PREVENTION STRATEGY OF INCOME SMOOTHING PRACTICES WITH GOOD CORPORATE GOVERNANCE MECHANISM

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Abstract
The purpose of this study is to investigate the differences of income smoothing based on the number of independent commissioners, the number of audit committee, auditors’ quality, foreign ownership, managerial ownership, and institutional ownership. The population of this research is manufacturing company listed in Indonesia Stock Exchange (IDX). By purposive sampling, the study got 70 manufacturing companies listed in IDX from 2011 until 2013. Income smoothing was measured by Eckel index. The research used Man-Whitney U test for testing the hypothesis. The result of this research showed that there was no difference of income smoothing based on the number of independent commissioners, the number of audit committee, auditors’ quality, foreign ownership, and managerial ownership. This study also found that there was difference of income smoothing based on institutional ownership. This study gives advice in order to potential investors who want to invest in a manufacturing company should choose to invest in a manufacturing company that has high institutional ownership. Because from the result of the study, company with high institutional management is proven able to reduce the motivation of the management to take income smoothing action.

Keywords: Income Smoothing; the Number of Independent Commissioners; the Number of Audit Committee; Auditors’ Quality; Foreign Ownership; Managerial Ownership; and Institutional Ownership

INTRODUCTION
Information regarding profit is information used to assess the performance of management and assist investors when to invest, so the report that presents profit information is often used for assessment in decision making (Roheani and Aryati, 2012). On the other hand, management understands that this profit becomes the main point for investors and often exploited by the management of the company. This is understandable because it is the behaviour of investors which led to earnings management action (Cahan, 2008). One of the patterns of earnings management that is often used to reduce fluctuations in earnings is income smoothing. Motivation of the management to perform income smoothing among others to satisfy the interests of company’s owner such as raising the film value, raising its share price and for its own purposes, such as obtaining compensation (Juniarti and Corolina, 2008).

The more rapid the global economy makes companies pushed to develop its business with the purpose to get investors from within and outside countries. Investors are regarded as a party that has an important role in the progress of a company even a country. Therefore, some countries make regulations to protect the investors from actions that could harm, such as income smoothing. Leuz et al. (2010) states that more foreign companies do not practice income smoothing, because in a foreign country, investors are
very protected so that if the company detected performing income smoothing then the consequences will be hard for companies to get investors back. Meanwhile, according to Yusuf and Soraya (2004), many companies in Indonesia indicated performing income smoothing in order to attract investors. Companies that perform income smoothing will certainly do everything possible so that their actions are not detected. However, there are some ways that can be done by company to reduce income smoothing conducted by the management some of which are by increasing the number of independent commissioners, the number of audit committee, the use of Big Four KAP, as well as improving ownership structure of the company (Farina and Herman, 2013; Dimitropoulos and Asteriou, 2010; Anderson et al., 2003; and Francis and Wang, 2008).

Board of commissioners are expected to be able to carry out monitoring function properly and eventually management will present qualified profit, so that the optimal number of board of commissioners will be able to reduce earnings management practice. Still, Ratnaningsih and Hidayati (2012) and Putri (2012) state that the number of board of commissioners that many leads to earnings management practices. Therefore, for this board of commissioners should be carefully considered how many members of commissioner board in a company. Board of commissioner is assisted by committees in carrying out its functions, one of which is the audit committee. The audit committee is very expected able to suppress earnings management action, a mechanism that can be done is by appointment of the external auditor who has a good reputation and quality. Thus, with the appointment of the auditor makes management feel supervised in every action taken. But, it is also considered as the board of commissioners, how many members of the audit committee to be able to reduce income smoothing action, because Aji (2012) found that audit committee did not have effect on income smoothing.

Qualified external auditors are expected to be able to prevent earnings management action. Dahlan (2009), as well as Guna and Herawaty (2010) state that the use of Big Four KAP gives a negative effect on income smoothing. Meanwhile, Rohaeni and Aryati (2012) state that good auditor’ quality influences the increase of income smoothing practice that occurs. Foreign ownership also becomes one of the indicators to find income smoothing practices. Research conducted by Verawati (2012) gives the result that foreign ownership has no effect in reducing earnings management action on manufacturing companies. Nevertheless, Leuz et al. (2010) gets the result shareholdings by foreign parties influence on the reduction of income smoothing practices.

