THE IMPLEMENTATION OF CORPORATE GOVERNANCE MODEL IN GO PUBLIC FAMILY COMPANIES OF INDONESIA REGARDING TO THE QUALIFIED INFORMATION OF EARNINGS

Indri Kartika
Faculty of Economics, Sultan Agung Islamic University (UNISSULA) Indonesia
Email: indri@unissula.ac.id

Maya Indriastuti
Faculty of Economics, Sultan Agung Islamic University (UNISSULA) Indonesia
Email: maya@unissula.ac.id

ABSTRACT

Earning is the crucial information of financial statements for users because of its predictive values. Earnings may also become source of conflicts since the majority shareholders as well as the minority, creditors and other stakeholders have different interests. This research investigates problems of agency between the majority shareholders and creditors mediated by corporate governance related to the earnings presentations. Non-financial company populations which are equipped with website facilities and are listed in Indonesian Stock Exchange of 2009-2010 are used in this research. With purposive sampling technique, 240 samples are obtained. This research is conducted using multiple-regression method for its data analysis which has the significance level of 5%. The results show that family ownership and leverage significantly have negative influences to earnings quality while corporate governance structure and mechanism significantly have positive influence to earnings quality. In addition, family ownership and leverage also significantly give negative influence to corporate governance structure and mechanism. However, family ownership insignificantly had negative influence to leverage. The implications of this research: theoretically, (1) in the concentrated family ownership company, family has strong control to decide the important company policies prioritizing the interests of family shareholders. (2) Indonesia public companies also have high debt structure, leading family shareholders (managers) to perform moral hazard by selecting accounting policies to improve earnings (increasing earnings). Policy Implications: (1) the capital market regulator needs to set the proportion limits of family ownership to maintain the balance of company interests and stakeholders'. (2) regulators need to continuously improve the regulatory application of corporate governance to public companies, and (3) Banks need to be aware of providing funds for companies with poor corporate governance.

Keywords: Earnings Quality, Ownership Structure, Leverage, Corporate Governance.

INTRODUCTION

Ownership structure is foundation to identify the distribution of power among interested parties in the organization. The patterns of ownership concentration and composition will determine those which have dominant power in the organization and how those parties control the organization. Most public companies in Indonesia are concentrated or controlled by family (Patric, 2002, Kartika, 2009), there is almost no gap between ownership and control of the company. High family ownership which controls public companies may result in conflicts of interest between family shareholders, minority shareholders, *debt holders* and other stakeholders.

Conflicts of interest between the controlling shareholders, minority shareholders, and others may also be presented in the earnings statements. Earnings information may lead to the source of conflicts since earnings information is the prior element in financial statements which are very essential for those who use it as the predictive value, to assess potential changes of economic resources in the future, to generate cash flow from the existing resources, and to assess company effectiveness in leveraging the additional resources (IAI, 2012).

Problems of *moral hazard* upon the earnings statements may arise due to the financial accounting standard that provides flexibility for managers to determine the accounting policies. The accounting method consideration may be deliberately conducted for particular purposes. Earnings misstatements or distortions generated from the non-identical earnings manipulation that are possibly based on the generally acceptable accounting principles distributing costs either in good, bad, present, or future periods, may reduce the financial statement credibility. Bias may occur and disturb user financial statements believing that the number of earnings manipulation is factually true.

Corporate governance provides mechanism to controlling agents' behavior that no actions are undertaken to generate more benefits for individual than the principal interests. In the presentation of earnings information, agents are expected to pay more attention to the principal in the event that the information is honestly presented based on the company real transactions regardless to their own interests. Thus, good *corporate governance* is expected to be able to present the qualified earnings.

Public companies in Indonesia generally use external funding that banks also have important roles in monitoring the company businesses. Theoretically, when company uses external sources of funding, banks have important positions in monitoring the

company behavior and performance. Thus, banks are regarded as the supervisors upon the use of debts (Husnan, 2001; Patrick, 2002). Most agreement of debts (*debt covenants*) requires debtors to act based on the terms of loan. To avoid risks, companies tend to do *moral hazard*, by determining accounting procedures moving the future earnings to the current period that the earnings quality decreases (Scott, 2000).

Based on the reasons above, this study is conducted to examine the earnings quality of go-public family companies in Indonesia, the influence of debt structure to earnings quality, to analyze whether family control and debt structure can decrease the company earnings quality, and whether *corporate governance* control mechanism may improve the earnings quality to minimize costs of agency.

