ACKNOWLEDGEMENTS

First and foremost, thanks be to Jesus Christ, Lord Almighty who has provided the guidance and blessings to finish the thesis entitled: The Impact of Firm and Board Characteristics on Earnings Management. The thesis comprises of knowledge, experiences, and efforts that has been done throughout a three and a half year period of study at Pelita Harapan University, which is intended for the attainment of Bachelor's Degree in Economics (Accounting) at Pelita Harapan University's Business School, Lippo Village, Tangerang, Banten.

This thesis would not have been possible to complete without the guidance, support, and prayers of the people affiliated with the writer. In this opportunity, writer would like to express gratitude and also give the highest respect to those mentioned below:

1. Niel B. Nielson, M.A., Ph.D., as the Dean of the Faculty of Economics at Pelita Harapan University.
2. Dr. Antonius Herusetya, Ak., M.M., CA. as the Head of Study Program of Accounting.
3. Herlina Lusmeida SE., MM., Ak., CA as the supervisor of this thesis for her time, advice, guidance, patience, critics and input, and also for sharing the knowledge needed to aid in the completion of this thesis.
4. Mr. Mulyadi Noto Soetardjo, Mr. Carlito M. Monzon, Mrs. Sandra Inawaty, Mr. Irwan Suarly, Mr. Eduard Ary Binsar Naibaho, Mr. Yong Bom Lee, Mr. Matthew Rodney Malcolm, Mr. Aloysius Harry Mukti, Ms. Silvia Dewiyanti, Ms. Ritha Nainggolan, Mr. Septian Bayu, and many more

lecturers at Pelita Harapan University writer has failed to mention, for their share of knowledge, support, encouragement, and patience.

5. Ronald Bambang Utomo Roy, Yeni Ekapuspa Gunawan, Joel Christopher Purnomo, as writer's beloved and most cherished family members for their endless love and support throughout the life of writer.
6. Eling Dwipasari Gunawan, Laura Geraldine Santoso, Lusiana Gunawan, Stephanie Jessica Wargono, Jennifer Kaylee Wargono, Katherine Clara Wargono, as extended family members who have always been there to cheer up and give moral support to writer during times of need.
7. The CETAR members, Tesalia Tamara Ohandi, Juliana Handriani Suratio, Evalia Josephine, Cindy Putri Setiadji, Lethicia Caroline Kosasih, Tamara Angelina Sugita, Giffin Velasta Santosa, Monica Angellina, who have been by writer's side since the first semester of university life.
8. Accounting A 2015 classmates, Beatrice Lorenzo, Carol Lee Dharmawan, Claudine Jessica, Chung Ha Neul, David Herman, Grace Christanti, Gracedelia Cunnoris, Do Gyeong Tae, Joseph Wei, Joshua Kurniadi, Kevin Tanumihardja, Kim Hyo Bin, Lee Ho Jae, Lim Hye Man, Noh Young Jin, Randy Julio, Stephanie Novita Sirambang, Tamara Diella, for the unbreakable bond of friendship and support throughout university life.
9. Devinna Nathalia, Meldeen Pratiwi, Danetta Tirtakencana, Kristoffer Aleksander, Nigel Cakrawardha, Nia Christy, Raymond Felix, Arya Ganesha, Natasha Marxyz, for being the best people to help me cope through elementary, middle school, and high school all together.

10. Ms. Donna Crook, Mr. Denise Rentiquiano, Mr. Bartlomiej Wasik, Mr. Daru Janarto, Mrs. Fera Luciawati, and 12 years' worth of elementary, middle school, and high school teachers, for guiding and nurturing writer up to this point of completing a thesis paper.
11. Beloved Accounting A 2016 juniors, Whitney Claudian, Raymond Kurnia, Helen Johana Lu, Vincent Young, Tasya, Ricky Gunawan, Celine Wie, Enrico Suhanda, Jesselyn Hartono, Nadya, for being unexpected friends and part of writer's university family.
12. To writer's mentor, Willian Tantono, for the guidance given during the adaptation period at Pelita Harapan University.
13. To writer's mentees, Kenang A. Subakti, Calvina Veronica, Praisy Laoh, Velda Verika, Enike Kris, Sheryn Leony, Zoevine, Cyndi Gabriela, Gilda Anindita Putri, Jasmine who have always been dear to writer.
14. Chief mentor, Heidy Natalia Kindy, for being a big sister during writer's time as a mentor.
15. Demmi, Cindy Lie, Kezia Gabby, Felicia Huang, Nadya Poernama, Gerald Sevtanu, Ansen Chandra, Nabilah, Ayu Boesono, Alissa Miranda Pitoy, Cheryl Anne, Elisabeth Bobby, Erlyn Yulita, Josephine Stephanie, Apriani Nyarong, Yolanda Chrisman, and many more fellow mentoring family members writer have failed to mention, for the unending support, encouragement and memories spent together.

16. Chelsea Lin, Heidy Natalia Kindy, Michelline Tan, Cicilia Wijaya, Athalya Deta, Kristian Taruna, Janice Vianda, Calvina Huang, Jessica Nanny and all seniors who have taught the writer during lab classes.

Lastly, writer apologizes should there be any mistake in content or any shortcomings in this thesis, and writer will receive any critics, suggestions, and comments gladly, which in turn will become input and advice for the writer. The writer hopes this thesis will be beneficial and be put to good use.

