

## **THE ROLE OF INSTITUTIONAL OWNERSHIP, INDEPENDENT BOARD OF COMMISSIONERS, AND MANAGERIAL OWNERSHIP ON EARNINGS MANAGEMENT IN MANUFACTURING COMPANIES**

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### **Abstract**

This study aimed to determine the effect of institutional ownership, an independent board of commissioners, and managerial ownership on earnings management with bonus managers in manufacturing companies listed on the Indonesian stock exchange from 2016 to 2018. The sample selection technique used in this study was purposive sampling, surveying 59 companies over three years. We used descriptive analysis and verification analysis using panel regression analysis (pooled data) with Eviews. The study provides the following conclusions: that institutional ownership has a significant influence on earnings management, bonus managers cannot moderate the effect of institutional ownership on earnings management nor moderate the impact of the independent board of commissioners on earnings management, independent board of commissioners has a significant influence on earnings management, and managerial ownership has a significant effect on earnings management. The study also found that effective GCG implementation can provide companies with a competitive edge. The high quality of financial reports is demonstrated by managers' efforts to minimize risk and lower capital costs to maximize company profits.

**Keywords :** *Institutional ownership, Independent Board of Commissioners, Managerial Ownership, Earning Management, Purposive Sampling Method.*

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## **INTRODUCTION**

Accounting scandals are a type of business issue that is always interesting because they involve presenting the information. While the compiler may feel correct, the reader accuses it of violating the rules. This interest gap will always exist, providing an opportunity for earnings management. Earnings management maximizes managers' welfare by deceiving investors through managers' opportunistic behavior, which allows them to control a large amount of information for their direct and corporate interests (Utrero-González & J. Callado-Muñoz, 2016). Manipulating actual activities is one method of achieving profit targets (Fauziyah, 2017). According to Roychowdhury

(2006), despite manipulating and demonstrating good performance to maximize profit, this situation does not accurately reflect a company's current state.

In the United States, one of the cases that had the most significant impact was the Enron scandal, where its management had inflated Enron's revenue by US\$600 million and concealed its US\$1.2 billion debt. Regardless of the substance of the scandal, it is clear that financial reporting is a tool used by management to advance their interests.

Indonesia, like the United States, is not immune to similar incidents. PT Kimia Farma is an example of a company that employed earnings management practices. Hans Tuanakotta & Mustofa (HTM) audited the management of Kimia Farma and found a net profit of Rp. 132 billion, while the profit presented was Rp 99.56 billion, a decrease of Rp 32.6 billion (24.7 per cent) from the initially reported earnings. In another case, PT Perusahaan Gas Negara delayed publishing material information about a decrease in gas volume and information about a gas volume known to management since 2006 but not published until March 2007, a violation of Article 93 of Law No. 8/1995.

The numerous financial reporting scandals have cast doubt on the effectiveness of good corporate governance in minimizing earnings management. Institutional shareholders are owners who are more prudent and thorough in using financial information, thereby minimizing managers' earnings management. Because the manager is also the owner of the business, shared ownership can help balance the interests of investors and managers. The commissioners have no authority to influence their capabilities or eliminate fraudulent practices that could harm shareholders.

## **LITERATURE REVIEW**

Previously, studies examined earnings management solely through accrual manipulation. However, managers have recently shifted their focus from accrual manipulation to actual activity manipulation. According to Roychowdhury (2006), managers prefer to manipulate profits over accrual-based earnings management. Research Zang (2012) states that managers prefer actual activity manipulation over accruals, but managers still maintain both techniques to achieve the desired profit target. In the end, managers prefer earnings management methods that increase their bonuses. Managers prefer accounting methods in accrual earnings management (Scott, 1997). and real earnings management; the actual activities were manipulated by them to achieve their goals. The research findings from Enomoto et al., (2015) accrual earnings management is mainly controlled in 38 countries in the world. According to Cohen & Zarowin (2008) managers are motivated to manipulate actual activities to achieve their goals. Moradi & Salehi (2012) managers prefer accrual management to get more bonuses. In the future, the company will experience a decrease in performance on real management earnings (Gunny, 2005). They further improve the company's performance to achieve more bonuses when their ability to manage accruals is limited; Therefore, managers avoid real earnings management.

According to Jensen & Meckling (1976), the agency acts as a liaison by delegating authority and making decisions on behalf of the agent Shareholders demand that the company increase its profitability and dividends. In contrast, managers are agents motivated to maximize their own economic, psychological needs.