THEORETICAL BACKGROUND AND RESEARCH HYPOTHESES

FAMILY OWNERSHIP AND EARNINGS QUALITY

The majority shares of public companies in Indonesia are owned by family or called as family companies (Tarmizi, 2007; Kartika, 2009). In family companies, the key positions either as commissioners or directors are the family that management must synchronize the interests with the owners'. The emerging problems of agency in the family companies are between family, as the majority shareholders, and minority shareholders, creditors, and other *stakeholders*. In the family concentrated ownership, there is asymmetric information between family and minority shareholders', *debtholders*', and other stakeholders' ownership. The family ownership may also influence the company financial statement policies through their positions as members of management and their approval at AGM. Thus, in the *entrenchment effect* point of view, it is predicted that the presented earnings information is tend to be manipulated as one of the family ownership expropriation upon the minority shareholders, *debtholders*, and other *stakeholders*. Research conducted by Kartika (2009) proves that companies with high family ownership tend to make high earnings management either. Woo and Chong (2004) in their research proves that companies in Indonesia, Thailand, Malaysia and the Republic of Korea are concentrated in family. The results of research conducted by Chong and Woo (2004) also prove that the companies that ownership is concentrated in family have extensive disclosure and low transparency. Based on the theoretical studies and the previous researches, the hypothesis one can be formulated as follows:
H_1: High Family Ownership tends to have low earnings quality

DEBT STRUCTURE AND EARNINGS QUALITY

The companies with the *debt covenants* are responsible upon the terms agreed with creditors. These tight credit requirements may encourage managers to manage earnings. Earnings management generally is undertaken by *increasing earnings* to provide signal that the company is not in *financial distress*. This earnings management decreases its quality. Research conducted by Christie and Zimmerman (1994) showed that high leverage company managers tend to use accounting policies to improve earnings. This result is in line with the research conducted by Kartika (2009). This study predicts that debt structure influences earnings quality. Thus, the second hypothesis can be formulated as follows:
H_2: high debt structure tends to have low earnings quality

FAMILY OWNERSHIP AND DEBT STRUCTURE

The company which is the majority shares are owned by family, its control is normally conducted informally. This is because the company is controlled by the family although management has important roles as well. Thus, the synchronization of interests between management and family shareholders last not only for one generation but continuously for the next as long as there is no changes in the ownership patterns. The results of research conducted by Driffied N, Mahambare V and Pal S (2006) show that the companies which are controlled by family tends to increase the debt structure. This result supports the hypothesis of *non-dilution of entrenchment* in family-controlled company in Indonesia, Malaysia, and Thailand. The results also show that the concentrated company ownership structure of "*cronyman*" has positive influence to debt structure. The family-concentrated companied have similar characteristics with "*cronyman*" (Driffied N , Mahambare V and Pal S, 2006 and Kartika, 2009). The results of this study provide important implications that the family-controlled companies tends to dominate that consequently gives less favorable influence, that is, greater control in their *cash flow rights*. It is predicted that family ownership influences debt structure. Thus, the third hypothesis of this research is formulated as follows:
H_3: high family ownership tends to have high debt structure.

FAMILY OWNERSHIP AND CORPORATE GOVERNANCE

In the developing countries, the concentrated ownership may create conflicts of interest between family and the other parties. Shleifer and Vishny (1997) state that the problems of agency in family-concentrated company ownership are not only between managers-shareholders, but also between investors, creditors and the family that completely control the managers. Research conducted by Chong and Woo (2004) with descriptive method at 4 East Asian countries: Indonesia, Republic of Korea, Thailand, and Malaysia shows the following results: (1) The sample companies have high majority ownership causing difficulties for minority shareholders to deliver their aspirations at AGM dominated by the *right voting* of majority owners, (2) The minority shareholders have very small roles in the commissioner election process, (3) commissioners primarily work upon the majority owner interests and frequently make unprofitable decisions upon the minority shareholder interests and the company itself. The presentation of earnings information is a strategic decision that the owning family pays particular attentions as the impacts may influence various parties' decisions upon the company. The family interest upon the published earnings information may lead to

the opportunistic attitude in selecting and determining *corporate governance*. If the company is more concentrated in family, it is predicted that corporate governance quality will decrease.
H_{4a}: High family ownership tends to have low corporate governance structure quality
H_{4b}: High family ownership tends to have low corporate governance mechanism quality.