Tangerang, 14 December 2018

Author

TABLE OF CONTENTS

COVER PAGE

STATEMENT OF ORIGINALITY OF THESIS

AGREEMENT OF MENTORING GUIDANCE FOR THESIS

THESIS EXAMINING COMMITTEE

ABSTRACT ..... **v**

ACKNOWLEDGEMENTS ..... **vi**

LIST OF TABLES ..... **xvi**

TABLE OF FIGURES ..... **xvii**

CHAPTER I INTRODUCTION

1.1 Background 1

1.2 Research Problem 4

1.3 Research Objectives 5

1.4 Significance of Study 5

1.5 Scope of the Study 6

1.6 Systematic Discussion 6

CHAPTER 1 INTRODUCTION 6

CHAPTER 2 THEORETICAL FRAMEWORK AND HYPOTHESIS DEVELOPMENT 7

CHAPTER 3 RESEARCH METHODOLOGY 7

CHAPTER 4 RESULTS AND DISCUSSION..... 7

CHAPTER 5 CONCLUSION AND RECOMMENDATION 7

CHAPTER II THEORETICAL FRAMEWORK AND HYPOTHESIS DEVELOPMENT

2.1 Basic Concept Definitions 8

2.1.1 Earnings Management 8

2.1.1.1 Information Asymmetry..... 9

2.1.1.2 Agency Theory 9

2.1.2 Earnings Management Techniques 10

2.1.2.1 Accrual Based Earnings Management..... 10

2.1.2.2 Real Earnings Management 11

2.1.3 Firm Characteristics..... 12

2.1.3.1 Firm Size 12

2.1.3.2 Firm Leverage 12

2.1.3.3 Audit Quality..... 13

2.1.4 Board Characteristics..... 13

2.1.4.1 Independence of Board of Directors..... 13

2.1.4.2 CEO Duality..... 14

2.1.4.3 Board Size 14

2.1.4.4 Board Ownership 15

2.1.4.5 Board Compositon 15

2.1.4.6 Audit Committee 16

2.2 Literary Review 16

2.3 Conceptual Framework 20

2.4 Hypothesis Development 21

2.4.1 Firm Financial Leverage and Earnings Management 21

2.4.2 Firm Size and Earnings Management 22

2.4.3 Firm Audit Quality and Earnings Management 23

2.4.4 Independence of Board of Directors 24

2.4.5 Chief Executive Officer Duality 25

2.4.6 Board Size 25

2.4.7 Share Ownership 26

2.4.8 Board Composition 27

2.4.9 Audit Committee Size 28

CHAPTER III RESEARCH METHODOLOGY

3.1 Population and Sample 29

3.2 Estimation Model 30

3.3 Operational Variable Definition 31

3.3.1 Measurement for Dependent Variable: Earning Management 31

3.3.2 Measurement for Independent Variable: Firm and Board Characteristics 33

3.3.2.1 Firm Leverage 33
3.3.2.2 Firm Size 34
3.3.2.3 Audit Quality 34
3.3.2.4 Board of Directors Independence 35
3.3.2.5 Chief Executive Officer Duality 35
3.3.2.6 Board Size 36
3.3.2.7 Board Ownership 36
3.3.2.8 Board Composition 36
3.3.2.9 Audit Committee 37
3.4 Method for Data Analysis 37
3.4.1. Descriptive Statistics 38
3.4.2 Multiple Regression 38
3.4.2.1 Coefficient of Determination 39
3.4.2.2 F-Statistics 39
3.4.2.3 t-Statistics 39
3.4.2.4 Test of Classical Assumption 40
3.4.2.5 Normality 40
3.4.2.6 Heteroscedasticity 41
3.4.2.7 Multicollinearity 41
3.4.2.8 Autocorrelation 42

CHAPTER IV RESULTS AND DISCUSSION

4.1 Overview of Research Data (Observations) 43

4.2 Descriptive Statistics 44

4.3 Test of Classical Assumption 46

4.3.1 Normality 46

4.3.2 Autocorrelation 50

4.3.3 Heteroskedasticity 52

4.3.4 Multicollinearity 53

4.4 Hypothesis Test 54

4.4.1 Coefficient of Determination (R^2) 54

4.4.2 T-Statistics 55

4.4.3 F-Statistics 56

4.5 Analysis of Regression 56

4.5.1 Firm Leverage 56

4.5.2 Firm Size 57

4.5.3 Firm Audit Quality 58

4.5.4 Independence of Board of Directors 59

4.5.5 CEO Duality 60

4.5.6 Board Size 60

4.5.7 Share Ownership 61

4.5.8 Board Composition 62

4.5.9 Audit Committee 63

CHAPTER V CONCLUSION AND RECOMMENDATION

5.1 Conclusion 65

5.2 Implications 68

5.3 Research Limitations 69

5.4 Recommendations 70

REFERENCES

APPENDIX A

APPENDIX B

APPENDIX C

LIST OF TABLES

Table 2.1 List of Literary Review 16

Table 4.1 Summary of Research Data 43

Table 4.2 Descriptive Statistics 44

Table 4.3 Result for Normality Test 47

Table 4.4 Result for Treatment and Normality Test 47

Table 4.5 Result of the Durbin-Watson Autocorrelation Test 50

Table 4.6 Durbin-Watson Result After Treatment 51

Table 4.7 Result of White's Test 52

Table 4.8 Result of Multicollinearity Test 53

Table 4.9 Result of Regression 54

LIST OF FIGURES

Figure 2.1 Conceptual Framework 20

Figure 4.1 Result of Normality Probability Plot 48

Figure 4.2 Result of Normality Residual Distribution Plot..... 49

Figure 4.3 Durbin-Watson Number Line 50

Figure 4.4 Durbin-Watson Number Line 51