The Effect of Book-Tax Difference, Accrual Cash Flow and Good Corporate Governance on Earnings Persistence of Manufacturing Companies Listed on IDX in 2010-2014

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Abstract

This research is aimed to examine the effect of book-tax difference, accrual cash flow, and corporate governance on the earnings persistence of manufacturing companies listed on Indonesia Stock Exchange during the period of 2010-2014. Hypotheses were tested based on 120 samples data selected using purposive sampling method. Secondary data was obtained from the financial statements ended 31 December, published by the capital market reference center in the Indonesia Stock Exchange. Multiple linear regressions were used to test the hypotheses. The results show that book-tax difference, accrual cash flow, the composition of commissioner board, managerial ownership, audit committee, and institutional investors simultaneously have an effect on earnings persistence. Nevertheless, the relation partially exhibits that (1) book-tax difference has no effect on earnings persistence, (2) accrual cash flow has effect on earnings persistence, (3) board composition has effect on earnings persistence, (4) managerial ownership has effect on earnings persistence, (5) audit committee has no effect on earnings persistence, and (6) institutional investors has no effect on earnings persistence.

Keywords: Earnings Persistence, Book-Tax Difference, Accrual Cash Flow, Corporate Governance

1. Introduction

The financial report is a written report that provides quantitative information about the financial position and its changes, as well as the achieved goals during certain period. A complete financial report includes the report of financial position, comprehensive income statement, the report of changes in equity, cash flow statement, and notes to the financial statements. One of the important information disclosed in the financial report is the information about the profit stated in the income statement of an entity. According to PSAK (The Statement of Indonesia Financial Accounting Standard) number 1, the profit information is needed to assess the changes in the potential economic resources that are possible to control in the future, to produce the cash flow statement from the available resources, and to formulate the consideration about the company's affectivity in using the additional resources.

Profit can become a basis for decision making. It is expected to have the quality. The good quality of profit is persistent which means the profit is continuing or stable, not fluctuating. Purwanti (2010) argued that earnings persistence is to measure whether the profit continues so that the persistent profit is going to be continued for the next periods.

A phenomenon related to the earnings persistence is in the case of PT Indofood Sukses Makmur. The slow-running economy is affecting the F&B industry. Along the first quartile in 2015, PT Indofood earned 870.08 billion rupiahs only which is 37.2% lower than the profit for the first quartile of 2014. The earning per share also dropped to 20 rupiahs from the previous 25 rupiahs. Another phenomenon showed in the case of PT Semen Indonesia (persero) Tbk which shows the net profit of 2.98 billion rupiahs for the 3rd quartile in 2016 dropped as 8.42% for the same quartile in the previous year which is 3.42 billion rupiahs. Based on the financial report (unaudited) published on Friday, 28/10/2016 of the company with the share code SMGR, the profit decrement is related to the decrease of the income for 0.16% to 19.08 billion rupiahs. Previously in September 2015, this company earned 19.11 billion rupiahs of income (m.tempo.co).

The book-tax difference is the difference between accounting profit or commercial profit with fiscal profit or taxable income. Prabowo (2004:300) said that book-tax difference can be distinguished into temporary difference and permanent difference:

1. Temporary book-tax difference or time difference is the difference based on certain income or expense time claim based on accounting with tax rules.
2. Permanent book-tax difference is the claim of income or expenses based on the taxation regulations with permanent accounting principles.

Research conducted by Asma (2013) and supported by Kusuma & Sadjiarto (2014) found that book-tax difference significantly influences earnings persistence. This finding is opposed by Barus & Rica (2014) who found that book-tax difference did not influence earnings persistence significantly.

According to Solomon (2007:12), corporate management is the corporate audit and balance system; internal and external, that ensures the company is transparent to all stakeholders related to accountability and social responsibility in all business activities. With good corporate management, the company is expected to have high value in the eyes of investors. There are four variables of corporate management operated in this research, namely commissioner composition, managerial ownership, audit committee, and institutional ownership. The variables are the internal factors of companies or better-known as internal corporate governance (Sutedi, 2012:42).