CORPORATE GOVERNANCE AND DEBT STRUCTURE

Corporate governance may reduce asymmetric information and opportunistic behavior of management. Thus, *cost of debt* can be reduced by *corporate governance*. Ashbaugh-Skaife et al., (2006) explains that the conflicts of agency may occur between *debtholders* and managers performing based on their own interests by doing *moral hazard* leading to asymmetric information. Besides, the problems of agency may occur when shareholders make their decision to transfer the welfare of *debtholders* for the interests of shareholders that potentially leads to *debt default*. Companies with high family ownership, management and shareholders, generally have a familial relationship that expropriation is conducted by managers and shareholders to *debtholders* tend to be high. The Independence Board of Commissioners and the audit committees play important roles in the company, especially to the implementation of corporate governance. The board and the audit committees are responsible to supervise managers and the majority owners, in this case is family, to be discipline dealing with the *debt covenant* that the company will not be threatened with *debt default*. Consequently, companies with good corporate governance structure and mechanism tend to have low debt structure. The result of study conducted by Byun Young (2007) proves that corporate governance which is calculated upon the number and independence of commissioners negatively influences the debt structure. Thus, based on these theoretical studies, the hypothesis can be formulated as follows:
H_{5a}: High corporate governance structure quality tends to have low debt structure
H_{5b}: High corporate governance mechanisms quality tends to low debt structure

CORPORATE GOVERNANCE AND EARNINGS QUALITY

Financial statement is very important information to external users (principals) because of their high level of uncertainty upon the company. Managers (agents) who perform activities have the flexibility to determine accounting methods, estimations and treatments upon company economic transactions. Due to the nature of agents who always want to maximize their utilities, it provides opportunities for agency to determine earnings strategy. Agencies may determine alternative accounting policy to delay earnings that earnings in current period is decreased (*decreasing earnings*) or to speed up earnings statement that in the current period can be increased (*increasing earnings*) (Missonier-Piera, 2004). Earnings manipulation is not identical with earnings misstatements or distortions. Earnings manipulation may continuously depend on the generally acceptable accounting principles. However, cost redistribution influence and moderate earnings purposes between good, bad, present, or future periods or combination and variation of those may cause low earnings quality. The implementation of *corporate governance* is expected to reduce agency to perform earnings manipulation that company performance reported can reflect the actual state of company economy (Jensen, 1993 and Kartika, 2009). Based on these theoretical studies, the sixth hypothesis can be formulated as follows:
H6a: High corporate governance structure quality tends to have high earnings quality
H6b: High corporate governance mechanism quality tends to have high earnings quality

RESEARCH METHODS

This research uses *explanatory causal-comparative research.* The data used in this research are the annual reports obtained through *www.jsx.co.id* related to family ownership, debt structure, *corporate governance*, earnings quality and *annual report* data of companies listed in Indonesia Stock Exchange of 2009-2011. Research samples were taken by *purposive sampling* with the following criteria: Companies listed on Indonesia Stock Exchange (ISX) that publish in ICMD. The number of samples during the observational period was 240 companies.

OPERATIONAL DEFINITION AND MEASUREMENT OF VARIABLES

FAMILY OWNERSHIP (FO)

Family ownership is defined as ownership held by all individuals and companies that must be recorded (ownership ≥ 5%), except for companies owned by public, countries, financial institutions (such as institution of investment, mutual funds, insurance, pension funds, banks, and cooperatives), and public ownership that shall not be recorded. The family ownership is formulated as follows:

$$KK = \frac{\Sigma \text{ family shareholding}}{\Sigma \text{ circulating total shares}}$$

Family ownership data obtained from public company financial statements are used as the samples. The definition of family is also used by La Porta *et al* (1999), Claessens *et al* (2000), Arifin (2002), and Kartika (2009).

DEBT STRUCTURE (DS)

Debt structure is defined as the amount of company's dependence on financial sources obtained from loans. Debt structure is proxied with debt proportion owned by company on financial statement date upon the amount of company assets which is resulted from the ratio of debt and total assets. Debt structure is formulated as follows:

$$\text{Debt Structure} = \frac{TDit}{TAit}$$

Description:
TDit: Total debt of company i in period of t
TAit: Total assets owned by company i in period of t

The calculation of debt structure with this formulation has been widely used by the previous researchers as debt covenant proxies such as: Dhaliwal (1981), Jensen, Solberg and Zorn (1992) Christie and Zimmerman (1994), Mitton (2002), and Muklasin (2007), Kartika (2009).