Good corporate governance (GCG) regulates the relationship related to rights and obligations (Siswantaya, 2007). Corporate Governance can assist investors in ensuring that their funds are used appropriately and efficiently (Uwuigbe, Uwalomwa, Olubukunola Ranti Uwuigbe, 2015). The existence of GCG monitors and suppresses irregularities in earnings management and is used for the primary benefit of stakeholders to ensure that the account operates appropriately.

According to Scott (1997), earnings management motivations include bonuses, contract incentives, political incentives, tax incentives, CEO turnover, initial public offerings/IPOs, and informing investors. Several studies were also conducted to determine whether the company engaged in earnings management. The aggregate accrual model is the most frequently used model for managing the presence of earnings. One always used model is the Jones model (Jones, 1991). The Healy model, the industry model, the de Angelo model, the Jones model, and the modified Jones model are all used to quantify earnings management (Dechow, 1995).

The weakness of the measurement of earnings management using aggregate discretionary accruals is that it does not indicate which components are managed, whether earnings or expense. Several researchers have proposed several models based on specific accruals, including Angelo (1988), which employs an allowance for doubtful accounts, and several other researchers who advocate for the use of the reserve for debt repayment. However, the accounts have a low value and are frequently limited to specific industries. As a result, Stuben believes that earnings are the most appropriate measure.

Enomoto & Yamaguchi (2015) found that 38 countries have controlled their accruals management. Cohen & Zarowin (2008) report that managers prefer the alternative of real activity manipulation due to its limitations in manipulating accrual items. However, Gunny (2005) stated that managers prefer accrual earnings management to earn many bonuses; and companies will be reduced in the future due to actual management activities. Conversely, increased company performance is associated with increased bonus managers (Chaubey, 1988; Mehran, 1995).

The company can use Institutional ownership to monitor managers' earnings management behaviour to reduce it. With institutional investors, managers' incentives to maximize profits are diminished. Suryani (2010) demonstrates that institutional ownership has a significant negative impact on earnings management. This finding is supported by Agustina (2013), who found that institutional ownership cannot control management because it focuses on a company's value.

Institutional ownership refers to organizations that own a percentage of the company's stock (Dewi, 2008). Meanwhile, Permanasari (2010) asserts that institutional ownership is critical for mitigating agent-agent conflict. As a result, institutional investors are involved in strategic decisions, and they are less likely to believe in earnings manipulation (Chariri, 2003). This is consistent with Jensen & Meckling (1976) belief that outsiders must dominate the board to increase the board's freedom. According to some, non-executive directors are necessary to monitor and control opportunistic management behaviour.

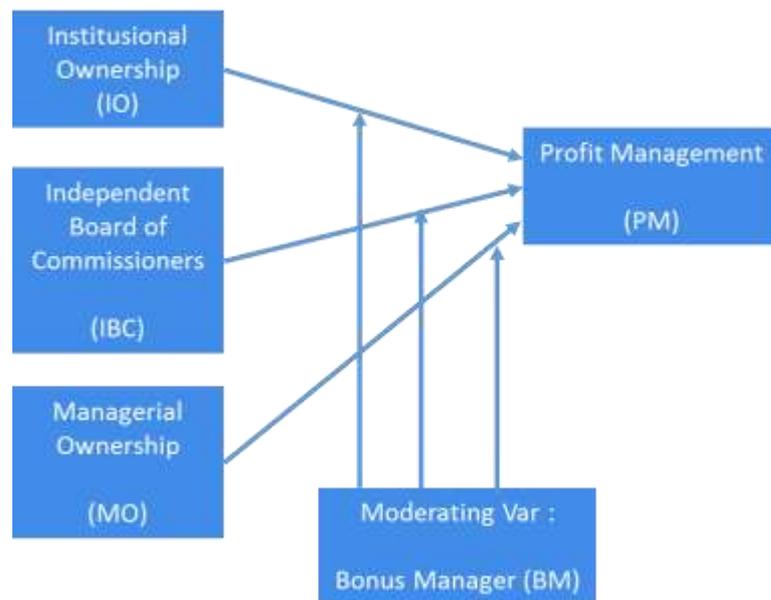
According to Palestin (2009), earnings management is affected by the independent commissioners and bonus managers as a significant positive function of supervisory authority (Gideon, 2005). Silitonga (2020) research found that a strong independent board of commissioners, both in terms of board composition and the independent commissioners' expertise, will improve the overall company, particularly

financial performance.

