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The Effect of Ownership Structure on the Quality of Financial Reporting Of Manufacturing Companies Listed In the IDX during the Period of 2013-2015

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Abstract: *The objectives of this study are to determine the difference in quality between the financial reporting that uses accrual earnings management and the financial reporting that uses real earnings management as the indicators and to determine the effect of ownership structure on the quality of financial reporting. The analytical method used in this study is Mann Whitney's different test and multiple regression analysis using secondary data. The sample of this study is 52 manufacturing companies listed in the IDX during 2013-2015.The results show that there is a difference in quality of the financial reporting that uses accrual earnings management and real earnings management as the indicators. Institutional ownership improves the quality of the financial reporting, but managerial, family, and foreign ownership does not affect the quality of the financial reporting with accrual earnings management as the indicator. For the indicators of real earnings management, institutional and foreign ownership decreases the quality of the financial reporting, but managerial and family ownership does not affect the quality of the financial reporting. Thus, institutional ownership can increase and decrease the quality of the financial reporting, but foreign ownership can decrease the quality of the financial reporting.*

Keywords: *accrual earnings management, real earnings management, ownership structure, quality of financial reporting*

1. Introduction

Capital markets are important for the economic sustainability of a country because they can describe and support the economy. The performance of Indonesian capital market is quite able to compete and is quite able to attract foreign investment. The indicator that can be used to assess the performance of the capital market, according to Nurhaida (2014),chief executive of capital market supervisor and Financial Authorization (OJK),is the growing value of Composite Stock Price Index. The fluctuations of Composite Stock Price Index, which illustrate the performance of capital markets, can be influenced by several factors, including the state of the global stock markets and the financial reporting of issuers. Therefore, maintaining the stability of Indonesian capital market growth requires financial reporting that is able to describe the state of the company, resulting in positive sentiment from local and foreign investors.

In its essence, financial reporting is a description of all accounting activities of a company that can be used as a reference by internal and external parties to make decisions. The use of financial reporting will be more pronounced if it meets the qualitative characteristics of understandable, relevant, reliable, and comparable (SFAC No.2). In addition, the financial reporting will be useful if the information contained in the financial reporting can be used as a reference to predict the state of the company in the future. This will be indispensable for both internal and external users to guide the company to a better direction.

Currently business actors are required to adjust the recording of financial reporting with the global standard, which is characterized by the implementation of International Financial Reporting Standards (IFRS). This globalization aims at uniform it in financial reporting and improving the quality of financial reporting, so it can provide information for users. Indonesian capital market has developed top performing listed companies to attract companies so that they can create quality financial reports to compete in the modern business era.

Perceptions about the quality of a financial report is still quite diverse. There are several attributes that can be used to make a financial statement categorized into a qualified one. The first attribute states that the quality of financial reporting is assessed on the basis of accounting, i.e. accrual quality, persistence, predictability, and income smoothing. The second attribute states that the quality of financial reporting is measured based on market value relevance, timeliness, and conservatism (Fanani, 2009). In addition, according to Cohen (2003), accrual income can be an indicator to determine the high quality of the financial reporting. Barth et al., (2008) also explained that high quality financial reporting is characterized by small earnings management. Therefore, the quality of financial reporting can also be measured from the presence or absence of earnings management practices undertaken by the company.

Earnings management can occur if the preparation of the financial reporting uses accrual basis. The accrual accounting system, as it stands on generally acceptable accounting principles, provides an opportunity for managers to make accounting considerations that will influence the reported income. Earnings management is done by company managers to cover any deficiencies that the company has in order to make the company looks good in front of the financial reporting users. Roychowdhury (2006) stated that earnings management can be done using accrual earnings management and real earnings management.

