 1985. *Elements of Financial Statement*. SFAC No.6. Norwalk, CT: FASB.
- Forum for Corporate Governance in Indonesia (FCGI) .(2001). *Corporate Governance*. Corporate Governance Series, Volume 1 2nd Edition.
- Francis, J. R. E. L. Maydew & . Sparks, H. C. (1999). The role of big 6 auditors in the credible reporting of accruals. *A Journal of Practice & Theory*, Fall 18 (2): 17-34
- Imung, F. S. (2004). PT Telkom scandal. *Investor Magazine*. *Media Accounting & Finance*. Issue 96, March: 10-13
- Gabrielsen, G. J. D. Gramlich & T. Plenborg. (2002). Managerial ownership, information content of earnings, and discretionary accruals in a Non-US Setting. *Journal of Business Finance & Accounting*, 29 (7 & 8), Sept./Oct. : 967-988
- Geiger, M. and Raghunandan, K. (2002). Auditors tenure and audit reporting failures. *Auditing: A Journal of Prattice and Theory* 21 (1): 67-78.
- Gideon S. B. (2005). *The Effect of the Mechanism of Corporate Governance on Earnings Management and Its Impact on Profit Quality*. Doctoral Program Dissertation, not published. Padjadjaran University Bandung.
- Giroux, G. (2004). *Detecting Earnings Management*. John Wiley & Son, USA
- Graham, J. C. Harvey and S. Rajgopal. (2004). *The economic implications of corporate financial reporting*. Working paper, Duke University / University of Washington.
- Guidry, F. A. Leone and S. Rock. (1999), "Earnings-based bonus plans and earnings management by business-unit managers", *Journal of Accounting and Economics* 26 (1-3): 113-142.
- Gul, FA, S. Y. Sun & Tsui, J. S. (2003). Audit quality, earnings, and the Shanghai stock market reaction. *Journal of Accounting, Auditing and Finance* 18 (3): 411-426
- Gujarati, D. (2003). *Basic Econometrics*. Fourth Edition. McGraw-Hill. Singapore
- Healy, P. M. & J. M. Wahlen. (1999). A review of earnings management literature and its implications for setting standards. *Accounting Horizons*, Dec. 13: 365-383.
- Hendriksen, E. S. & M.F. Breda. (2001). *Accounting Theory*. Fifth Edition. McGraw-Hill. Singapore.
- Hirst, D. E & P. E. Hopkins, (2000). *Earnings: Measurement, Disclosure, and the Impact on Equity Valuation*. Research Foundation of the Association for Investment Management and Research (AIMR). Blackwell Publishers, USA.
- Holthausen, R. Larcker and Sloan. (1995). Annual bonus schemes and manipulation of earnings. *Journal of Accounting and Economics*, 19: 29-74.
- Hutchinson, M. & Gul, F. A. (2003). Investment opportunity set, corporate governance practices and firm performance. *Journal of Corporate Finance* 182: 1-20.
- Jensen, M. C. (1993). The modern industrial revolution, exit, and the failure of internal control system. *Journal of Finance* 48: 831-880.
- Jermias, J. (2004). *Competitive intensity, board characteristics, managerial ownership, and firm performance*. Faculty of Business Administration, Simon Fraser University, Canada.
- Jones, T. M. (1995). Instrumental stakeholders theory: A synthesis of ethics and economics. *Academy of Management Review*, 20 (2) April: 404-437

- Julie, C. & Silvester, M. (2003). Board and Monitoring Committee Independence. *Abacus*, 39 (2): 211-232
- Kaen, R. R. (2003). Corporate Governance: Strategy, accountability and preservation of shareholder value. American Management Association. USA
- Keasey K. S. T., & Wright, M. (1997). Corporate Governance: Economic and Financial Issues. Oxford University Press.
- Kieso, D. E. J. W. & Warfield, T. D. (2004). Intermediate Accounting. Eleventh Edition. John Wiley & Sons Inc., USA.
- Khurana, I. K. & Raman, K. K. (2004). Litigation risk and financial reporting credibility of Big4 versus Non-Big4 audits: Evidence from Anglo-American countries. *The Accounting Review* 79 (2): 473-495.
- Kim, K. A & Nofsinger, J. R. (2004). Corporate Governance. Pearson Education, Inc., Upper Saddle River, New Jersey.
- Klein, A. (2002). Audit committee, board of director characteristics, and earnings management. *Journal of Accounting and Economics* 33: 375-400
- Kothari, S. P. 2001. Capital market research in accounting. *Journal of Accounting and Economic* 31: 105-231.