The size of the number of managerial shareholdings in the company can indicate a congruence of interests between management and shareholders (Abdulah, 2004). According to Ujiyantho (2007) managerial ownership has a significant negative effect on earnings management. The managerial ownership structure combined with earnings management has significant negative consequences (Widyastuti, 2009). A smaller managerial ownership structure will improve earnings management.

Bonuses are often associated with the level of net profit. Managers will attempt to manage net earnings so that the bonus is maximized. Palestin (2009) establishes a link between incentive bonus manager and earnings management.

This study is confirmation research explaining the causality hypothesis testing, in which the data or variables are studied first, followed by an explanation of the relationship. This study's framework is as follows:



**Figure 1**  
**Conceptual Framework**

### **Hypothesis Development**

#### **Effect of Institutional Ownership on Earnings Management**

Institutional ownership can monitor managers' performance in managing the company so that ownership by other institutions is expected to reduce earnings management behavior by managers. Institutional investors are parties who can monitor agents with large holdings, so that managers' motivation to manage profits is reduced.

Research conducted by Suryani (2010) shows that the institutional ownership variable significantly negatively affects earnings management. The greater the institutional ownership, the smaller the company's earnings management practices. According to Agustina (2013), research clarifies that institutional ownership cannot control the management. It cannot reduce earnings management because institutional investors do not act as sophisticated investors with more abilities and opportunities to monitor discipline managers to be more efficient. Based on this, the hypothesis

proposed by the researcher is:

**Hypothesis 1: Institutional ownership has a significant negative effect on earnings management.**

### **Effect of Institutional Ownership on Earnings Management with Bonus Manager as Moderating Variable**

Institutional ownership is the proportion of shares owned by the institution at the end of the year, measured as a percentage of the number of institutional ownership to the total number of shares (Dewi, 2008). Meanwhile, Permanasari (2010) stated that institutional ownership has a very important role in minimizing agency conflicts between managers and shareholders. Institutional investors are considered capable of being an effective monitoring mechanism in every decision taken by managers. This is because institutional investors are involved in strategic decisions, so they do not readily believe in earnings manipulation. A bonus manager is a remuneration provided by the company to employees, which can be financial or non-financial, for a fixed period. The bonus plan hypothesis is one of the motives for choosing an accounting method that cannot be separated from the positive accounting theory. This hypothesis states that managers of companies with bonus plans prefer accounting methods that increase current period earnings. This choice is expected to increase the present value of the bonus that will be received if the compensation committee of the Board of Directors does not adjust to the chosen method (Chariri, 2003). If the company has bonus compensation, then managers will tend to take actions that regulate net income to maximize the bonuses they receive. Based on the explanation above, the hypothesis is formulated as follows:

**Hypothesis 2: Bonus Manager strengthens the relationship between institutional ownership and earnings management**

### **Effect of Independent Board of Commissioners on Earnings Management**

Generally, the independent board of commissioners has better supervision of managers to influence the possibility of deviations made by managers. Jensen & Meckling (1976) stated that agency theory supports the statement that outsiders must dominate the board to increase the board's independence. Some opinions say that non-executive directors are needed to control and supervise the behavior of management who act opportunistically. The research results by Antonia (2008) shows that the larger the proportion of external commissioners, the smaller the earning management. This indicates that the proportion of the board of commissioners has a negative effect on earnings management.

**Hypothesis 3: A high proportion of independent board of commissioners affects earnings management**

### **Effect of Independent Board of Commissioners on Earnings Management with Bonus Manager as Moderating Variable**

Palestin (2009) states that independent commissioners and bonus managers significantly positively affect earnings management. An independent board of commissioners is one of the characteristics of the board related to the information content of earnings. Through its role in carrying out the supervisory function, the board can influence the management in preparing financial reports so that a quality profit report can be obtained (Boediono, 2005).

**Hypothesis 4: Bonus Manager strengthens the relationship between the independent board of commissioners and earnings management**

**Effect of Managerial Ownership on Earnings Management**

Managerial ownership is considered one factor that influences earnings management by managers. If the manager has ownership in the company, then the manager will act in the interests of the shareholders because the manager also has an interest in it. The size of the number of managerial shareholdings in the company can indicate a congruence of interests between management and shareholders. Still, suppose the interests of managers and owners can be aligned. In that case, managers will not be motivated to manipulate information or perform earnings management to improve the quality of accounting information and earnings information. Increasing managerial ownership is expected to reduce earnings management actions reflected in the reduced value of discretionary accruals. The amount of managerial ownership is expected to improve the quality of financial reporting and the resulting profits (Abdulah, 2004).