To achieve the level of quality of financial reporting desired by the company, alignment of goals between shareholders and managers is required. It will be stated in the main objectives of the company. According to Brigham and Gapenski (1996), the main goal of the company is to increase the value of the company through increasing the prosperity of the owner or shareholder. The shareholder's prosperity depends on the policies of the managers who run the company. However, corporate managers often take actions or policies that allow conflict with shareholders and are harmful to them. The action is based on the personality of the people, who are tend to be opportunistic (self-serving) for their own prosperity. Therefore, conflicts of interest (agency of interest) between shareholders and managers might present within the company.

Conflicts of interest between shareholders and managers can be controlled and mitigated by good corporate governance. According to Lins and Warnock (2004), in general, the mechanisms that can control the behavior of management, or often called corporate governance mechanisms, can be classified into two groups. The first is the internal company (ownership structure and corporate control structure), and the second is external company (law and market of corporate control).

Jensen and Meckling (1976) argued that agency costs will be low in firms with high managerial ownership, as this allows the unification of interests of shareholders and the managers, who, in this case, function as agents and principals. This is in line with the research conducted by Alves (2012) and Adebiyi and Olowookere (2016), who found that managerial ownership can hamper earnings management and improve the quality of financial reporting. In contrast to Diniartika and Nafasita (2013), Yasmeen and Hermawati (2015) found that managerial ownership had no significant effect on earnings management and the quality of financial reporting.

Institutional ownership in the company can also affect managers. According to Frankfurter and Wood (1994), large shareholders, usually consisting of institutional shareholders, have a high ability to control managers. The rationale is that greater percentage of shares owned by the institution will lead to a more effective control by shareholders. The studies of Adebiyi and Olowookere (2016) and Diniartika and Nafasita (2013) show that institutional ownership has a negative correlation with the quality of financial reporting and earnings management. Yasmeen and Hermawati (2015) and Madani et al. (2013) found that institutional ownership did not affect the quality of financial reporting.

The ownership structure in Indonesia tends to have characteristics that are different from other countries. Most ownership structures in Indonesian firms are controlled by families (family ownership). Family as the owner of the company has management control, including the existence of the founding family of the company that gives the family an advantage in supervising the company (Astuti et al., 2015). The study of Madani et al.(2013) shows that family ownership has no significant relation with the quality of the financial reporting. The implementation of MEA (ASEAN Economic Community) in Indonesia that has taken effect since the early 2016 also has an influence in the ownership structure in Indonesia. It will increase foreign ownership resulting in changes in agency problem that might affect the quality of financial reporting. The research of Adebiyi and Olowookere (2016) found that foreign ownership has a negative correlation with the quality of financial reporting

Based on the previous researches described above, there are inconsistent results regarding the effect of ownership structure on the quality of financial reporting. This study uses ownership variables, such as managerial ownership, institutional ownership, family ownership and foreign ownership, in contrast to Han (2004) and Wulandari and Budiartha (2014) who only examined managerial and institutional ownership. This study uses the measurement of financial reporting quality of Adebiyi and Olowookere (2016), who uses discretionary accruals (accrual earnings management) and compares it with real earnings management as a measurement indicator of financial reporting quality because accrual earnings management (discretionary accruals) and earnings management can reflect the quality of financial reporting, i.e. reliability and relevance, and they can see it from the subjects of this research, that is manufacturing companies (profit-oriented),so earnings management can be used as an indicator of quality of financial reporting. In addition, the independent variables, i.e. accrual earnings management (discretionary accruals) and real earnings management, can be affected by the policy of managers that can be supervised by shareholders. This research is different from others in terms of first the subject of the research in which the subjects are companies that have implemented IFRS taking effect since 2013 and, second, the indicators of the financial reporting quality, which are accrual earnings management and real earnings management.