- Krishnan, Gopal V. (2003)^a). Audit quality and the pricing of discretionary accruals. *Auditing: A Journal of Practice & Theory* 22 (1) : 109-126
- Lawrence, A. T, Weber, J. & Post, J. E. (2005). *Business and Society : Stakeholders, Ethics, Public Policy*. Eleventh Edition. McGraw-Hill / Irwin.
- Leuz, C. D. N. & Wysocki, P. D. (2003). Earnings management and investor protection: an international comparison. *Journal of Financial Economic* 69: 505-527 Levitt, A. J. 1998. "The Numbers Game", *The CPA Journal*, December: 14-19.
- Lesi H. (2015). Internal Control And Ethics Of Quality Management System Accounting Information And Implications On The Quality Of Accounting Information Management: Proposing A Research Framework. *International Journal of Economics, Commerce and Management United Kingdom* Vol. III, Issue 6, June (2015) Licensed under Creative Common Page 902 <http://ijecm.co.uk/> ISSN 2348 0386
- Hertati, L. (2015). Research Article Total Quality Management As Technics On Strategic Management Accounting. *International Journal of Recent Advances in Multidisiplinary Research*. Vol. 02, Issue 11, pp.0942-0949, November, 2015
- Hertati, L. (2015). Just In Time, Value Chain, Total Quality Management, Part Of Technical Strategic Management Accounting. *International Journal Of Scientific & Technology Research* Volume 5, Issue 04, April 2016 Issn 2277-8616
- Hertati, L. (2015). Competence of Human Resources, The Benefits of Information Technology on Value of Financial Reporting in Indonesia. *Research Journal of Finance and Accounting* www.iiste.org.ISSN 2222-1697 (Paper) ISSN 2222-2847 (Online) Vol.6, No.8, 2015
- Hertati, L. (2015). Impact Of Uncertainty Of Environment And Organizational Cultural On Accounting Information System Management And Implications For Managerial Performance Proposing A Conceptual Framework. *International Journal of Economics, Commerce and Management United Kingdom* Vol. III, Issue 12, December 2015.Licensed under Creative Common Page 455 <http://ijecm.co.uk/> ISSN 2348 0386
- Lukviarman, N. (2001). Key characteristics of corporate governance: The case of Indonesia.

- Working Paper Series 01.01*. Curtin University of technology Graduate School of Business. Maassen, G.F. & F.A. van de Bosch. (1999). On the supposed independence of two-tier board: formal structure and reality in the Netherlands. *Scholarly Research and Theory Papers*. Blackwell Publisher, Vol.7, No.1, January: 31-37
- Matsumoto, D.A. 2002. Management's incentives to avoid negative earnings surprises. *The Accounting Review*, 77 (3): 483-514
- McKinsey & Co. (2002). *Global Investor Opinion Survey on Corporate Governance*. Melalui <<http://www.mckinsey.com/governance>
- Millstein, Ira. (1998). The Evolution of Corporate Governance in the United States, *World Economic Forum*, 14.
- Monk, R. A. & Minow, N. (2004). *Corporate Governance*. Third Edition. Blackwell Publishing Ltd. USA.
- Mulford, C. W. & Comiskey, E. (2002). *The Financial Numbers Game: Detecting creative accounting practices*. Canada, John Wiley & Sons, Inc.
- Myers, J. L. Myers dan Omer, T. (2003). Exploring the term of the auditor-client relationship and the quality of earnings: A case for mandatory auditor rotation. *The Accounting Review* 78: 779-799.
- Nelson, M. W. E. J. A. & Tarpley, R. L. (2003). How are earnings managed? Examples from auditors. *Accounting Horizons*. Supplement: 17-35
- Organization for Economic Cooperation and Development. (2004). *OECD Principles of Corporate Governance*. OECD Publication Service, France.
- Peng, M.W. 2004. Outside directors and firm performance during institutional transitions. *Strategic Management Journal*. 25: 453-471
- Porter, M. E. (1992). *Capital Choices: Changing the way America invest in industry*. Boston, Harvard Business School.
- Pranata, P. & Mas'ud, M. (2003). Analysis of corporate governance mechanism and indications of earnings management. National Symposium on Accounting VI. Surabaya, October: 176186.
- Rangan, S. (1998). Earnings management and the performance of seasoned equity offerings. *Journal of Accounting and Economics* 50: 101-122.