To appear sense of belonging in the management, managerial ownership needs to be done. Management will maintain the viability of the company because the management feels own shares by way of trying to provide good profit quality. It is seen as a way known to the alignment of the interests of owners and managers (Jensen and Meckling, 1976). It is inversely related to the research conducted by Guna and Herawaty (2010) which states that high managerial ownership increasingly triggers earnings management practices. Another way that can be done is monitoring from other institutions, in this case the institution which owns shares of another company. With the shares owned by other companies, it will increase monitoring because institutional investors have a high portion of ownership, thereby reducing earnings management action. This monitoring action has been proved by Moh’d et al, (1998) in Siswantaya (2007)

Research on income smoothing has been carried out by several researchers. Yet, the results obtained are not consistent from one researcher to another researcher. This has led researchers to conduct re-research on income smoothing. Mostly previous studies used effect test, but in this study researchers want to use difference test. This is due to the researchers want to know more about the differences of income smoothing by using the variables in the study including the number of independent commissioners, the number of audit committee, auditors’ quality, and ownership structure of the company. The purpose of this study is to determine differences of income smoothing based on the number of independent commissioner, the number of audit committee, auditors’ quality, and ownership structure. Income smoothing is also one of the forms of earnings management that can be harmed the investors, as indicated Indonesia including in countries with low investor protection so that income smoothing practices can occur.

This research is expected to provide benefits for investors in assessing the reliability of the financial statements by first reviewing the information about the independent commissioners, audit committee, auditors’ quality and ownership structure so that investors are not wrong in taking decision. Benefit for the company is to more pay attention to the management action in particular relating to the preparation of financial statement so that users of financial statements do not feel misled by the information provided by the company.

Agency theory contains about the relationship between the owner and the manager, who called agency relationship. In managing a company, managers tend to be concerned with personal interests rather than the interests to enhance firm value, this which causes the emergence of agency conflict (Jensen and Meckling, 1976). One of the effects of the conflict is the managers perform income smoothing to pursue personal gain. Income smoothing practices that occur in the company must be avoided soon in order to shareholders increasingly feel protected in investing and information asymmetry can be avoided (Siswantaya 2007). A method to reduce agency conflict is by increasing foreign ownership, managerial ownership, institutional ownership, the number of independent commissioners and audit committee, in order to restrict the movement of managers in conducting hidden activities and information (Farina and Hermawan, 2013).

Corporate governance is a concept that can be used in improving economic efficiency, which includes a series of relationships between management, board of directors, shareholders and other stakeholders (Aji, 2012). The purpose of Corporate Governance is to maximize firm value by developing transparency, trust and accountability, as well as to establish a good management system to be used within the company (Putri, 2012). The minimum number of independent commissioner members that must be owned by a company is three (KNKG, 2013). For those companies that have made an initial public offering or IPO, the audit committee is chaired by independent commissioner and one of the members must have background and ability in accounting or finance sector. If the rules on the minimum number of
independent commissioner and audit committee in the company has fulfilled then it is possible the monitoring in the company will be more effective.

Schroeder (2009) states that income smoothing is common practice that performed by managers to reduce fluctuations in profit and has implications for the management performance evaluation. According to Eckel (1981) there are two types of income smoothing, namely natural smoothing and intentionally smoothed by management. Intentionally smoothed by management is divided into two, namely real smoothing and artificial smoothing. Artificial smoothing performed by the management to improve the appearance of financial statements by manipulating it (Cahan et. Al., 2008). Income smoothing that aimed in this research is artificial smoothing, for the purpose of management performing income smoothing is to improve the appearance of fluctuating financial statements. A method done by management is by changing its accounting policy for moving costs or revenue from one period to another period (Dwimulyani and Abraham, 2009).