2. LITERATURE REVIEW AND HYPOTHESIS DEVELOPMENT

Agency Theory and Corporate Governance

Agency theory is a basis that can be used to explain the current state of the company, one of which is the issue of corporate governance. According to Eisenhard (1989),agency theory is widely used as the basis of theories that explain research in the areas of accounting, economics, finance, marketing, political science, organizational behavior, and sociology. According to Scott (2009),it is a branch of game theory that studies the design of contracts in order to motivate agents to act on behalf of the owner (principal) when there is a difference of interest between the agent and the owner. Based on the theory, agency relations arise when a group of people (principal) gives authority to other people (agent) to run a business. Jensen and Meckling (1976) described the agency relationships within the firm from the agency theory perspective that a company is a container of a number of agreements between shareholders and managers aiming at exploiting economic elements of the resources provided by shareholders. The agency relationship can lead to agency problems that can occur in two forms of relationship; the first is between the principal and the agent, and the second is between the principal and the creditor (Jensen and Meckling 1976; Scott 2009).

The agency relationship makes corporate governance an important issue within a company with information asymmetry problems between shareholders and agents. Basically, the main purpose of a company is to prosper the shareholder. To achieve it alignment between owners and management is required. Effective and efficient relationships between owners and management can be created in the presence of a good corporate governance. According to the Corporate Governance Forum for Corporate Governance in Indonesia (FCGI), corporate governance is a system within a company that contains a set of rules governing the relationship between shareholders, management, creditors, government, employees, and other internal and external stakeholders. To support the management so it can run the company well, OECD has issued a set of principles of corporate governance, i.e.(1) Protection of shareholders' rights, (2) Equal treatment for all shareholders, (3) The role of stakeholders in corporate governance, 4) Openness and Transparency, (5) Accountability of the Board of Commissioners and Board of Directors.

Relation between the Quality of Financial Reporting and Earnings Management

Financial reporting is a form of management's accountability to shareholders. It is said to be qualified if it describes the actual state of the company and can be used to predict the sustainability of the company. Based on the agency theory, in preparing financial reporting, management has different interests with shareholders, in which the former wants a positive assessment from shareholders, while shareholders want the management to fulfill their needs.

These differences of interest make management commit earnings management to engineer the results of the financial reporting, which compromises the quality of the financial reporting. Earnings management can be caused by management policies that use the accrual basis in preparing the financial reporting. Accrual basis which is relevant to the generally accepted accounting principles gives the management the freedom to make accounting records policies that will affect the reported income. Zang (2006) stated that corporate managers have various techniques in earnings management so that they can achieve the targeted profit. The methods used by managers to commit earnings management are accrual earnings management and real earnings management. The assumption of this study is that there are differences in the quality of financial reporting using indicators of accrual earnings management and real earnings management, where the companies tend to use real earnings management in engineering the profit yet reducing the quality of the financial reporting.

H1: There are differences in the quality of financial reporting that uses indicators of accrual earnings management and the one that uses real earnings management.

Relation between Managerial Ownership and Quality of Financial Reporting

Based on agency theory, agency problems arise when there is a difference between the interests of shareholders and the interests of managers. The interests of shareholders should be more concerned, since the company's objectives is more for the welfare of shareholders. Jensen and Meckling (1976) said that a mechanism is needed to enable the control and the supervision on the performance of management, so he management work in accordance with the interests of shareholders. Ownership structure is a useful mechanism for minimizing conflicts between shareholders and managers by increasing the managerial ownership of a company. Ownership of managers will make them feel that they also have the company, so the conflict of interest between shareholders and managers will decrease (Cruthley and Hansen,1989).

The relation between managerial ownership and the quality of financial reporting has been examined by Alves (2012). He found that managerial ownership reduces the behavior of the management of engineering the profit, so it can improve earnings quality and reduce earnings management. These results are in line with the research of Jensen and Meckling (1976), Dhaliwal et al. (1982), Morck et al. (1988), Pratana and Mas'ud (2003), and Adebiyi and Olowookere (2016). Previous researches do not always go along the theory. Fanani (2009) revealed that the concentration of managerial ownership has a significant negative effect on the quality of financial reporting. This is in line with the findings of Han (2004), Teshima and Shuto (2008), Apriada and Suardikha (2016), which show that weak supervision of high managerial ownership levels can degrade the quality of financial reporting. Based on the above explanation, the alternate hypothesis that can be taken is as follows.