The composition of board of commissioners is one of the characteristics that is related to profit information (Sutedi, 2012:91). Through the function of the controller, board composition affects the management in completing the financial report hence good quality profit can be obtained and influence the persistent level of the profit. Research findings of Khafid (2012) and Kusuma & Sadjiarto (2014) show that board composition affects earnings persistence.

Managerial ownership is share ownership by management or managers in the percentage term (Sujoko & Soebiantoro, 2007). Companies can be affected by managerial ownership. The managers can play the role not only as a manager but also a shareholder. This can cause the managers to be more active to fulfil the desire of shareholders. Managerial ownership can be used to determine profit quality in the future reflected from the earnings persistence. The more managers own the shares, the more responsibility the managers hold for the financial reports (Jumiati & Ratnadi, 2014). The research of Jumiati & Ratnadi (2014) found that managerial ownership has a positive impact to earnings persistence.

The decision of the Chairman of Capital Market and Financial Institution Supervisory Agency number Kep-643/BL/2012 stated that audit committee is the committee arranged by board of commissioners to assist them to in performing relevant tasks and functions. The result of research conducted by Khafid (2012) as well as Kusuma & Sadjiarto (2014) stated that audit committee can affect the persistence of profit.

Institutional ownership is the number of shares owned by institutional investors. With the existence of institutional ownership in a company, more supervision can be done. The percentage of shares held by an institution may affect the process of preparing financial statements (Boediono, 2005).

This study aims to test the effect of book-tax difference, accrual cash flow, commissioners board composition, managerial ownership, audit committee, and institutional ownership simultaneously affect earnings persistence; to test the effect of book-tax difference on earnings persistence, the effect of the accrual cash flows on earnings persistence, the effect of the composition of the board of commissioners on earnings persistence; the effect of managerial ownership on earnings persistence; the effect of audit committees on earnings persistence; and the effect of institutional ownership on earnings persistence.

2. Theoretical Review and Hypothesis Development

2.1. Earnings Persistence

Earnings persistence is the profit revision that can show the profit quality of a business and maintain the profit from time to time (Harahap, 2011:40). According to Wijayanti (2006), the persistent profit represents sustainable earnings in the future that are determined by accrual and cash flow components. The profit information reported by management will be used by investors for decision making in investment activities and for future profit forecast (Novianti, 2012).

2.2. Book-Tax Difference

According to Dewi & Putri (2015), book-tax difference is the difference between accounting profit and fiscal profit calculation. The difference exists due to the different rules of measurement between accounting standard and taxation regulations (Asma, 2013). Wijayanti (2006) stated that book-tax difference in tax analysis becomes one of the ways to measure the quality of profit. The profit quality of a business is often related to earning persistence because earnings persistence is a component of relevant qualitative characteristics, namely predictive value (Jonas & Blanchet, 2000).

Asma (2013) found that the higher the difference between accounting profit and fiscal profit, the lower the earnings persistence. Asma (2013), Kusuma & Sadjiarto (2014), as well as Dewi & Putri (2015) agreed that book-tax difference affects the earnings persistence.

H1: book-tax difference affects earnings persistence.

2.3. Accrual Cash Flow

Accrual cash flow can be used to forecast future profit, besides predicting future cash flow (Subramanyam & Wild, 2014:105). If the accrual is high, the predictive accuracy of future profit will be low, and if the accrual factor in profit is lower, the presented profit is more accurate to forecast future profit (Schick, 2007).

Research conducted by Fanani (2010) concluded that the accrual amount can significantly influence earnings persistence. It indicates that the number of accrual components will cause noise that may decrease earnings persistence so that accrual give significant influence to the future profit.

H2: Accrual cash flow influence earnings persistence.

2.4. Commisionary Board Composition

Boediono (2005) said that commissioners board composition is one of the characteristics which has a direct relation to profit information. Through the function as a controller, the board composition affects the management in producing a financial report to obtain a good income statement. One important factor that affects the integrity of accounting process is the quality and the involvement of commissioner board whose responsibility is to control the management performance and report to shareholders (Niu, 2006).