Independent commissioner is members of the board of commissioners who are from outside the company, free, independent and expected able to minimize agency problem that arose between board of directors and shareholders (Ratnaningsih and Hidayati, 2012). Aji (2012) shows that company with high number of independent commissioner member will be more effective in conducting monitoring, so as to reduce income smoothing. Based on the guidelines of Good Corporate Governance in 2013 issued by the National Committee on Corporate Governance, the minimum number of independent commissioners that must be owned by the company is as many as three people. If the company has a higher number of independent commissioners than the rules of good corporate governance, then the role of monitoring is expected to be more effective because independent commissioners are representatives of the shareholders. Therefore, there is possibility of income smoothing action undertaken by management.

**H1: Income smoothing on the companies with high number of independent commissioner is smaller than incomesmoothing on the companies with low number of independent commissioner.**

The audit committee is a committee established by the board of commissioners in conducting monitoring function over the performance of directors and management team (Suryani, 2010). Sam’ani (2008) states that the audit committee is responsible for overseeing financial statements, overseeing external audit and observing internal control systems (including internal audit) so as to reduce management actions that will perform income smoothing practice (Aji, 2012). The number of audit committee members also has an important role to prevent the practice of income smoothing (Widodo, 2010). According to the guidelines of Good Corporate Governance compiled by the National Committee on Corporate Governance, the minimum number of audit committees on companies that have made an initial public offering is as many as three people. Therefore, if the number of the audit committee is higher than the minimum limit set by Good Corporate Governance, it is possible the monitoring function conducted to the financial statements will be tighter and it is possible to prevent income smoothing action undertaken by the management.
H3: Income smoothing on the companies with high number of audit committee is smaller than income smoothing on the companies with low number of audit committee.

Auditor quality is an assessment to the auditor in providing information regarding the financial statements which have been evaluated. Auditor quality is measured based on Big Four KAP or Non Big Four KAP. Dahlan (2009) finds empirical evidence that the quality of auditors has a negative effect on income smoothing. Farina and Hermawan (2013) state that income smoothing done by the management is influenced by the quality of its auditors, the better the quality of auditors, then the smaller the possibility of income smoothing. This is due to auditors from big four KAP has a good reputation, competent resources, and has more experience in auditing the financial statements of the company compared with non big four KAP. Therefore, if a company uses big four KAP, it can prevent income smoothing practices and reduce the agency conflict.

H4: Income smoothing on the companies that use big four KAP is smaller than income smoothing on the companies that use non big four KAP.

Foreign ownership is the amount of company stock owned by foreign parties either individually or institution and will influence on income smoothing (Farina and Hermawan, 2013). Joseph and Soraya (2004) say that non-foreign companies more perform income smoothing than foreign companies. Companies with high foreign ownership will conduct more stringent monitoring than non-foreign companies, due to the ownership that owned by foreign parties makes them do not want to be harmed on the investment made and will choose to sell their shares if the company proved performing income smoothing. The protection of investors, especially foreign investors will also be carried out by a foreign country because in a foreign country investors are protected, so that more rigorous monitoring is conducted for the company (Leuz et al., 2010).

H5: Income smoothing on the companies with high foreign ownership is smaller than income smoothing on the companies with low foreign ownership.

Managerial ownership is shareholdings from management which actively participate in decision making of the company (Aji, 2012). Research by Warfield et al. (1995), Iqbal and Fachriyah (2007), as well as Suryani (2010) state that managerial ownership is negatively related to earnings management. This result indicates that managerial ownership can reduce the motivation to do earnings management, resulting profit reported is the actual economic situation of the company. With the managerial ownership, agency problem that occurs can be reduced so that it will create the goal which is line between the manager and the owners and shareholders, as the manager as well as a shareholder in the company.

H6: Income smoothing on the companies with high managerial ownership is smaller than income smoothing on the companies with low managerial ownership.
Institutional ownership is shareholdings by institutional parties such as insurance companies, banks, pension funds, and investment banking (Aji, 2012). Rajgofal et al., (1999) in Iqbal and Fachriyah (2007), as well as Suryani (2010) state that institutional ownership negatively affects earnings management. Manager believes that institutional investors are more careful in monitoring the company’s financial statements because generally institutional investors own shares which are relatively big. Therefore, institutional ownership may reduce the motivation of managers to perform earnings management. High institutional ownership makes institutional investors want to get high dividends. Consequently, institutional investors will examine in detail the profit information that informed. Accuracy of institutional investors also leads to strict monitoring to the actions taken by management.