H2: Managerial Ownership has a positive effect on the quality of financial reporting.

Relation between Institutional Ownership and Quality of Financial Reporting

The relation between institutional ownership and the quality of financial reporting can be explained by agency theory stating that institutional ownership can improve supervision of management in running a company by minimizing agency conflicts between shareholders and managers. Bhatala et al. (1994) showed that institutional share ownership has an influence in monitoring the behavior of corporate managers. It can minimize agency conflicts between shareholders and managers. It also increases the shareholdings by institutions, which tends to be large in amounts, that will minimize agency costs due to reduced stakeholders.

Apriada and Suardikha (2016) suggested that higher levels of institutional ownership will enhance external control over management. This is in line with the research of Wulandari and Budiartha (2014). In contrast to previous research, Adebiyi and Olowookere (2016), who conducted research on the ownership structure on the quality of financial reporting, found that institutional share ownership negatively affects the quality of financial reporting. Based on the above explanation, the alternate hypothesis is composed as follows.

H3: Institutional Ownership positively affects the quality of financial reporting.

Relation between Family Ownership and Quality of Financial Reporting

Ownership structure becomes important in agency theory, which states that agency conflict is caused by the difference of interest between management and shareholders. However, there is a family-owned concentration in the ownership structure. The ownership structure in developing countries, especially in Indonesia, is dominated by family ownership (La Porta, 1999). Itturiaga and Hoffmann (2005), Ali et al., (2008) and Alves (2012) found that concentrated ownership would reduce managerial behavior in the selection of accounting policies that could reduce the quality of financial reporting. Other studies on family ownership are the studies of Cucculelli and Micucci (2008), Anderson and Reeb (2003).They found that family ownership of shares has a negative effect on financial performance. Based on the above explanation, the alternate hypothesis that can be taken is as follows.

H4: Family ownership has a positive effect on the quality of financial reporting.

Relation between Foreign Ownership and Quality of Financial Reporting

Based on the corporate governance perspective, influence from large shareholdings in firms in developed countries is different from that in developing countries. Foreign shareholders in a company are expected to support the improvement of company’s performance (Simerly and Li, 2000; Fauzi 2006). The greater the shares controlled by foreign parties, the more the foreign party allocate the position in the company for foreigners, either as a board of commissioners or as a board of directors, aiming at aligning the interests of management and shareholders to improve the quality of the financial reporting (Wiranata and Nugrahanti 2013).

Previous researchers who examined foreign ownership were Chibber and Majumdar (1999), who said that foreign shareholders had a positive influence on firm’s performance in India. Wei et al. (2005) who said that foreign ownership has a positive influence on corporate value. Based on the results of the above researches, a hypothesis can be drawn that foreign ownership positively affects the quality of financial reporting

H5: Foreign Ownership positively affects the quality of financial reporting.

3. RESEARCH METHODS

Resources and Data Collection Methods

The population of this study is manufacturing companies listed inthe Indonesia Stock Exchange (IDX) during the period of 2013-2015. The period was selected considering thatin 2013 Indonesia has adopted IFRS in full. The sampling technique is purposive sampling with the criteria of companies that have conducted initial public offering (IPO) prior to 2013, companies which have not been delisted during 2013-2015,companiesthat use rupiah in their annual financial reporting, companies that have disclosed information about their ownership structure during 2013-2015, and companies that have not suffered losses during the period of 2013-2015.

Variables and Research Measurement

Managerial ownership is the amount of share owned by the management from all the share capital of the company. The indicator used to measure managerial ownership is the percentage of total shares owned by the management of all the outstanding shares of the company (Ujiyantho and Pramuka, 2007).