Ujiyantho (2007) shows that managerial ownership has a significant negative effect on earnings management. These results indicate that managerial ownership can become a corporate governance mechanism that can reduce the misalignment of interests between management and owners or shareholders. Widyastuti (2009) also found that managerial ownership structure with earnings management has a significant negative effect. The smaller the managerial ownership structure, it will improve earnings management.

**Hypothesis 5: Managerial ownership has a negative effect on earnings management**

**Effect of Managerial Ownership on Earnings Management with Bonus Manager as Moderating Variable**

Bonuses are often associated with the net profit level generated in the year concerned. Managers will try to manage net income in such a way as to maximize the bonus. Managers who have information on the company's actual net income will act opportunistically to manage earnings by maximizing current profits or saving them for years to come. Palestin (2009) shows a positive relationship between bonus compensation and earnings management. With this, it can be concluded that if the company has a compensation (bonus scheme), managers will tend to take actions that regulate net income to maximize the bonuses they receive.

**Hypothesis 6: Bonus Manager strengthens the relationship between managerial ownership and earnings management**

**METHOD**

According to Stubben (2010), using optional earnings calculated using the revenue approach can better measure earnings management than the accrual approach. According to the findings, the discretionary revenue model produces less bias and error than the accrual model.

Because Stuben differentiated earnings in this study into the first and last three-quarters of earnings, the following equations were obtained:

Information :

$\Delta AR$  = Changes in Accounts Receivable

$\Delta R1\_3$  = First three quarter earnings

$\Delta R4$  = Last quarter earnings

Good Corporate Governance uses three variables, namely Institutional Ownership (IO), Managerial Ownership (MO), and Independent Board of Commissioners (IBC). This technique uses purposive sampling. The sample amounted to 59 companies within three years. The criteria for taking the sample are as follows: (1) All manufacturing companies registered on the Indonesia Stock Exchange (IDX) for 2016-2018 period; (2) Availability of complete and published annual financial reports during the period 2016-2018; and (3) Availability of complete related data according to the variables to be studied during the period 2016-2018.

The data set method used is the report method which is carried out by collecting secondary data for the 2016-2018 period. The data was obtained through the IDX website, namely [www.idx.co.id](http://www.idx.co.id). Eviews 9 was used as the data processing tool.

The time-series data used will be from 2016 to 2018. The cross-sectional design of this study collects data from many companies (pooled), consisting of 34 manufacturing firms used as research samples. According to Ahman, Eeng & Rohmana (2010), the panel data regression model employs cross-section and time series data as follows:

*Cross section data model*

$$\alpha + \beta.X_i + \epsilon_i = Y_i ; i = 1, 2, \dots, N, \dots \quad (1)$$

$N$  : total of cross section data

*Time series data model*

$$\alpha + \beta.X_t + \epsilon_t = Y_t ; t = 1, 2, \dots, T, \dots \quad (2)$$

$T$  : total of time series data

Considering that panel data can be written as follows:

$$\alpha + \beta.X_{it} + \epsilon = Y_{it} ; i = 1, 2, \dots, N ; t = 1, 2, \dots, T, \dots \quad (3)$$

That :

$N$  = observation total

$T$  = total of time

$N \times T$  = total of panel data

Equation 1: The Implication of Institutional Ownership, The independent Board of Commissioners, and Managerial Ownership on Earnings Management.

$$Y_{it} = \alpha + \beta_1.X_{1,it} + \beta_2.X_{2,it} + \beta_3.X_{3,it} + \epsilon_{it}$$

Equation 2 : The Implication of Earnings Management on Bonus manager

$$Z_{it} = \alpha + \beta Y_{it} + \epsilon$$

That:

$Z_{it}$  = Bonus manager Variable

- $\alpha$  = Constant  
 $\beta$  = Coefficient's regression  
 $Y_{it}$  = Earnings Management  
 $\varepsilon$  = Error term  
 $t$  = time  
 $i$  = Company