CORPORATE GOVERNANCE (CG)

Corporate governance is a set of rules establishing the relationship between shareholders, management, creditors, government, employees and other internal and external parties related to their rights and obligations, or in other words, is a system directing and controlling the *Cadbury Committee* of company (2000). *Corporate governance* is calculated with *governance* structures and mechanisms. The calculation of corporate governance variables are as follows:

CORPORATE GOVERNANCE STRUCTURES

Corporate governance structure is proportion of Independent Board of Director and independent audit committee from total number board director and audit committee. The calculation of independent commissioner variables is formulated as follows:

$$IC = \frac{\text{Number of Independent Board of Director and Independent Audit Committee}}{\text{Total number of Board of Director and Audit CommitteeMembers}}$$

Source: Jama'an (2008) and Indriastuti (2011)

CORPORATE GOVERNANCE MECHANISMS

Corporate governance mechanism is calculated with the mean of frequency of board and audit committee meetings in a year (Tristiarini, 2005 and Indriastuti, 2011).

EARNINGS QUALITY (EQ)

Earnings quality is non-manipulated earnings reported based on real transactions and right timing. First, the abnormal accrual is estimated, then, are subsequently determined. The abnormal accrual is 1. This research used the modified model of Jones as conducted by Healy (1996) and Peasnel et al. (2000). This model is more powerful to detect earnings management based on sales than Jones' (1991). This research also estimates the modified model of Jones with the pooling data as conducted by Peasnell et al. (2000), to maximize the sample size. In addition, this study also uses accrual capital performance since the systematic of *earnings management* through depreciation accruals rarely occurs (Beneish, 1999; Peasnell et al., 2000). Earnings management is detected with the following methods:

$WC = \omega_0 + \omega_1 \Delta REV_1 + v_1$
$WC = \Delta AL - \Delta Kas - \Delta\ HL$
$AA = WC_1 - [\omega_0 + \omega_1 (\Delta REV_1 - \Delta REC_1)]$.
$NA = 1 - AA$

Where:
WC : Accrual Capital Performance of company i year t
ΔREV1 : earnings changes
ω_0 and ω_1 : regression coefficient
v1 : residual regression
ΔREC_1 : debt changes
AA : *Abnormal Accrual*
NA : *Normal Accruals (Earnings Quality)*

DATA ANALYSIS TECHNIQUES

The data analysis is conducted using descriptive statistical analysis intended to provide empirical data overview or description. Multi linear regression analysis equipped with SPSS version 19 is used to examine hypotheses (Ghozali, 2011). Thus, the research models are as follows:

CGS $= a + e + b_1EO$ .... (1)
CGM $= a + e + b_1EO$ .... (2)
DS $= a + b_1FO + b_2 CGS + b_3CGM + e$ (3)
IO $= a + b_1FO + b_2DS + b_3CGS + b_4CGM + e$ (4)

Description:
CGS : Corporate Governance Structure
CGM : Corporate Governance Mechanisms
EQ : Earnings Quality
FO : Family Ownership
DS : Debt Structure
a : Constants
b1...b2 : Regression Coefficients
e : error

EMPIRICAL RESULT

Descriptive statistic show that, the mean of family ownership is 72,69%, debt structure 52%, average meetings of board of director and audit committee more than 1 but less than 2, and proportion of board of director and audit committee independent from total its members is 38%. Model fit test with multicolinearity test show that all of variable have tolerance values less than 10 % and VIF mare than 1. The Durbin-Watson test give value 2,054, the value of d in area d_U and 4-du where $1,772 < 2,054 < 2,228$ and it means there is not autocorrelation problem. Glejzer test show that all of variable have probability values more than 0,05 percent, and its mean that there is not autocorrelation problem. All of models give F test value less than % percent, its means that all of models fit.
The result of the multiple regression linier test can be see in below:

No	Hipothesis	B Coefficient	probability	conclusion
H1	High Family Ownership tends to have low earnings quality	-0,215	0,028	Accepted
H2	High debt structure tends to have low earnings quality	-0,098	0,019	Accepted
H3	High family ownership tends to have high debt structure	-0,158	0,063	Rejected
H4a	High family ownership tends to have low corporate governance structure quality	-0,101	0,003	Accepted
H4b	High family ownership tends to have low corporate governance mechanism quality.	-0,150	0,022	Accepted
H5a	High corporate governance structure quality tends to have low debt structure	-0,369	0,035	Accepted
H5b	High corporate governance mechanisms quality tends to low debt structure	-0,005	0,029	Accepted
H6a	High corporate governance structure quality tends to have high earnings quality	3,307	0,008	Accepted
H6b	High corporate governance mechanism quality tends to have high earnings quality	0,318	0,016	Accepted