Khafid (2012) as well as Kusuma & Sadjiarto (2014) proved that the composition of the board of commissioners significantly affects the earnings persistence. This proves that the independence of the board of commissioners is very effective in performing supervisory functions on the performance of management in terms of financial reporting in general and reporting earnings in specific.

H3: The composition of the board of commissioners affects earnings persistence

2.5. Managerial Ownership

Wahyudi & Pawestri (2006) argued that with the increasing of ownership by managers, they are expected to act according to the principle because managers are motivated to increase the company's performance. The role of managerial ownership may affect the company as the managers are also the shareholders (Jumiati & Ratnadi, 2014).

Managerial ownership can be used to measure the profit quality in the future that reflects the profit consistency. If more shares are owned by the management, more managers are responsible for the financial report. Khafid (2012), as well as Jumiati & Ratnadi (2014), found that managerial ownership affects earnings persistence. Therefore it is hypothesized that:

H4: Managerial ownership affects earnings persistence.

2.6. Audit Committee

The decision of the Chairman of the Capital Market and Financial Institution Supervisory Agency number Kep-643/BL/2012 stated that audit committee is the committee arranged by commissioner board to help them to do the tasks and functions. The audit committee of a company has an important role to monitor the external control system, external audit, and financial report (Wawo, 2010). Having an important position, audit committee can conduct activities that can benefit them.

Research conducted by Khafid (2012), as well as Jumiati & Ratnadi (2014), found that audit committee significantly influenced earnings persistence. This means that fewer audit committees of a company, the smaller the company's earnings persistence. Whereas, if the audit committee consists of many members, it can trigger the profit reported in the financial statements to have a good persistence.

H5: Audit Committee affects earnings persistence.

2.7. Institutional Ownership

According to Khafid (2012), institutional ownership is the amount of share ownership owned by other institutional investors. Institutional ownership can reduce the incentives of managers who are concerned with their own interests through intensive levels of supervision (Boediono, 2005). In relation to monitoring function, institutional investors are believed to have the ability to monitor management actions better than individual investors (Rachmawati & Triatmoko, 2006).

If the ownership by the institutions is bigger, the role of institutional ownership in corporate governance is also greater to increase the supervision of the company's performance (Yushita, Rahmawati, & Triatmoko, 2013). The results of research conducted by Boediono (2005) states that institutional ownership affects the quality of earnings.

H6: Institutional ownership affects earnings persistence

3. Methodology

3.1. Research Design

This research aims to test the relationships among the variables in hypothesis testing (hypothesis testing research) which is to test the effect or influence of independent variables on the dependent variable. The intervention level is at a minimum because the data comes from the financial report of manufacturing companies listed on Indonesia Stock Exchange. The unit of analysis is the manufacturing companies listed on Indonesia Stock Exchange. The time horizon is pooled data or panel data which requires more than one stage of data collection at different times.

3.2. Population and Sample

The population in this research is all manufacturing companies listed on Indonesia Stock Exchange in 2010-2014. The sampling method is purposive sampling with some criteria. The criteria are as follows:

1. Manufacturing companies that are never delisted from Indonesia Stock Exchange in 2010-2014;
2. Manufacturing companies that never incur a loss in 2010-2014;
3. Manufacturing companies with complete data as required in this study.

No	Sample criteria	No. of companies
1.	Manufacturing companies that are never delisted from Indonesia Stock Exchange in 2010-2014	124
2.	Manufacturing companies that never suffered losses in 2010-2014	(57)
3.	Manufacturing companies that had complete data required in this study	(43)
	Total Sample	**24**
	Total observation data	**120**

3.3. Data Resources and Data Collection Technique

Secondary data is utilized in this study in the form of financial statements of manufacturing companies listed on the IDX for the period 2010-2014. The data was collected through documentation techniques i.e. collecting annual financial reports that were available on the Stock Exchange. Data in this study was obtained by accessing the website of Indonesia Stock Exchange (www.idx.co.id).