Panel figure regression can be performed using three models: Pooled OLS/Common Effect, Fixed Effect, and Random Effect. Basuki & Prawoto (2017) explain the three models using the Ordinary Least Squares (OLS) method. The formula for the Model of Common Effect is identical to the panel data regression equation in Equation 3.3, as follows:

$$Y_{it} = \alpha + \beta X_{it} + \varepsilon_{it}$$

Because it uses imitation variables, this appraisal model is also known as the Least Square Dummy Variable (LSDV) technique. When applied to individual effects, the Fixed Effect Model can be expressed as follows:

$$Y_{it} = \alpha + \beta X_{it} + \alpha_i + \varepsilon_{it}$$

where,  $\alpha$  is a fixed effect at time  $t$  for the unit cross section. This is referred to as the Error Component Model (ECM). Generalized Least Squares (GLS) is the appropriate method to accommodate this random effect model, assuming the error component is homoscedastic and there is no evidence of cross-sectional correlation.

Random Effect Model in general is formulated as follows:

$$Y_{it} = \alpha + \beta X_{it} + w_{it}, \text{ that } w_{it} = \varepsilon_{it} + u_i$$

### **Chow test**

The test was carried out using the Eviews 9 program. The hypothesis is as follows

$H_0: \beta_1 = 0$  {uses random effect model}

$H_1: \beta_1 \neq 0$  {uses fixed effect model}

The drawing conclusions from the Chow test are as follows:

- If probability F value  $> 0.05$  and  $H_0$ : accepted; then we use the common effect model.
- If probability F value  $< 0.05$  and  $H_0$ : rejected; then the fixed effect model is adopted by the Hausman test.

### **Hausman Test**

The analysis was carried out using the Eviews 9 program and proposes the following hypotheses:

$H_0: \beta_1 = 0$  {used effect of model random}

$H_1: \beta_1 \neq 0$  {used effect of model fixed}

It is necessary to test the appropriate hypotheses associated with the formulated hypotheses. Hypothesis testing employs both partial hypothesis testing (t test) and concurrent hypothesis testing (F test).

The explanation of each test is as follows:

The making of the hypothesis test formula:

$H_0: \beta_1 = \beta_2 = \beta_3 = 0$ ,  
where there is no impact of Institutional Ownership, The Independent Board of Commissioners and Managerial Ownership on Earnings Management.

$H_1: \beta_1 \neq \beta_2 \neq \beta_3 \neq 0$ ,  
where there is an impact of Institutional Ownership, The Independent Board of Commissioners and Managerial Ownership on Earnings Management.

### Determining the Significance Level

The probability of the conclusions being true is 95 percent, with a 5-percent error tolerance.

### Stimulation of F-test

The assumption test used is the F-count test, using the following formula:

$$F = R^2 / ((n-k-1) k (1-k^2))$$

Information:

F = F-n test  
Total of K sample = Total of Independent Variable  
 $R^2$  = Determination Coefficient

If  $H_0$  is received, there is no significant influence; the independent variables have no effect on the dependent variable. If  $H_0$  is rejected, both the independent and dependent variables exhibit a statistically significant effect.

### Stimulation of t-test

The purpose of partial regression is to determine whether the independent variable is significantly correlated with the dependent variable or not. The hypothesis test that is used is the t test, where:

$$t = r\sqrt{n - k - 1} / \sqrt{1 - r^2}$$

Information:

t = t test  
r = Defined correlation of partial  
n = Total sample  
k = Total Variable of the independent Board of Commissioners

If  $H_0$  is accepted, the influence is not significant, implying that there is no partial effect of the independent variables on the dependent variable, whereas if  $H_0$  is refused, the influence is significant, implying that there is a partial effect of independent variables on the dependent variable.

In order to avoid this bias, the adjusted  $R^2$  grade is used, in which the adjusted  $R^2$  value can increase or decrease in response to the addition of a single independent variable (Ghozali, 2016). The researcher used the Eviews 9 program to calculate the Coefficient of Determination in this study simultaneously.