Source: Regession Test Analysis

DISCUSSION

THE INFLUENCE OF FAMILY OWNERSHIP TO EARNINGS QUALITY

The results of Descriptive statistical analysis show that the average family ownership in Indonesia is 72.69%. Shleifer and Vishny (1997) state that the problems of agency in family ownership structure concentrated companies are no longer between managers and shareholders, but also the minority shareholders, creditors, and the other family owned stakeholders that fully control the managers. This is because the owning family generally has incentive to generate more profits to their group regardless to the interests of minority shareholders, creditors, or other stakeholders. For example, less conservative accounting policies are chosen to increase the owning family welfare at the expense of other stakeholders. This results are in accordance with the research conducted by Claessens *et al.* (2000) regarding to the family ownership in some Asian countries, finds that more than two-thirds of the sample companies are controlled by a single owner that the gap between ownership and control is very small. This may lead the owning family to care more on their own interests at the expense of minority shareholders, creditors, and other stakeholders. The research conducted by Kartika (2009) also gives results that the concentrated family ownership is quite high that the earnings quality tends to be low.

THE INFLUENCE OF DEBT STRUCTURE TO EARNINGS QUALITY

The results of descriptive analysis of this study show that the average debt proportion compared to public company assets in Indonesia is 52%. When company uses external financial sources, theoretically bank has important position in monitoring the

company behavior and performance as bank is one of external supervisor upon the use of debts. In companies with high debt structure, the managers try to maximize their interests but they have to consider constrains generated from the credit agreement that may not be violated as well. Restrictions upon debt *covenants* may lead management to perform *moral hazard* in order to avoid violation upon *debt covenants*, since violations upon *debt covenant* cost very expensive. One example of *moral hazard* performed by management was related to the earnings (*eanings management*). Types of earnings management that generally performed by management are by selecting the accounting policies that may increase earnings leading to the impression that the company is not in financial distress. However, this may cause earnings quality decrease. The results of this study are in accordance with the study conducted by Dhaliwal (1980) shows that in high leverage companies, managers tend to use accounting policies to improve earnings. The research conducted by Christie and Zimmerman (1994) also provides the same evidence.

THE INFLUENCE OF FAMILY OWNERSHIP TO DEBT STRUCTURE

In high family ownership, family is usually involved in the company management either as commissioners or directors that there is an aligned interests between majority owners and the directors. The aligned interests may have long term period. So, if the company performance is good then this performance may be sustained in long term period. In the contrary, if the company performance is not good, it will be difficult to be fixed immediately. In addition, the shareholders of family companies (institutions) are owned by the family themselves. The bank confidence to provide funding depends on the company performance, prospect, management credibility, and owner. The onset of Asian economic crisis in 1997 followed by the European economic crisis in 2011 impact the Asian countries including Indonesia. Consequently, companies with high family ownership in Indonesia are slightly difficult to come up from the downturn since the impacts has also led the companies and the cronies (the share owning companies) go bankrupt. Thus, the bank confidence to provide funding decreases. The results of this study is not in accordance with the study conducted by Driffied et al., (2006) who showed that the company which is controlled by the family tends to increase the debt structure.

THE INFLUENCE OF FAMILY OWNERSHIP TO *CORPORATE GOVERNANCE*

In Indonesia, the majority ownership structure is concentrated in the family. In the concentrated family ownership structure, the family has great authority to determine the *corporate governance* structure. The presentation of financial statements is a strategic decision that the owning family pays attention as this will influence the company decision to the parties. The owning family interests upon the published accounting information may lead to the owning family opportunistic attitude in selecting and determining the of *corporate governance* structure. Therefore, the independent commissioner and audit committee proportion tend to be elected in AGM to merely meet the regulatory purposes. The responsibility to supervise the financial statement reliability has been delegated by the board of commissioners to the audit committees. If the owning family controls the important decisions in the company, the owning family may limit the audit committee authority or activity that the financial statements presented to the public may represent their interests. Thus, the high family ownership tends to have lower earnings quality since earnings can be adjusted with the owning family interests. Earnings manipulation is not identical with earnings misstatements or distortions as earnings manipulation may constantly remain based on the generally acceptable accounting principles that influence redistribution of costs between periods and purposes moderating earnings between good, bad, present, and future periods or the combination and variation causing the decrease of earnings quality.