**H₀:** Income smoothing on the companies with high institutional ownership is smaller than income smoothing on the companies with low institutional ownership.

**METHODS**

The population in this study was all manufacturing companies listed on the Indonesia Stock Exchange (IDX), which published financial statements from 2011 until 2013. Selection of manufacturing companies as a population because many manufacturing companies that were indicated did income smoothing compared with other similar companies such as a service company, trading companies and banking (Dwimulyani and Abraham, 2009). Moreover, manufacturing companies are best suited to use Eckel Index in determining the number of income smoothing (Cahan, 2008). Selection technique of population as the sample used purposive sampling with the criteria: (1) Companies that have made an initial public offering or IPO prior to 2011, (2) Companies that had annual financial statements with complete information and ended in December 31, (3) Companies that did not suffer loss in 2011 until 2013.

The data used in this research was secondary data that was quantitative. Data taken from the financial statements of manufacturing companies listed on the Indonesia Stock Exchange (BEI) in the period 2011 to 2013 that was obtained through the website of Indonesia Stock Exchange (www.idx.co.id) or on Indonesia Capital Market Directory. The variable in this study was an Income Smoothing. To determine the number of income smoothing used Eckel index (1981). According to Simanjuntak (2005) Index Eckel had several advantages including: (1) Objectives and based on statistical calculations that could separate between income smoothing and not income smoothing companies (2) Able to measure income smoothing without imposing income prediction, modelling of the expected profit, testing fees or subjective considerations; (3) Able to measure income smoothing by adding the effect from several variables of income smoothing and to investigate the patterns of income smoothing behaviour over a given period.

This study did not differentiate between companies that conducted income smoothing or not, but using the number of income smoothing obtained from the calculation result. Due to the use of income smoothing numbers perceived more reflected income smoothing action that occurred compared than
distinguished it (Dwimulyani and Abraham, 2009). Here is the formula of income smoothing by Eckel (1981):

\[ IS \text{ \textit{RATIO}} = \frac{CV \Delta \text{\textit{netincome}}}{CV \Delta \text{\textit{netsales}}} \]

Explanation:

\[ IS \text{ \textit{ratio}} = \text{\textit{Income Smoothing Ratio}} \]

\[ CV = \text{\textit{Coefficient of variation}} \]

Whereas to calculate \( CV \) (\textit{coefficient of variation}) for \( \Delta \text{\textit{net income}} \) and \( \Delta \text{\textit{Sales}} \) is using this following method:

\[ CV \Delta \text{\textit{netincome}} \text{ dan } CV \Delta \text{\textit{sales}} = \sqrt{\frac{\sum (\Delta x - \Delta \bar{x})^2}{n - 1}} : \Delta \bar{x}^{n-1} \]

Explanation:

\( \Delta X \): Changes of \textit{net income} or \textit{sales} between year \( n \) and \( n-1 \)

\( \Delta \bar{X} \): Average changes of \textit{net income} or \textit{sales}

\( n \): The number of years examined

The following is operational definition of each other study variables, including:

a. Number of Independent Commissioners (JDK) is the number of independent commissioner members which is owned by the company (Ratnaningsih and Hidayati, 2012). It was measured based on the terms of the minimum number of independent commissioner according to the guidelines of Good Corporate Governance issued by the National Committee on Corporate Governance. If it was more than 3 then categorized as high, if less than three then categorized as low.

b. Number of Audit Committee (JKA) is the number of audit committee members that are on the companies (Suryani, 2010). It was measured based on the terms of the minimum number of audit committee according to Good Corporate Governance which was issued by the National Committee on Corporate Governance. If it was more than three then categorized as high, if less than three categorized as low.

c. Auditor Quality (AUD), seen based on the accounting firm (KAP) used by the company, given the value of one if the company was audited by the auditors of the big four KAP and a zero value if the company audited by the auditors of non-big four KAP (Iqbal and Fahriyah, 2007).

d. Foreign Ownership (KA) is the proportion of shareholdings by foreign parties from the total shares that circulate (Farina and Hermawan, 2013). This foreign ownership was not measured by individuals but
by the institution, because it was difficult to determine individual foreign ownership. If it was more than
the average value categorized as high, if less than the average categorized as low.