**Table 1.**  
**Descriptive statistics**

	IO	ICB	MO	REMUNERATION	EM
<b>Mean</b>	0.57	0.03	0.06	0.19	0.00
<b>Median</b>	0.58	0.00	0.00	0.00	-0.004

	<b>IO</b>	<b>ICB</b>	<b>MO</b>	<b>REMUNERATION</b>	<b>EM</b>
<b>Maximum</b>	0.99	0.49	4.86	8.52	0.78
<b>Minimum</b>	0.00	0.00	0.00	0.00	-0.19
<b>Std. Dev.</b>	0.24	0.08	0.48	1.06	0.09
<b>Skewness</b>	-0.34	3.79	9.76	6.61	5.16
<b>Kurtosis</b>	2.32	17.86	97.17	47.77	43.93
<b>Jarque-Bera</b>	3.93	1172.37	38926.8	9173.27	7502.03
<b>Probability</b>	0.13	0.00	0.00	0.00	0.00
<b>Sum</b>	58.38	3.10	6.25	19.45	0.22
<b>Sum Sq. Dev.</b>	5.89	0.71	23.47	112.38	0.93
<b>Observations</b>	101	101	101	101	101

Source : Data processing and analysis, 2020

In table 1, the minimum IO value is 0.00, the maximum IO value is 0.99, the mean of the IO variable is 0.57, and the value of the IO variable's standard deviation is 0.24. The IO variable has a minimum value of 0.00, a maximum value of 0.49, a mean of 0.030, and a standard deviation of 0.08. The MO variable has a minimum value of 0.00, a maximum value of 4.86, a mean value of 0.06, and a standard deviation of 0.48. The Remuneration (Bonus) variable has a minimum value of 0.00, a maximum value of 8.5, a mean value of 0.19, and a standard deviation of 1.06. For the Earnings Management (EM) variable, the minimum value is -0.19, the maximum value is 0.78, the mean value is 0.00, and the standard deviation value is 0.09.

**Table 2**  
**Multiple Regression estimation results (Hypothesis Test)**

<b>Estimation Result Method Fixed Effect</b>		
<b>Dependent Variable:</b>		
<b>EARNINGS MANAGEMENT</b>		
<b>Independent Variable</b>	<b>Coefficient</b>	<b>Probability</b>
C	0.04	0.00
	-	
IO	0.074	0.00
ICB	0.19	0.03
MO	0.12	0.00
Bonus manager	0.04	0.04
	-	

Independent Variable	Coefficient	Probability
IO_MB	0.02	0.20
	-	
ICB_MB	0.10	0.02
	-	
MO_MB	31.10	0.00
R <sup>2</sup>	0.63	
Adjusted R <sup>2</sup>	0.39	
F-stat	2.65	
Prob F-stat	0.00	

Source: Data processed by Eviews 9.0

Based on the calculation of Eviews from table 2, the following multiple linear regression equation is obtained:

$$ML = \alpha + \beta_1 KI + \beta_2 KI * BM + \beta_3 DKI + \beta_4 DKI * BM + \beta_5 KM + \beta_6 KM * BM + e$$

Information:

EM	= Earnings Management
IO	= Institutional Ownership
ICB	= The Independent Commissioners Board
MO	= Managerial Ownership
BM	= Bonus manager
e	= Error

With the fixed effect method, the adjusted R<sup>2</sup> is 0.39 or 39.81%, which explains the ability of all independent variables to explain 39.81% of the variation in the dependent variable, while the remaining 60.19% is explained by other independent variables not included in the model. The F-stat value extracted from Table 2 indicates that the model passed the accuracy test with a score of 2.65 and an F-stat probability of 0.00 < 0.05 (alpha 5%). At a 95% confidence level, the option hypothesis is accepted and concluded; independent variables have a significant effect on the dependent variable.

Individual tests or T-statistic tests, as well as their associated probabilities, are processed in Table 2. It can be interpreted as follows based on the estimation results obtained using the fixed effect method:

#### **Institutional Ownership (IO) has an influence on Earnings Management**

The coefficient values in Table 2 indicate that the magnitude of the influence of IO on earnings management is -0.07, which is approximately equal to the magnitude of the sig value. If the IO is less than 0.00 < 0.05 (alpha 5%), the hypothesis is rejected. Therefore, there is a negative effect of IO on earnings management at the 95% confidence level.

### **Independent Commissioner Board (ICB) has an influence on earnings management**

The coefficient values in Table 2 indicate that the magnitude of the influence of ICB on earnings management is 0.19. This means that a 1% increase in ICB results in a 0.19% increase in earnings management. The magnitude of the ICB sig value was  $0.03 < 0.05$  (alpha 5%), indicating that the hypothesis is rejected. At a 95% confidence level, ICB has a positive effect on earnings management.

### **Managerial Ownership (MO) has an influence on earnings management**

The coefficient values in Table 2 indicate that the magnitude of the influence of MO on earnings management is 0.12. If MO increases by 1%, earnings management improves by 0.12%. The tests provide information about the magnitude of the sig value. When MO is  $0.00 < 0.05$  (alpha 5%), the hypothesis is rejected. At a 95% confidence level, MO has a positive effect on earnings management.