THE INFLUENCE OF CORPORATE GOVERNANCE TO DEBT STRUCTURE

Corporate governance may reduce the asymmetric information and management opportunistic behavior that *cost of debt* can also be reduced by *corporate governance*. Ashbaugh-Skaife et al. (2006) explains that the conflicts of agency may occur between *debtholders* and management. When managers perform based on their own interests by undertaking favorable moral hazard that creates asymmetric information. Besides, the problem of agency can also occur when the shareholders decide to transfer the welfare of bondholders for the benefit of shareholders. Thus, the potential problems may lead to *debt default*. In high family ownership company, management and *shareholders* normally have a familial relationship that expropriation performed by managers and *shareholders* to *bondholders* tend to be high. *Corporate governance* may protect *bondholder* interests by reducing conflict with managers and *shareholders*. The board of commissioners and audit committees with sufficient independence play important roles in company, especially in the implementation of *corporate governance*. Basically, corporate governance is mechanism to supervise and to provide guidance and direction to the company management. Due to the debts, the board of commissioners and audit committees supervise managers and owners that the majority in this case is family to be discipline meeting the debt covenant that the company will not be in *debt default* condition. Thus, companies with good *corporate governance* either related to the structures or mechanisms tend to have low debt structure. The results of this research are in accordance with the research conducted by Young Byun (2007).

THE INFLUENCE OF CORPORATE GOVERNANCE TO EARNINGS QUALITY

The board of commissioners plays important roles in company, especially in the implementation of *corporate governance*. Basically, BOC is the mechanism to supervise, to provide guidance and direction to the company management. To supervise company activities, commissioners are assisted by audit committees, especially in the function of providing independent evaluation on company financial statement, including fixing the financial statement well to the *shareholders* and others and company business ethics (Fisher, 1994). In studying the financial information issued by the company, audit committees shall consider the studies of the accounting policies, interim and annual financial statements, management report and auditor's opinion on financial statements. Earnings information is the accounting information that is important for all parties. For investors,

earning is the increase of economic value received through dividend sharing. For creditors, earning is the increase of economic value received through refund and interest. For managers, earning is the measure of performance in managing resources entrusted. The presentation of earnings quality information can minimize the conflicts of interest between company and *stakeholders*. By monitoring the presentation of earnings information, the commissioner and audit committee can minimize costs of agency between company and the *stakeholders*. The results of this research are in accordance with the research conducted by Bedard, JC and Courteau, L (2003) which shows that earnings management has negative relationship with audit committees' independence, competence, and activities. In addition, the research conducted by Klein (2002) also states that there is a negative relationship between abnormal accruals and independent commissioners.

CONCLUSION

Financial statements presentation is a strategic decision that family shareholders pay much attention as company decision to the parties will be affected. Family shareholder interests to the published accounting information may lead to their opportunistic attitude in selecting and determining the corporate governance structure and mechanism. Thus, high family ownership structure tends to have low corporate governance mechanisms. However, the company with good corporate governance tends to have high earnings quality. By monitoring the presentation of earnings information, commissioners and audit committees can minimize costs of agency between the company and its stakeholders.

The implications of this research: **theoretically**, (1) in the concentrated family ownership company, family has strong control to decide the important company policies prioritizing the interests of family shareholders. (2) Indonesia public companies also have high debt structure, leading family shareholders (managers) to perform *moral hazard* by selecting accounting policies to improve earnings (*increasing earnings*). **Policy Implications:** (1) the capital market regulator needs to set the proportion limits of family ownership to maintain the balance of company interests and stakeholders'. (2) regulators need to continuously improve the regulatory application of *corporate governance* to public companies, and (3) Banks need to be aware of providing funds for companies with poor corporate governance because these companies tend to manage earnings by *increasing earnings* to give the impression of not in the situation of *debt default*.

Limitations of this study are: *first*, not many literatures discuss about family company and corporate governance in family companies due to the infrequently researches conducted on it. *Second*, it is not easy to obtain the ultimate family ownership data that the variable calculations used in this study are based on *immediate* ownership only.

REFERENCES

Arifin,S.(2002). *Voluntary Disclosure of Indonesian Companies listed on Jakarta Stock Exchange.* PhD Thesis. University Sain Malaysia.

Ashbugh-Skaife, H., D.W. Collins and R. Lafond.(2006). The Effect of Corporate Governance on Firms credit Rating. *Journal of Accounting and Economics.* Vol. 42. pp. 203-243.