Total shares owned by foreign institution

\[
\text{foreign ownership} = \frac{\text{Total shares owned by foreign institution}}{\text{Total shares of the company that circulate}}
\]

e. Managerial ownership (KM), the proportion of stock ownership from the management of the company
(Aji, 2012). If it was more than the average value categorized as high, if less than the average categorized
as low.

Total shares owned by management

\[
\text{managerial ownership} = \frac{\text{Total shares owned by management}}{\text{Total shares of the company that circulate}}
\]

f. Institutional ownership (KI), the proportion of shareholdings by institutional parties (Aji, 2012). The
ownership meant here was an institutional ownership that came from within the country. If it was more
than the average value categorized as high, if less than the average categorized as low.

\[
\text{institution ownership} = \frac{\text{Total shares owned by institution within country}}{\text{Total shares of the company that circulate}}
\]

Data analysis would be begun on calculating the Index Eckel, conducting Crosstab testing,
determining the category of high and low for variables tested, hypothesis testing would use T-Test test, but
if the data distributed abnormally, it would be used Mann-Whitney U test by using SPSS version 20
software.

RESULTS AND DISCUSSION

The population used in this research was 136 Manufacturing Companies listed in the Stock Exchange
Indonesia. The sample used was as many as 70 Manufacturing Companies. This sampling is obtained as
follows:

<table>
<thead>
<tr>
<th>Criteria</th>
<th>Number</th>
</tr>
</thead>
<tbody>
<tr>
<td>Companies that became population</td>
<td>136 Companies</td>
</tr>
<tr>
<td>Companies that just have made an initial public offering or IPO between 2011 until 2013</td>
<td>(18 Companies)</td>
</tr>
<tr>
<td>Companies that did not publish complete final statement</td>
<td>(6 Companies)</td>
</tr>
<tr>
<td>Companies that suffered loss</td>
<td>(42 Companies)</td>
</tr>
<tr>
<td>Companies that became sample</td>
<td>70 Companies</td>
</tr>
</tbody>
</table>

Source: Secondary data processed, 2015
Descriptive statistics in this study that included minimum, maximum, and average values are presented in Table 2 below:

**Table 2. Descriptive Statistics**

<table>
<thead>
<tr>
<th>Variables</th>
<th>Minimum</th>
<th>Maximum</th>
<th>Average</th>
</tr>
</thead>
<tbody>
<tr>
<td>Income Smoothing</td>
<td>-9.78</td>
<td>8.24</td>
<td>0.75</td>
</tr>
<tr>
<td>Number of Independent Commissioners</td>
<td>1</td>
<td>7</td>
<td>3.01</td>
</tr>
<tr>
<td>Number of Audit Committee</td>
<td>2</td>
<td>5</td>
<td>2.71</td>
</tr>
<tr>
<td>Foreign Ownership</td>
<td>0</td>
<td>0.93</td>
<td>0.34</td>
</tr>
<tr>
<td>Managerial Ownership</td>
<td>0</td>
<td>0.32</td>
<td>0.03</td>
</tr>
<tr>
<td>Institutional Ownership</td>
<td>0</td>
<td>0.90</td>
<td>0.02</td>
</tr>
</tbody>
</table>

Source: Secondary data processed, 2015

Based on the table 2, it showed that the minimum income smoothing number which was equal to -9.78 in which this value meant coefficient of variation of net income margin was smaller if compared with the coefficient of variation of net sales margin. The number of independent commissioners and audit committee in table 2 there were companies that have not met the rules. In terms of ownership structure, the minimum value was zero, which meant that there were companies that did not have foreign ownership, managerial ownership, or institutional ownership. Based on KAP, as much as 51.43% or 108 samples used Big Four accounting firm and as many as 102 samples used Non Big Four accounting firm.