### **Bonus Manager moderates the influence of IO on earnings management**

The coefficient values indicate that the magnitude of IO's influence on earnings management is -0.02 when moderated by the bonus manager. This means that if incentive bonus manager as moderated by the bonus manager increases by 1%, earnings management decreases by 0.02%. The tests demonstrate the magnitude of the sig value. The hypothesis is accepted when the IO moderated by the bonus manager is  $0.20 > 0.05$  (alpha 5%). As a result, at the 95% confidence level, it can be concluded that the manager's bonus has no effect on the effect of IO on earnings management.

### **Bonus manager moderates ICB's influence on earnings management**

The coefficient values indicate that the magnitude of the effect of ICB on earnings management when moderated by the bonus manager is -0.10. That is, if incentive bonus manager as moderated by the bonus manager increases by 1%, earnings management decreases by 0.10 percent. According to the statistical test output, the ICB sig value moderated by the bonus manager is  $0.02 < 0.05$  (alpha 5%), rejecting the hypothesis. Therefore, at a 95% confidence level, it is assumed that the manager's bonus can mitigate the effect of ICB on earnings management.

### **Bonus Manager moderate the effect of ICB on earnings management**

The coefficient values indicate that the magnitude of the effect of ICB on earnings management when moderated by the bonus manager is -31.10. That is, assuming ceteris paribus, if ICB moderated by the bonus manager increases by 1%, earnings management decreases by 31.10 percent. Because the sig value of ICB moderated by the bonus manager is  $0.00 < 0.05$  (alpha 5%), the hypothesis is rejected. Therefore, at a 95% confidence level, the manager's bonus is capable of moderating the effect of ICB on earnings management.

## **Discussion**

The t-test of Institutional Ownership has a significant effect on Earnings Management, with a value of (0.00). The institutional ownership variable's sig. value is less than the set significance level of  $< 5\%$  ( $\alpha = 0.05$ ), indicating that institutional ownership affects earnings management.

The ownership of shares by the corporation can minimize the incident of

earnings management actions. This result is consistent with the findings of Cornett et al. (2007), which found that institutional ownership has a significant negative effect on earnings management. The impact of institutional ownership on earnings management in Indonesia can be interpreted as follows: institutional owners are long-term investors who prioritize long-term profits, and institutional ownership typically has a low share reflecting power, implying that it cannot intervene. As a result of the small institutional ownership, managers cannot perform earnings management actions. The results are contrary to Garcia- Meca & Sánchez-Ballesta (2009), who argue that there is a positive correlation between institutional ownership and earnings management, concluding that the higher the level of institutional ownership, the higher the earnings management.

As a result of the findings of this study, managers were compelled to engage in earnings management to protect the interests of certain parties, one of which was the owner. According to the results of the interaction test, the effect of institutional ownership combined with bonus managers on earnings management achieved a significance value of (0.20). The institutional ownership variable has a significance value greater than 5% ( $\alpha = 0.05$ ), indicating that institutional ownership cannot mitigate the influence of institutional ownership on earnings management.

Based on the output above, the size of a company's bonus manager does not affect the effect of institutional ownership on earnings management. The high level of institutional ownership is thought to increase control over the business, reducing manipulative actions by company executives, such as earnings management. Thus, it can be concluded that providing a bonus manager does not always increase management's motivation to take earnings management actions. This is because management is more concerned with attracting investors' attention to convince them to invest in the company. Thus, with large capital, it will be able to develop a business in a more profitable direction, resulting in a large bonus manager in the long run, as opposed to earnings management, which is only profitable in the short term. The findings of this paper corroborate those of Dustriyani (2015), who found that a bonus manager has a negative but not statistically significant effect on earnings management. This is likely because a company's bonus manager is dominated by fixed salaries and allowances, with minimal variable bonus manager.

The Independent Board of Commissioners' t-test has a significant effect on Earnings Management, with a value of (0.03). The institutional ownership variable has a significance value less than the set threshold of 5% ( $\alpha = 0.05$ ), indicating that this independent board of commissioners has a negative effect on earnings management, implying that the presence of an independent commissioner can reduce the occurrence of profit-generating management actions. The more independent commissioners a company has, the fewer earnings management actions. This demonstrates that an independent board of commissioners have effectively carried out their responsibilities to monitor the quality of financial reporting to rein in earnings management within the company.

