

## ABSTRACT

*The principal purpose of this study was to examine the influence of corporate governance mechanism with earnings management and influence consequences of earnings management to financial performance. Measurement of corporate governance mechanism consist of: institutional ownership, managerial ownership, presence of independent of director and size of director. Institutional ownership, managerial ownership and presence of independent of director can affect the action of earning management, which caused in the use of discretionary accruals into the lower. Whereas the small size of director would be more effective in performing supervisory action of earnings management. Earnings management is conducted by managers on firm fundamental factors, namely the intervention on making of financial statement based on accrual accounting. So that earnings management will affect performed by managers on the factors - fundamental factors the company, by intervention in the preparation of financial statements based on accrual accounting. So that earnings management will affect financial performance.*

*The populations of this research is all of companies in the manufacturing sector at the Indonesian Stock Exchange, which were published in financial report from 2005-2007. Purposive sampling method was used to determine research sample. From this method, we have collected 37 observations.*

*By using multiple regression analysis as the research method, the findings are: managerial ownership influence negatively to earnings management and size of director influence positively to earning management as hypothesized. Institutional ownership and presence of independent of director had not significant influence to earnings management. Earning management have significant effects on financial performance.*

**keywords:** *corporate governance mechanism, earnings management and financial performance*