Institutional share ownership is a form of ownership structure that has a fairly intensive level of supervision over the performance of the management without the tendency of interfering the management process. Institutional ownership is measured using the indicator of percentage of shares owned by the institution over the all outstanding share capital (Ujiyantho and Pramuka, 2007).

Family ownership is the dominant shareholding by families. It tends to have a pyramidal ownership structure and a permanent board of directors and board of commissioners for several years. The measurement of family ownership uses the indicator of percentage of shares owned by the family over the all outstanding share capital (Wiranata and Nugrahanti, 2013).

Foreign ownership is a portion where the outstanding share is held by foreign investors, i.e. companies owned by individuals, legal entities, government, and their sections of foreign status over the total amount of share capital in circulation (Farooque et al., 2007). The indicator in the measurement of this variables is the percentage of foreign share ownership over the all outstanding share capital (Farooque et al., 2007).

The dependent variable of this study is the quality of financial reporting. It is the ability of financial reporting, especially corporate earnings, in explaining the state of the company by meeting the qualitative characteristics of financial reporting. This study uses modified Jones model (Dechow, et al., 1995) for the first regression model, which is one of the models used to measure the accrual earnings management (discretionary accruals).

TA = NPAT – CFO

To estimate discretionary accruals in year *t* for company *i*, the following OLS regression is performed:

TA it/ Ai,t-1 = β 1t[1/Ai,t-1] + β2t[ΔREV it/ Ai,t-1] + β3t [PPE it/ Ai,t-1] + ε i,t

Based on the regresiion coefficient above is used to estimate nondiscretionary accruals (NDA)

NDA it/ Ai,t-1 = β 1t[1/Ai,t-1] + β2t[(ΔREV it - ΔAR it)/ Ai,t-1] + β3t [PPE it/ Ai,t-1]

DAi,t = (TA it/ Ai,t-1) – (NA it/ Ai,t-1)

Dimana:

TA = total accruals in year *t* for company *i*
NPAT = net profit after tax
CFO = net cash flow from operations
Ai,t-1 = total asset in year *t* for company *i*
Δ REV i,t = revenues in year *t* less revenues in year *t-1* for company *i*
PPE i,t= gross property, plant, and equipment in year *t* for company *i*
AR i,t = account receivables in year *t* for company *i*
ε i,t = the residual in year *t* for company *i*
Dai,t = discretionary accruals in year *t* for company *i*

The second regression model of this study uses real earnings management as the indicator of the quality of the financial statements. The indicators of real earnings management are abnormal CFO, abnormal discretionary expenses, and abnormal production costs; each are calculated using the approach used by Roychowdhury (2006) as follows.

a. Abnormal CFO

$$CFO_t/A_{t-1} = \alpha_0 + \alpha_1(1/A_{t-1}) + \alpha_2(S_t/A_{t-1}) + \alpha_3(\Delta S_t/A_{t-1}) + e$$

b. Abnormal Discretionary Expenses

$$DISEXP_t/A_{t-1} = \alpha_0 + \alpha_1(1/A_{t-1}) + \alpha_2(S_{t-1}/A_{t-1}) + e$$

c. Abnormal Production Costs

$$PROD_t/A_{t-1} = \alpha_0+\alpha_1(1/A_{t-1})+\alpha_2(S_t/A_{t-1})+\alpha_3(\Delta S_t/A_{t-1})+a_4(\Delta S_{t-1}/A_{t-1})+e$$

Where :
CFO = net cash flow from operations in year *t* for company *i*
A_{t-1} = total assets in year *t-1* for company *i* aset
S_t = total sales in year *t-1* for company *i*

DISEXP = discretionary expense which includes R&D, advertising, and other general expenses
PROD = production costs which estimate from the profits and loses account plus the change in inventory in the year

In this study, the abnormal measurements of each proxy uses residuals. As an overall proxy of real earnings management, abnormal CFOs, abnormal discretionary expenses, and abnormal production costs are summed to capture the overall effect of earnings management. To match the direction, abnormal production costs is multiplied by minus one (-1) before summing. The resulting variable of proxy addition of real earnings management is named as MLR.