The findings of this study corroborate Beasley (1996) assertion that independent board of commissioners have a detrimental effect on companies' earnings management practices. This finding contradicts Klein (2000) and Gideon (2005), who concluded that the proportion of independent commissioners did not affect earnings management

actions carried out in Indonesian companies.

According to the interaction test, the effect of the independent board of commissioners on earnings management has a sig. value of (0.2). The institutional ownership variable's sig. value is greater than 5% ( $\alpha = 0.05$ ), indicating that remuneration (bonus manager) cannot mitigate the influence of an independent board of commissioners on earnings management. This means that the independent board of commissioners can stifle management behavior when managing earnings but has no discernible effect on bonus payments. This is likely to occur because the company's bonus manager is dominated by fixed salaries and allowances, with minimal variable bonus managers.

According to the tests conducted, the t-test of managerial ownership affects earnings management, with a value of (0.00). The institutional ownership variable's significant value is less than the set sig. level of < 5% ( $\alpha = 0.05$ ), indicating that managerial ownership has a significant effect on earnings management in part. This article corroborates the research of Ujijanto (2007), who found that managerial ownership has a detrimental effect on earnings management. That is, the greater the value of managerial ownership, the fewer earnings management will be practiced.

The interaction test results indicate that Managerial Ownership has a significant effect on Earnings Management, with a sig value of (0.00). The managerial ownership variable's sig. value is less than the set significance level of < 5% ( $\alpha = 0.05$ ), indicating that the manager's bonus can modulate managerial ownership's effect on earnings management. The lower the incentive for management to take earnings management actions, the greater the incentive to take earnings management actions. On the other hand, the lower the bonus manager paid to management, the greater the incentive to take earnings management actions.

## CONCLUSION

According to the result, the influence of institutional ownership on earnings management in Indonesia can be interpreted that an institutional owners are long-term investors who prioritize long-term profits. The owners should be thinking that to increase the company's control within the company, they need to reduce any possible manipulative actions conducted by the managers, such as earnings management. In contrast, the concentrated ownership typically has low percentage of interest, reflecting less power so that they cannot intervene. In addition, the bonus manager does not influence the earnings management of institutional ownership. Thus, it can be concluded that providing a bonus manager does not always increase management's motivation to conduct earnings management actions.

The rationale behind the explanation is that management is more concerned with attracting investors' attention to convince them to invest in a company. Thus, with a large capital base, it will be able to develop a business in a more profitable direction, resulting in a large bonus manager package in the long run, as opposed to earnings management, which is only profitable in the short term. This independent board of commissioners wields considerable influence over revenue management. The more of a company has, the fewer earnings management actions will occur. This demonstrates that independent commissioners have effectively carried out their responsibilities to monitor the quality of financial reporting to rein in earnings management within a

company. The bonus manager has no control over the independent commissioners' influence on earnings management.

This means that the independent board of commissioners can suppress management behavior when it comes to managing earnings but has no discernible effect on bonuses. This is likely to occur because the company's bonus manager is dominated by fixed salaries and allowances, with minimal variable bonus managers. This managerial ownership has a sizable impact on the management of earnings. It is regarded as one of the factors affecting managers' earnings management. The size of managerial shareholdings in a company may indicate a convergence of interests between management and shareholders. Still, if managers' and shareholders' interests can be aligned, managers will be disincentivised to manipulate. The bonus manager has no control over the independent commissioners' influence on earnings management. This means that it can suppress management behavior when managing earnings but has no discernible effect on bonuses. This is likely to occur because the company's bonus manager is dominated by fixed salaries and allowances, with minimal variable bonus managers.

Several implications and recommendations are made in light of the findings and discussions. First, GCG implementation must always be undertaken with a high degree of commitment. Effective GCG implementation can also provide a competitive advantage to the business. The greater the degree of GCG implementation, the higher the quality of financial reports. This can be seen in how managers minimize risk and lower capital costs to maximize company profits. The findings of this study corroborate Sudaryono (2021) assertion that internal control is a necessary component of good corporate governance and thus adds value to businesses through fraud prevention. Future research should examine the factors that affect stock prices using variables other than good corporate governance, including dividend decisions, capital structure, risk and profit growth, and market sentiment. Further research should focus on all companies listed on the CGPI to be used as research objects, extending the observation period. Through this, external parties can better understand the critical nature of a company's actual performance.

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