Crosstab test was a testing done to see how much the relationship between groups of data. Here is the result of crosstab test:

**Table 3. The result of Crosstab Test**

<table>
<thead>
<tr>
<th>Variables</th>
<th>Contingency Coefficient</th>
</tr>
</thead>
<tbody>
<tr>
<td>Income Smoothing</td>
<td>0.691</td>
</tr>
<tr>
<td>Number of Independent Commissioners</td>
<td>0.688</td>
</tr>
<tr>
<td>Number of Audit Committee</td>
<td>0.695</td>
</tr>
<tr>
<td>Foreign Ownership</td>
<td>0.697</td>
</tr>
<tr>
<td>Managerial Ownership</td>
<td>0.698</td>
</tr>
<tr>
<td>Institutional Ownership</td>
<td>0.696</td>
</tr>
</tbody>
</table>

Source: Secondary data processed, 2015

Table 3 showed that all variables in this study had a strong enough relationship to correlate with Eckel index because it was in the interval between 0.5 and 0.8 with a maximum value of one. Normality testing was done by using Kormogorof-Smirnov. Based on the test results, the data used in this study was the data which was abnormally distributed. So to examine the hypothesis would use Mann Whitney U test.

Results of hypothesis testing and average income smoothing based on high-low number of independent commissioners, the number of audit committee, auditor quality and ownership structure are presented in tables 4 and 5 below:
Table 4. The result of research testing

<table>
<thead>
<tr>
<th>Variables</th>
<th>Asymp. Sig. (2-tailed)</th>
<th>Conclusion</th>
</tr>
</thead>
<tbody>
<tr>
<td>Income Smoothing</td>
<td>0.111</td>
<td>H₁Rejected</td>
</tr>
<tr>
<td>Number of Independent Commissioners</td>
<td>0.392</td>
<td>H₂Rejected</td>
</tr>
<tr>
<td>Number of Audit Committee</td>
<td>0.479</td>
<td>H₃Rejected</td>
</tr>
<tr>
<td>Foreign Ownership</td>
<td>0.568</td>
<td>H₄Rejected</td>
</tr>
<tr>
<td>Managerial Ownership</td>
<td>0.337</td>
<td>H₅Rejected</td>
</tr>
<tr>
<td>Institutional Ownership</td>
<td>0.009</td>
<td>H₆Accepted</td>
</tr>
</tbody>
</table>

Source: Secondary data processed, 2015

Table 5. Average of Income Smoothing

<table>
<thead>
<tr>
<th>Variables</th>
<th>Average of Income Smoothing</th>
</tr>
</thead>
<tbody>
<tr>
<td>Number of Independent Commissioners</td>
<td>0.76                116 Companies</td>
</tr>
<tr>
<td></td>
<td>0.74                94 Companies</td>
</tr>
<tr>
<td>Number of Audit Committee</td>
<td>0.74                182 Companies</td>
</tr>
<tr>
<td></td>
<td>0.86                28 Companies</td>
</tr>
<tr>
<td>Auditor Quality</td>
<td>0.73                108 Companies</td>
</tr>
<tr>
<td></td>
<td>0.78                102 Companies</td>
</tr>
<tr>
<td>Foreign Ownership</td>
<td>0.80                107 Companies</td>
</tr>
<tr>
<td></td>
<td>0.70                103 Companies</td>
</tr>
<tr>
<td>Managerial Ownership</td>
<td>0.73                37 Companies</td>
</tr>
<tr>
<td></td>
<td>0.76                173 Companies</td>
</tr>
<tr>
<td>Institutional Ownership</td>
<td>2.16                18 Companies</td>
</tr>
<tr>
<td></td>
<td>0.62                192 Companies</td>
</tr>
</tbody>
</table>

The first hypothesis was rejected and it could be concluded that there was no difference of income smoothing at companies with a number of independent commissioners that was high and low. Income smoothing that occurred can be resulted because there were still companies that did not meet the rules of the National Committee on Corporate Governance which required a minimum number of independent commissioner was three people (table 2). This could make the monitoring carried out to the actions of management and financial statements became ineffective, and make the management remained doing income smoothing action. The result of this study was in line with Putri (2012) who stated that the number of board of commissioners that was high or low will remain to make the management did income smoothing action for monitoring condition that was weak from independent commissioners.