MLR = abnormal CFO + abnormal discretionary expense + (abnormal production cost x -1)

Data analysis

Prior to data analysis, a classical assumption test, consisting of normality test, multicollinearity test, heteroscedasticity test, and autocorrelation test, and a model test, consisting of test of coefficient of determination and F test, were performed. The data analysis performed for hypothesis 1 uses Mann Whitney's test.

$$U = n_1 n_2 + \frac{n_2(n_2+1)}{2} - \sum_{i=n_1+1}^{n_2} R_i$$

Dimana:
U = Value of Mann Whitney Test
N_1 = Sample 1
N_2 = Sample 2
R_i = Ranking of sample sizes

for hypothesis 2 to hypothesis 5 uses multiple linear analysis.

$$DACi,t = \beta0 + \beta1MANGOWNjt + \beta2INSTOWNjt + \beta4\ FAMOWNjt + \beta3FOROWNjt + \varepsilon jt \ldots(1)$$
$$MLRi,t = \beta0 + \beta1MANGOWNjt + \beta2INSTOWNjt + \beta4\ FAMOWNjt + \beta3FOROWNjt + \varepsilon jt \ldots(2)$$

Where:
DACi,t = discretionary accrual used as proxy for quality of financial reporting
MLR = real earnings management used as proxy for quality of financial reporting
MANGOWN = the percentage of shares held by the management
INSTOWN = the percentage of shares owned by the institution
FAMOWN= the percentage of shares owned by the family
FOROWN= the percentage of shares held by the foreigners
€ jt = error term

4. RESULTS

The results of descriptive statistical test is used to identify the characteristics of the data distribution or the description of the phenomenon that includes the minimum value, maximum value, average value, and the middle value as follows.

Tabel 5.1
Descriptive Statistics

	N	Minimum	Maximum	Mean
DA	156	-.20	.41	.0938
MLR	156	-1.26	1.74	-.0001
MAN	156	.00	.28	.0291
INST	156	.22	.98	.7269
FAM	156	.00	.89	.3294
FOR	156	.00	.98	.3752

The next stage of testing is testing the differences in the quality of financial reporting with indicators of accrual earnings management and real earnings management for hypothesis One and testing the influence of the independent variables (managerial ownership, institutional ownership, family ownership, and foreign ownership) on the dependent variable (quality of financial reporting) for hypothesis Two to Five.

Tabel 5.7
Different Test Result

	Value
Mann-Whitney	8291,500
Significant	0,000

Based on the results obtained from Mann Whitney's different test, there is a statistically significant difference between the accrual earnings management and the real earnings management, in which the significant value is 0.000, smaller than the significance level of 0.05. Thus, it can be said that the data Support the proposed hypothesis, i.e. there are differences in the quality of financial reporting with indicators of accrual earnings management and real earnings management.

Tabel 5.8
T Test Result

	Model 1				Model 2			
	Beta	T	Sig.	Decision	Beta	T	Sig.	Decision

(Constant)	0,221	4,975	0,000		-0,602	-2,937	0,004	
MAN	-0,092	-0,640	0,523	Not significant	1,254	1,882	0,062	Not significant
INST	-0,151	-2,597	0,010	Significant	0,593	2,203	0,029	Significant
FAM	-0,010	-0,294	0,769	Not significant	-0,040	-0,246	0,806	Not significant
FOR	-0,029	-0,799	0,426	Not significant	0,393	2,374	0,019	Significant

Based on the result of multiple linear regression in table 5.8, obtained regression model as follows:

Model 1: DA = 0,221 – 0,092 MAN – 0,151 INST - 0,010 FAM – 0,029 FOR + e

Model 2 : MLR = -0,602 + 1,254 MAN + 0,593 INST - 0,040 FAM + 0,393 FOR + e

This section discusses the results of the hypothesis testing that will explain the results of the hypotheses obtained from statistical tests.