3.4. Operationalization of Variables

- ***Dependent Variables (Y)***

The dependent variable in this research is earnings persistence. Earnings persistence is a revision of earnings that can indicate the profit quality of the company and can maintain profit over time (Harahap, 2011:40). The earning persistence is denoted by the following formula according to the formula by Suwandika & Astika (2013), Jumiati & Ratnadi (2014), and Dewi & Putri (2015):

Profit before next year's tax = (Profit before tax t + 1) / (Average total assets)

- ***Independent Variables***
- ***Book-Tax Difference***

The book-tax difference is the difference in the amount of accounting profit or commercial profit with fiscal profit or taxable profit (Agoes & Trisnawati, 2012:218). The following is the formula for calculating book-tax difference as suggested by Hanlon (2005):

BTD = Deferred tax benefit / total assets

- ***Accrual Cash Flow***

Accrual is a profit before tax item that does not affect cash in the current period (Thiono, 2006). Accruals in financial statements can make a more effective mechanism for managers to provide superior information to the market (Watson & Wells, 2005). The formula used to calculate the accrual cash flow following Hanlon (2005) is:

PTACC = (PTBI-PTCF) / (Total assets)

- ***Composition of the Board of Commissioners***

The board of commissioners is the organ of companies in charge and collectively responsible for supervising and advising the directors and ensuring that the company has implemented good corporate governance (Komite Nasional Kebijakan Governance, 2006). The measurement of the composition of the board of commissioners in this study follows the formula suggested by Boediono (2005) and Taruno (2013):

Independent Commissioner = (Number of Independent Commissioners) / (Number of Commissioners)

- ***Managerial Ownership***

Managerial ownership is ownership of shares owned by managers in the form of a percentage (Sujoko & Soebiantoro, 2007). The formula for calculating managerial ownership in this study follows the formula suggested by Jumiati & Ratnadi (2014), Boediono (2005), and Taruno (2013), namely:

Managerial Ownership = (Number of Managerial Shares) / (Number of Shares Outstanding)

- ***Audit Committee***

The audit committee is a committee formed by the board of commissioners in order to assist in carrying out its duties and functions (Khafid, 2012). The measurement used for the audit committee in this study uses dummy variables, where a value of 1 is assigned to a company that has an audit committee of more than three people, and a value of 0 is given if the company's audit committee consists of three or fewer than three persons. This measurement is consistent with previous studies such as Muid (2009) and Indrawati & Yulianti (2010).

- ***Institutional Ownership***

According to Khafid (2012), institutional ownership is the amount of share ownership by institutional investors. The existence of share ownership by other institutions causes management to not manipulate the figures contained in the financial report. This is because the ownership of the institution is better able to supervise the actions undertaken by management and to detect potential errors. The formula used in this research for institutional ownership follows the formula suggested by Boediono (2005) and Taruno (2013):

Institutional Ownership = (Number of shares of institutional investors) / (Number of shares outstanding)

4. Results and Discussion

4.1. Research Results

- ***Description of Samples***

This research aims to test the influence of book-tax difference, accrual cash flow, and companies' management on earnings persistence of manufacturing companies listed on Indonesia Stock Exchange. In this research, purposive sampling method with pre-determined criteria was employed. In the end, the sample consist of 24 manufacturing companies for five years that results in 120 observation data.

Data analysis is done through multiple linear regressions. The first step is classic assumption tests which are normality, multicollinearity, heteroscedasticity, and autocorrelation. The next is the hypothesis testing: t-test and multiple linear regressions with a 0.05 significance level (5%).

The classic assumption test shows that the data is normally distributed and no multicollinearity, no heteroscedasticity, and no autocorrelation.