The second hypothesis was rejected or there was no difference of income smoothing on companies with high and low number of audit committees. As well as the number of independent commissioners, on the number of audit committee also there were still companies that did not meet the rules regarding the guidelines of Good Corporate Governance which required a minimum audit committee was as many as three people (table 2). This led to income smoothing action undertaken by management because of the lack
of effective monitoring by the audit committee (Aji, 2012). This result concurred with research conducted by Guna and Herawaty (2010) which stated that income smoothing could occur at companies that had a lot number of audit committee and might also occur at companies that had a few number of audit committee.

The third hypothesis was rejected or there was no difference of income smoothing at companies that used Big Four KAP and companies that used Non Big Four KAP. H₃ was rejected might be because the duty of the auditor is not to detect income smoothing but to evaluate the equity of financial statements prepared by management. The result of this study was in line with research conducted by Rohaeni and Aryati (2012) which stated that the quality of auditor did not reduce the income smoothing performed by the management, as the financial statements of the companies which performed income smoothing would also look reasonable so that the auditor could not detect income smoothing.

The fourth hypothesis was rejected or, in other words income smoothing at companies with high foreign ownership was not smaller than income smoothing at companies with low foreign ownership. This was possible due to a small number of shareholding owned by foreign parties (table 2), so that companies without foreign ownership was not closely monitored by investors. The result of this study supported research conducted by Verawati (2012) that foreign ownership owned in the company could not be used as a benchmark of a company did not perform income smoothing.

The fifth hypothesis was rejected or, in other words there was no difference of income smoothing at companies with high and low managerial ownership. This was possible due to the ownership which was owned by the manager, then the manager would certainly have a desire to get a bigger profit on the shares they owned so that one way which was taken by the manager was income smoothing. In addition, with the managerial ownership owned certainly managers would also participate in decision making of the company (Aji, 2012). This result also indicated that even though the manager had high or low ownership in the company, but agency problem would still occur because manager’s goal was to increase his advantage while the owner’s goal was to increase the firm value (Widodo, 2011). Absence of this difference was also possible because average managerial ownership owned by a small number of companies which was amounted to 3% (table 2), so that it was not enough to make the manager had a purpose that was in line with the owners. The result of this study was in line with research conducted by Guna and Herawaty (2010).

The sixth hypothesis was accepted, there was a difference of income smoothing on companies with high and low institutional ownership. This indicated that institutional investors who had high stocks tend to be more actively put pressure on the management because they did not want to be harmed on investment they did. High institutional ownership also made institutional investors wanted to get high dividends from the profits earned by the company, so they tend to be more conscientious in looking profit information reported by management. Strict monitoring of these institutional investors led to management reduced motivation to perform income smoothing, because if the management was proven performing income smoothing then institutional investors would certainly sell their shares. The result of this study was in line with research conducted by Iqbal and Fachriyah (2007) and Suryani (2010) which stated that high institutional ownership influenced the decline of income smoothing.
CONCLUSION

Based on the hypothesis testing, it can be concluded that there was no difference of income smoothing based on the number of independent commissioners, the number of audit committee, auditor quality, the amount of foreign ownership and the amount of managerial ownership. The study also found that there are differences between income smoothing on companies with high and low institutional ownership.

Companies are expected to pay more attention to the rules required by Good Corporate Governance regarding the minimum number of independent commissioners and audit committee in the company. This meant that the monitoring conducted by independent commissioners and audit committee is more stringent within the company. For investors, if want to invest in a manufacturing company, then should choose to invest in a manufacturing company that has high institutional ownership. Because from result of the study, companies with high institutional management is proven in reducing the motivation of the management to perform income smoothing.

Foreign ownership is only identified by the name of the institution, so it is possible the number of its ownership is less precise. Therefore, for further researches are expected to also add foreign ownership that comes from individual in order to be the number of ownership is more precise.

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