- Rhoades, D. L. P. L. R. & Sundaramurthy, C. (2001). Meta-analysis of board leadership structure and financial performance: are "two heads better than one"? *Empirical Research-Based and Theory Building Papers* 9 (4) October: 311-319
- Robbins, S. P. (2003). *Organizational Behavior*. Tenth Edition. Pearson Education Inc. Prentice Hall. New Jersey.
- Salmon, J.W. (2000). Crisis Prevention: How to Gear Up Your Board. *Harvard Business Review on Corporate Governance*. USA
- Schipper, K. (1989). Commentary on Earnings Management. *Accounting Horizons*, December, 91102.
- Schroeder, R. G. M. W. C. & Cathey, J. M. (2005). *Financial Accounting Theory and Analysis*. Eighth Edition. John Wiley & Son. USA.
- Scott, R. W. (2003). *Financial Accounting Theory*. Third Edition. Pearson Education Canada Inc., Toronto, Ontario
- Skinner, D. and Sloan, R. G. (1999). Earning surprises, growth expectations, and stock returns or not let torpedo earnings sink your portfolio. *Review of Accounting Studies* 7: 287-312.

- Skousen, K. F. E. K. S., & Stice, J. D. (2004). *Intermediate Accounting*. 15th Edition. South-Western of Thompson Learning.
- Sloan, R. G. (1996). Do fully reflecting stock prices information in accruals and cash flows about future earnings. *The Accounting Review* 71: 289-315.
- Spira, L. F. (1999). Ceremonies of governance: perspectives on the role of the audit committee. *Journal of Management and Governance* 3: 231-260. In Xie et al. 2003. Earnings management and corporate governance: the role of the board and audit committee. *Journal of Corporate Finance* 9: 295-336
- Husnan, S. (2001). *Corporate Governance and Finance in East Asia*. Asian Development Bank.
- Sweeney, A. P. (1994). Debt-covenant violations and manager 'accounting responses. *Journal of Accounting and Economics* May: 281-308.
- Syakhroza, A. (2005). *Corporate Governance: History and Development, Theory, Model, and Governance System and Its Application to BUMN Companies*. Speech inauguration of Permanent Professor of the Faculty of Economics, University of Indonesia, FEUI Publisher.
- Sylvia V. & Yanivi, S. (2004). Good corporate governance, information asymmetry, and earnings management. *National Accounting Symposium VII*. Denpasar, December: 57-69
- Teoh, S. H. I. W, and Wong, T. J. (1998). Earnings m
- Tjager, A. Alijoyo, H. R. Djemat, & Soembodo, B. (2003). *Corporate Governance: Challenges and opportunities for the Indonesian business community*. PT Prenhallindo, Jakarta.
- Uzun, H., S. H. S., & Varma, R. (2004). Board composition and corporate fraud. *Financial Analysts Journal*. May / June: 33-43
- Venkataraman, V. (2005). *Audit Committee Handbook*. Tata McGraw-Hill Professional: Corporate Governance Series.
- Warfield, T. J. W., and Wild, K. (1995). Managerial ownership, accounting choices, and information about earnings. *Journal of Accounting and Economics* 20 (1): 61-91.
- Watts, R. L. and Zimmerman, J. L. (1986). *Positive Accounting Theory*. Prentice-Hall International Editions, New Jersey.
- Welch, E. (2003). The relationship between ownership structure and performance in listed Australian companies. *Australian Journal of Management*, 28 (3) December: 287-305
- Weston, J. F. M. L. & Mulherin, J. H. (2004). *Takeovers, Restructuring, and Corporate Governance*. Fourth Edition. Pearson Education, Inc., New Jersey.
- Williamson, O. E. (1987). The Economic Institutions of Capital. In chapter 12: "Corporate Governance", p. 298-325. First Free Paperback Edition, USA.
- Wooten, T. (2003). Research about audit quality: It is impossible to know the number of poor quality audits. *The CPA Journal*. January: 48-51
- Xie, B., W. N. D. III, & DaDalt, P. J. (2003). Earnings management and corporate governance: the role of the board and the audit committee. *Journal of Corporate Finance*, (9): 295316.
- Yeo, G. H. P. M., Tan, K. W. H. & Chen, S. Y., (2002). Corporate ownership structure and the information about earnings. *Journal of Business Finance & Accounting*, 29 (7 & 8) Sept./Oct. : 1023-1046
- Yermak, D. (1996). Higher market valuation of a company with a small board of directors. *Journal of Financial Economics* 40: 185-211.
- Young, B. (2003). Corporate governance and firm performance: Is there a relationship? *Ivey Business Journal Online*, September / October: 1-4