Differences in the Quality of Financial Reporting with Indicators of Accrual Earnings Management and Real Earnings Management

The result of the difference test between the quality of financial reporting with indicator of accrual earnings management and the quality of financial reporting with the indicator of real earnings management shows a significant difference. The current phenomenon is that many managers are shifting from accrual earnings management to real earnings management, which is caused by several factors; one of which is that accrual earnings management will attract the attention of auditors and regulators more than real earnings management. In addition, managers who only rely on accrual earnings management will be at risk of not achieving the desired target because manipulation is only done at the end of the year.

The tendency of selecting an earnings management model undertaken by managers basically depends on the manager's personal interests to be achieved. According to Zang (2006), although managers prefer earnings manipulation through real activity, they still maintain both techniques to achieve the desired profit. Thus, it is possible for managers to use accrual earnings management techniques and manipulation of real activities at the same time, both alternately and simultaneously. The phenomenon above can result in differences in the quality of financial reporting with indicators of accrual earnings management and real earnings management, which is in line with the results of this study.

Managerial Ownership on the Quality of Financial Reporting

The results of multiple linear regression analysis of the first and the second model indicate that managerial ownership variable has no significant influence on the quality of the financial reporting. In the phenomenon highlighted in this study, the reason for the absence of the effect of managerial ownership on the quality of financial reporting is because the percentage of managerial ownership is quite low. The percentage of managerial ownership that is categorized into minority shareholder will lead to agency problems with the majority shareholder. As a result, minority shareholders (managerial) do not have adequate control over the managerial supervision, which can ultimately harm minority shareholders. In addition, since the implementation of IFRS, companies cannot create policies that can provoke management to take opportunistic action easily. Therefore, managerial ownership structure in manufacturing companies listed in the IDX cannot control the management in running the company, which can be seen from the quality of financial reporting that uses both accrual earnings management and real earnings management.

Institutional Ownership on the Quality of Financial Reporting

The assessment results of the first and second model tests show that institutional ownership has a significant effect on the quality of financial reporting. Bathala et al. (1994) showed that institutional share ownership has an influence on monitoring the behavior of corporate managers. The influence of the supervisory level by institutional shareholders in this study is based on the average shareholding by companies held by institutional shareholders, so it can minimize interest gap that will automatically diminish the opportunistic action.

The direction of the resulting relation between institutional ownership and accrual earnings management for the first model is negative, which means that institutional ownership can improve the quality of financial reporting. This is reinforced by Wulandari and Budiartha (2014), and Alves (2012), who stated that greater ownership of the company's shares by the institution would minimize the value of discretionary accruals, so it could improve the quality of the financial reporting. As for the second model, institutional ownership has a positive direction on real earnings management, which means that institutional ownership will reduce the quality of financial reporting. Thus, the institutional ownership structure of manufacturing companies listed in the IDX can improve the quality of financial reporting that uses accrual earnings management indicators, but it can degrade the quality of financial reporting that uses real earnings management indicators. This is because institutional shareholders use the voting rights of the majority share by avoiding accrual earnings management, which is easily identified by auditors and regulators, and turning to real earnings management.

Family Ownership on the Quality of Financial Reporting

Based on the results of tests conducted for the first and the second model, it is found that ownership of shares of the company controlled by the family does not give any significant influence on the quality of financial reporting. This study shows that, in average, the share of companies held by family is quite low, so family shareholders cannot engineer corporate profits easily, and it will automatically affect the quality of the financial reporting. In addition, since the implementation of IFRS, the management of companies should provide a more detailed disclosure. The reported disclosures over the financial reporting should be in line with the actual data and information that are used for decision making. An increasing number and detailed of the disclosure can reduce information asymmetry. This information asymmetry is the one that causes conflict between management and shareholders, so the company's management cannot create policies that can make the management take opportunistic action easily. Thus, family ownership structure in manufacturing companies listed in the IDX cannot control the actions of the management in running the company, which can be seen from the quality of the financial reporting that uses both accrual earnings management and real earnings management.