- ***Results of Multiple Linear Regression Testing***

ANOVA[a]

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	,200	6	,033	5,578	,000[b]
	Residual	,676	113	,006		
	Total	,876	119			

a. Dependent Variable: PL

b. Predictors: (Constant), KI, AKA, KA, BTD, KDK, KM

Linear Regression

Source: SPSS Output (2017)

From the results of statistical calculations, it can be obtained multiple linear regression equation as follows:

$$\mathbf{PL = 0{,}120 - 1{,}744BTD + 0{,}274AKA + 0{,}208KDK - 0{,}216KM - 0{,}021KA - 0{,}086KI + e}$$

Based on the regression equation it can be seen that the constant (a) is 0.120. This means that if the book-tax difference, the accrual cash flow, the composition of the board of commissioners, managerial ownership, audit committee, and institutional ownership are considered constant, then the value of persistence of profit in the company is 12%.

The regression coefficient for the book-tax difference is negative 1.744, meaning that each book-tax difference increase of 1% will decrease the company's earnings persistence by 174.4% with the assumption that other independent variables are constant.

The regression coefficient for accrual cash flow is positive 0.274, meaning that any increase in accrual cash flow value of 1% will increase the company's earnings persistence by 27.4% with the assumption that other independent variables are constant.

The regression coefficient for the composition of the board of commissioner equals to 0,208 and marked positive, meaning every increase of composition value of board of commissioner equal to 1% hence will raise company earnings persistence equal to 20.8% with the assumption that other independent variables are constant.

The regression coefficient for managerial ownership is 0.216 and negatively signified, it means that every 1% increase of managerial ownership value will decrease persistence of company profit equal to 21.6% with the assumption that other independent variables are constant.

The regression coefficient of the audit committee is 0.021 and is negative, meaning that any increase of audit committee value by 1% will decrease the company's earnings persistence by 2.1% with the assumption of other independent variables constant.

Coefficients[a]

Model	Unstandardized Coefficients		Standardized Coefficients	t	Sig.	Collinearity statistics	
	B	Std. Error	Beta			Tolerance	VIF
(Constant)	,120	,042		2,818	,006		
BTD	-1,744	1,884	-,079	-,925	,357	,932	1,073
AKA	,274	,118	,195	2,316	,022	,964	1,038
KDK	,208	,056	,331	3,687	,000	,845	1,184
KM	-,216	,097	-,233	-2,222	,028	,622	1,608
KA	-,021	,023	-,079	-,905	,368	,885	1,130
KI	-,086	,048	-,182	-1,795	,075	,661	1,513

a. Dependent Variable: PL

Meanwhile the coefficient of regression of institutional ownership is 0.086 and is negative, meaning that each 1% increase in institutional ownership value will decrease the company's earnings persistence by 8.6% with the assumption that other independent variables are constant.

- ***The F Test***

The F statistic test is performed to identify if the book-tax difference, the accrual cash flow, the composition of the board of commissioners, managerial ownership, audit committee, and institutional ownership affects earnings persistence simultaneously.

Based on the above table, it can be seen that the significance value is 0.000 which is smaller than the significant level of 0.05 (5%). It can be concluded that the first hypothesis (H1) is accepted which is the variable of book-tax difference, accrual cash flow, the composition of the board of commissioners, managerial ownership, audit committee, and institutional ownership affects the earnings persistence simultaneously.

- ***The t-Test***

The t statistical test basically shows how siginificant the influence of each of independent variables: book-tax difference, cash flow accrual, the composition of the board of commissioner, managerial ownership, audit committee, and institutional ownership, on the dependent variable which is earnings persistence. Basic decisions are taken by looking at the significant value of less than 0.05 (5%).

Based on the above table, it can be concluded that the variable book-tax difference has a significance value of 0.357, greater than 0.05 (5%). This shows that the book-tax difference affects earnings persistence. Thus, the second hypothesis (H2) is rejected.

The accrual cash flow variable has 0.022 significance value, less than 0.05 (5%). This shows that the accrual cash flows affect earnings persistence. Thus, the third hypothesis (H3) is accepted.

The composition of the board of commissioners has a significance value of 0.000, less than 0.05 (5%). This shows that the composition of the board of commissioners affects earnings persistence. Thus, the fourth hypothesis (H4) is accepted.