Berdard, J, Chtourou, S.M. dan Courteau, L. (2003).*The Effect of Audit Committee Independence, Competence, and Activity on Aggressive Earnings Management.* URL: http://www.ssrn.com

Cadbury Committee. (1992). *Report of The Committee on The Financial Aspects of Corporate Governance*, London:Gee.

Christie,A.A. dan Zimmerman, J.L. (1994). Efficient and Opportunictic Choices of Accounting Procedures: Corporate Control Contests. *The Accounting Review.* Vol. 69.

Claessens,S., S. Djankov, J.P.H., and L.P.H. Lang.(2000). The Separation of Ownership and Control in East Asian Corporation. *Journal of Financial Economics*. 58: 81-112.

Dhaliwal, D.S. (1980). The Effect of the Firm's Capital Structure on the Choice of Accounting Methods. *The Accounting Review*. Vol. 55.pp. 78-85.

Doyle, J. T., W., Ge, dan S., McVay.(2007). Acccrual quality and internal control over financial reporting. *The Accounting Review* 82:5.

Effendi, Muh. Arief. (2005), Peranan Komite Audit dalam Meningkatkan Kinerja Perusahaan. *Jurnal Akuntansi Pemerintah*. No. 1. May 2005. pp 51-57.

Effendi, Muh. Arief. (2005), Peranan Komite Audit dalam Meningkatkan Kinerja Perusahaan. *Jurnal Akuntansi Pemerintah*. No. 1. May 2005. pp 51-57.

…….. 2008. *Komisaris Independen Bukan Sekedar Pelengkap*. Business Indonesia News. Friday. June, 6, 2008.pp 7

Fama, EF dan Jensen, M.C. (1983). Separation of Ownership and Control. *Journal of Law and Economic*. June.

Forum for Corporate Governance in Indonesia (FCGI). (2000*), The role of the Board of Commissioners and the Audit Committee on the implementation of Corporate Governance (GCG).* http://www.fcgi.or.id.

________ and Asian Development Bank (ADB). Penilaian Mandiri (Self Assessment) Praktek Corporate Governance Suatu Perusahaan.". http://www.fcgi.or.id

Ghozali, Imam. (2011). *Aplikasi Analisis Multivariate dengan Program SPSS*. 5th Edition, Diponegoro University Press. Semarang, Indonesia

Indriastuti, Maya. (2011). *Pengaruh Prinsip Corporate Governance, Struktur Corporate Governance, dan Audit Brand Name Terhadap Reaksi Investor (Studi Kasus Pada Perusahaan Yang Melakukan SEO dan Listing di BEI)*. Thesis (not published). Master of Accounting, Diponegoro University, Semarang, Indonesia.

Jama'an. (2008). *Pengaruh Mekanisme Corporate Governance dan Kualitas Kantor Akuntan Publik terhadap Integritas Informasi Laporan Keuangan (Studi Kasus Perusahaan Publik yang listing di BEJ)*. Thesis. Master of Accounting, Diponegoro University, Semarang, Indonesia.

Jensen. G.D., Solberg, and T Zorn. (1992). Simultaneous Determination of Insider Ownership Debt and Devidend Policies. *Journal of Financial and Quantitative Analysis* 27. 247-263.

Jensen, M.C. dan Meckling, W.H.(1976). Theory of The Firm: Managerial Behavior, Agency Cost and Ownership Structure. *Journal of Financial Economics.* October. Vol.3.

Jensen, M.J. dan Warmer, J.B. (1988). The Distribution of Power Among Corporate Managers, Shareholders, and Directors. *Journal of Financial Economics.* 20(1). 3-24.

Kartika, Indri. (2009). *CorporateGovernance pada Perusahaan Keluarga dan Manajemen Laba: Perspektif Teori Keagenan (Studi Empiris pada Perusahaan Manufaktur Go Publik di Indonesia).* Desertasi. Universitas Diponegoro. Semarang

Ketua Badan Pengawas Pasar Modal Nomor: Kep-29/PM/2004 tertanggal 24 September 2004. Peraturan Nomor IX. 1.5: *Pembentukan dan Pedoman Pelaksanaan Kerja Komite Audit*. Jakarta

Klein, A. (2002). Audit Committee, Board of Director Characteristics, and Earnings Management. *Journal of Accounting and Economics.* 33: 375-400.

Kunz, R.M. dan Angel, J.J.(1996). Factors Affecting The Value of The Stock Voting Right: Evidence from The Swiss Equity Market. *Financial Management.* 25(1). 7-20.