Foreign Ownership on the Quality of Financial Reporting

The result of multiple linear regression analysis for the first model shows that foreign ownership variable has no significant effect on the quality of financial reporting with accrual earnings management indicators. In this study, the reason for the absence of the influence managerial ownership on the quality of financial reporting is the low percentage of foreign ownership. In addition, since the implementation of IFRS, the company cannot create policies that can provoke the management to take opportunistic action easily.

The second model found that foreign ownership has a significant influence on real earnings management, which in this study is used as an indicator of the quality of financial reporting. The direction of this second model, between foreign ownership and real earnings management, is positive. Thus, higher foreign ownership will improve the earnings management, resulting in lower quality of financial reporting. This positive influence can be caused by geographical distance and ignorance on local conditions, so foreign shareholders are less influential in supervising the behavior of the management.

Differences of effect on foreign ownership over the quality of financial reporting between the first and the second model may be attributable to the accrual earnings management, which is easily identified by the auditor, so foreign shareholders do not exercise intensive control over possible accrual earnings management actions that may affect the quality of the financial reporting. Nevertheless, foreign parties have a control to perform real earnings management because it is considered difficult to be detected by the auditor. Therefore, foreign ownership in manufacturing companies listed in the IDX can degrade the quality of the financial reporting.

5. CONCLUSION

This study aims at determining the difference between the quality of financial reporting that uses accrual earnings management and the financial reporting that uses real earnings management and whether the quality of the financial reporting is influenced by managerial ownership, institutional ownership, family ownership, and foreign ownership structures. The study was conducted on manufacturing companies listed in the Indonesia Stock Exchange during 2013-2015.

The results of the study show that there are differences between the quality of financial reporting that uses accrual earnings management indicator and the quality of financial reporting that uses real earnings management indicator. This study also finds that the large percentage of institutional ownership in manufacturing companies can improve the quality of the financial reporting that uses accrual earnings management indicator. This is because the companies' majority of share that is controlled by the institution will minimize the conflict between shareholders and management and it can improve supervision over the management's behavior, so the management will act according to the wishes of shareholders, or, in other words, it will minimize opportunistic actions. Furthermore, managerial ownership, family ownership, and foreign ownership cannot affect the management in running the company.

In contrast to the quality of financial reporting that uses accrual earnings management indicator, the large percentage of institutional ownership and foreign ownership can compromise the quality of financial reporting that uses real earnings management indicator. this is due to the lack supervision over managers' behavior in manipulating corporate profits, in which they tend to use new means of earnings management, i.e. real earnings management, so it can reduce the quality of the financial reporting. Managerial ownership and family ownership cannot affect the management in running the company. Based on the two measurement models above, it can be concluded that, in manufacturing companies in Indonesia, institutional ownership can increase and decrease the quality of financial reporting. In addition, foreign ownership may reduce the quality of financial reporting due to geographical distance and local condition unawareness.

Suggestion

Based on the conclusions of the research, the following suggestions are proposed.

a. For Governmental or Institutional Policy

With regard to the structure of company's share ownership, the government and the institution should consider the influence of shareholder's control over the quality of the financial reporting, which may affect the company's sustainability and, globally, affect the economy. The considerations made by the government and institutions can be rules or limitation regarding the ownership structure of companies objected to create a balance between interests of shareholders and the interests of management and to improve the level of transparency and the extent of disclosure.

b. For the Next Researchers

Based on the results of this study, further researchers should expand the variables used to measure the effect on the quality of financial reporting, not only limited to the ownership structure but also included other corporate governance elements, such as committee councils, commissioners, and audit committees, to produce better contribution. In addition, it is advisable to use different financial statement quality indicators for more concrete results, not limited to earnings management.

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