The variable of managerial ownership has a significance value of 0.028, less than 0.05 (5%). This shows that managerial ownership affects earnings persistence. Thus, the fifth hypothesis (H5) is accepted.

The variable of the audit committee has a significance value of 0.368, greater than 0.05 (5%). This shows that audit committee does not affect earnings persistence. Thus, the sixth hypothesis (H6) is rejected.

The variable of institutional ownership has a significance value of 0.075, greater than 0.05 (5%). This shows that institutional ownership does not affect earnings persistence. Thus, the seventh hypothesis (H7) is rejected.

- ***Coefficient of Determination Test (R2)***

The coefficient of determination test aims to measure the extent to which the ability of the model in explaining the variation of the dependent variable. The coefficient of determination is between zero and one.

Model Summary[b]

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Durbin-Watson
1	,478[a]	,228	,188	,0773343	1,834

a. Predictors: (Constant), KI, AKA, KA, BTD, KDK, KM

b. Dependent Variable: PL

Coefficient of Determination Test Results

Source: SPSS Output (2017)

The R^2 value equals to 0.228 or 22.8%. This shows that 22.8% of the dependent variable (earnings persistence) can be explained by the six independent variables in this study: book-tax difference, accrual cash flow, composition of the board of commissioners, managerial ownership, audit committee, and institutional ownership, while the remaining 77.2% is explained by other variables not included in this study.

4.2. Discussion of Hypothesis Testing Results

- ***The Effect of Book-Tax Difference, Accrual Cash Flow, Composition of Board of Commissioners, Managerial Ownership, Audit Committee, and Collective Institutional Ownership on Earnings Persistence***

Based on the f test results, it was obtained that the significant value was 0.000 which was smaller than the significant level of 0.05 or 5%. It means that the independent variables: book-tax difference, accrual cash flow, the composition of the board of commissioners, managerial ownership, and audit committee simultaneously affect earnings persistence. Among the six independent variables, only three variables have an individual effect on earnings persistence, such as accrual cash flow, the composition of the board of commissioners, and managerial ownership, while the rest of the other independent variables:

book-tax difference, audit committee, and institutional ownership have no effect on earnings persistence.

- ***The Effect of Book-Tax Difference on Earnings Persistence***

The variable of book-tax difference has a t-value of -0.925 with a significance level of 0.357 which is greater than the significance level of 0.05 (5%). This shows that the book-tax difference does not affect the earnings persistence of manufacturing companies listed on the IDX in 2010-2014. Therefore, this result does not support the second hypothesis (H2).

If it is seen from the existence of deferred tax benefit, it can be said that the book-tax difference does not always show the low quality of profit because the company may acknowledge the cost earlier and suspend the income, so that it will arise a deferred tax benefit that can reduce the amount of next year's current tax expense.

- ***The Effect of Accrual Cash Flow on Earnings Persistence***

The variable of accrual cash flow has a t-value of 2.316 with a significant level of 0.022 which is smaller than the significance level of 0.05 (5%). This shows that the accrual cash flows affect the earnings persistence of manufacturing companies listed on the IDX in 2010-2014. Therefore, this result supports the third hypothesis (H3).

The positive relationship means if the accrual cash flow is higher, the earnings persistence will increase. In addition to predicting future cash flows, the accrual can also predict future profit.

- ***The Effect of Composition of the Board of Commissioners on Earnings Persistence***

The composition of the board of commissioners has a t-value of 3.687 with a significance of 0.000 which is smaller than the 0.05 significance. This shows that the composition of the board of commissioners affects the earnings persistence of manufacturing companies listed on the IDX in 2010-2014. It can be concluded that this result supports the fourth hypothesis (H4).

The positive relationship showed by the composition of the board of commissioners toward earnings persistence means that the larger the independent commissioner in a company, the earnings persistence will increase. This shows that the composition of the board of commissioners from outside is more complex for companies that will present quality profit information. More board of independent commissioners will increase supervision on a company's performance that will be useful in the presented profit information (Taruno, 2013).