Laksmana, I. (2008). Corporate Board Governance and Voluntary Disclosure of Executive Compensation Practices. *Contemporary Accounting Research,* 25(4):1147-82

La Porta, R., F. Lopez-de-Silanes, A.Shleifer, and R. Vishny.(1998). Investor Protection and Corporate Governance. *Journal of Financial Economics.*pp. 3-27.

Lukviarman, N. (2004). *Ownership Structure and Firm Performance: The Case of Indonesia.* PhD Thesis. Curtin University of Technology.

Missonier-Piera, F. (2004). Economic Determinant of Multiple Accounting Method Choices In a Swiss Context. *Journal of International Financial Management and Accounting.* 15.2. 118-144.

Mitton. (2002). A Cross Firm Analysis of The Impact of Corporate Governance on The East Asia Financial Crisis. *Journal of Financial Economics*. 1-31.

Muklasin (2007). *Determinan Ekonomi Pemilihan Kebijakan Akuntansi: Analisis Single Motive dan Multiple Motive*. Dissertation. Doctoral Program, Faculty of Economics, Diponegoro University, Semarang, Indonesia.

Organization for Economic Cooperation and Development (OECD).(1988). *Corporate Governance : Improving Competitiveness and Access to Control in Global Markets*. OECD Report. April.

Patrick, H. (2002). *Corporate Governance and the Indonesian Financial System: a Comparative Perspective*. APEC Study Center Columbia Business School, Discussion paper No. 16. http://www.columbia.edu/cu/business/apec/publications/hpartick3.PDF.

Ronald, J.G. (2006). Swedish Corporate Governance Forum's Ten Years. Jubilee Seminar on The Future of Corporate Governance. *Havard Law Review Association.* Vol. 119.1641-1679.

Scott, W.R. (2000). *Financial Accounting Theory*, Second Edition. Scarborough. Prentice Hall. Canada.

Shleifer, A. dan Vishny, R.W.(1997).A Survey of Corporate Governance. *Journal of Finance,* 52: 737-783.

Sullivan. J.D.(2000). Corporate Governance: Transparansi Antara Pemerintahan dan Bisnis. *Jurnal Reformasi Ekonomi*. Oktober-Desember.3-13.

Tabalujan, B.S. (2002). *Why Indonesian Corporate Governance Failed-Conjecture Concerning Legal Culture*. Working Paper. Columbia Journal. Spring.

Tarmizi Achmad.(2007). *Corporate Governance of Family Firms and Voluntary Disclosure: The Case of Indonesian Manufacturing Firms.* PhD Thesis. The University of Western Australia.

Taylor, S dan Whittred, G. (1998). Security Design and The Allocation of Voting Right: Evidence from The Australian IPO Market. *Journal of Corporate Finance*. 4(2). 107-131.

Thornton, D. (1984). *A Look At Agency Theory for The Notice.* CA Magezine. 93-100

Tristiarini, Nila. (2005). *Pengaruh Penerapan Corporate Governance terhadap Abnormal Return pada saat Pengumuman Laporan Keuangan* 2003. Thesis. Master of Accounting, Diponegoro University. Semarang, Indonesia

Undang-undang Republik Indonesia Nomor 40 tahun 2007. *Perseroan Terbatas Indonesia*.

Watts, R.L. dan J.L. Zimmerman. (1986). *Positive Accounting Theory.* Englewood Cliffs. NJ: Prentice Hall.

Woo Nam, Sang dan Chong Nam, Il.(2004). *Corporate Governance in Asia:Recent Evidence from Indonesia, Malaysia, Republik of Korea, Thailand and Malaysia*. Asian Development Bank Institute.

Zahra, S.A., Hayton, J.C. dan Salvato, C. (2004). *Entrepreneurship in Family vs Non-Family Firms: A Reseource-Based Analysis of the Effect of Organization Culture*. Entrepreneurship Theory and Practice. 28 (4). 363-381

Zhuang, J, David Edwards,David Webb and Ma Virginita A Capulong. (2000). *Corporate Governance and Finance in East Asia, a Study of Indonesia, Republic of Korea, Malaysia, Philippines and Thailand.* Asia Development Bank. Manila

Zingales, L. (1994). The Value of The Voting Right: A Study of The Milan Stock Exchange Experience. *The Review of Financial Studies.* 7(1). 125-148.

Zhou, J. (2000). *Competition Level, Product Type and Differential Income Smoothing Among Manufacturing Firms.* Ph.D Dissertation. Business Administration. Graduate School of Syracuse University.