- ***The Effect of Managerial Ownership on Earnings Persistence***

The variable of managerial ownership has a t-value of -2.222 with a significant level of 0.028 which is smaller than the 0.05. This shows that managerial ownership affects earnings persistence in manufacturing companies listed on IDX in 2010-2014. It can be concluded that this result supports the fifth hypothesis (H5).

Managers in running a company's operations tend to not maximize shareholder profits but act to benefit their own welfare. This creates a difference of interests between the shareholders and the management, and often referred to as agency conflict. With the ownership of shares by the management, it is believed that the agency problem can be reduced so that it will be beneficial to both parties. Managerial ownership can affect the profit quality because the greater the ownership by managerial, then management will tend to improve its performance (Boediono, 2005).

- ***The Effect of the Audit Committee on Earnings Persistence***

The variable of the audit committee has a t-value of -0.905 with a significance level of 0.368, which is greater than 0.05. This shows that audit committee has no effect on earnings persistence of manufacturing companies listed on IDX in 2010-2014. Therefore, this result does not support the sixth hypothesis (H6). Such results do not guarantee the size of the audit committee can detect a disruption in profit information, but rather to the integrity of the members of the audit committee itself in performing its duties as an effective oversight function. It is suspected that the number of audit committee members is only a formality set by the company (Prabowo, 2004).

- ***The Effect of Institutional Ownership on Earnings Persistence***

The variable of institutional ownership has a t value of -1,795 with a significant level of 0.075 which is greater than 0.05. This shows that institutional ownership does not affect the earnings persistence of manufacturing companies listed on the IDX in 2010-2014. Therefore, this result does not support the seventh hypothesis (H7).

Theoretically, institutional ownership has the ability to reduce the incentives of selfish managers through intense levels of scrutiny (Boediono, 2005). Institutional ownership may suppress the tendency of management to take advantage of the discretionary in the financial statements to provide reported profit quality. However, the result of this study does not support the theory. Institutional investors are only temporary owners and only focus on current profits. Changes that occur in profit can affect the decision of an institutional investor. If this change is deemed unfavourable, the investor can withdraw the shares. Because institutional investors usually have large amounts of shares, they will affect the value of the share as a whole. This means that institutional ownership is unable to increase the company's earnings persistence.

5. Conclusion, Limitations, and Suggestions

According to the results that were previously discussed, it can be concluded that:

1. The book-tax difference, accrual cash flow, the composition of the board of commissioners, managerial ownership, audit committee, and institutional ownership simultaneously influence earnings persistence of manufacturing companies listed on Indonesia Stock Exchange in 2010-2014.
2. The book-tax difference does not influence earnings persistence of manufacturing companies listed on Indonesia Stock Exchange in 2010-2014
3. Accrual cash flow affects earnings persistence of manufacturing companies listed on Indonesia Stock Exchange in 2010-2014.
4. The composition of the board of commissioners affects earnings persistence of manufacturing companies listed on Indonesia Stock Exchange in 2010-2014.
5. Managerial ownership affects earnings persistence of manufacturing companies listed on Indonesia Stock Exchange in 2010-2014.
6. The audit committee does not influence earnings persistence of manufacturing companies listed on Indonesia Stock Exchange in 2010-2014.
7. Institutional ownership does not influence earnings persistence of manufacturing companies listed on Indonesia Stock Exchange in 2010-2014.

This research has some limitations for future researchers. The subject of this research is manufacturing companies listed on Indonesia Stock Exchange with some pre-determined criteria. Therefore, the result cannot be generalized for all companies listed on Indonesia Stock Exchange. The observation period is only five years, which makes the sample size small. The value of R^2 is so low that many other factors outside the framework may affect earnings persistence.

Future researchers need to add more independent variables to know the other variables that influence, either to strengthen or weaken, independent variables, such as liabilities, operational cash flow, company size, and sales volatility. To be more representative, future researchers are expected to not only focus on manufacturing companies but also a wider scope of the subject, for example, all companies listed in Indonesia Stock Exchange to get more complex result.

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