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

**Endah Prawesti Ningrum1\***

*1Universitas Bhayangkara Jakarta Raya, Jl. Raya Perjuangan Margamulya, Kota Bekasi,*

*Contact number : 081319077152,*

*Email : endah.prawesti@dsn.ubharajaya.ac.id (Corresponding author)\**

**ABSTRACT**

This study aimed to determine the effect of institutional ownership, an independent board of commissioners, and managerial ownership on earnings management with manager bonuses 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 a three-year period. Descriptive analysis and verification were used to analyze the data in this study. The verification analysis was performed using panel regression analysis (pooled data). Eviews 9 was used as the data processing tool for this study. 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 effect 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.*

JEL Classification : M41, G32

**Introduction**

Accounting scandals are a type of business issue that is always interesting because they involve presenting 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). Manipulation of real 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.

Numerous examples can be found in the United States, a global leader in business and finance. 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 percent) 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 their use of 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. According to Zang (2012), managers prefer actual activity manipulation to accruals, but managers use both techniques to achieve the desired profit target. In the end, managers prefer earnings management strategies that increase bonuses. Managers prefer accrual earnings management methods (Scott, 1997). n real earnings management, they manipulated actual activities to achieve their objectives. Research from Enomoto et al., (2015) found that accrual earnings management is mainly controlled in 38 countries globally. Cohen & Zarowin (2008) found that managers are motivated to manipulate actual activities in order to accomplish their objectives. Meanwhile, Moradi & Salehi (2012) found that managers are motivated to manipulate actual activities to accomplish their objectives. Companies will experience a decline in performance on real management earnings in the future (Gunny, 2005), requiring them to improve their performance even further to earn more bonuses when their ability to manage accruals is limited. Therefore managers avoid real earnings management.

According to Jensen & Mackling (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, whereas managers are agents motivated to maximize their own economic, psychological needs.

Siswantaya (2007) defines good corporate governance (GCG) as GCG regulates the relationship related to rights and obligations. GCG ensures that is appropriate and efficient to invest the fund (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 properly.

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 of the always used models 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 using aggregate discretionary accruals is that this measurement 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, managers prefer accrual earnings management in order to earn a large number of bonuses. Companies will be reduced in the future due to actual management activities (Gunny, 2005). Conversely, an increase in company performance is associated with increased manager bonuses (Chaubey, 1988)(Mehran, 1995).

Institutional ownership can be used to monitor managers' earnings management behavior in order to reduce it. With institutional investors, managers' incentives to maximize profits are diminished. Suryani's (2010) research 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 they are focused on a company's value.

Institutional ownership refers to organizations that own a percentage of the company's stock (Sisca Christianty 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 & Mackling's (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 (2003), earnings management is affected by self-sustaining commissioners and bonus compensation as a significant positive function of supervisory authority (Gideon, 2005). Research conducted by (Silitonga, 2020) found that a strong independent board of commissioners, both in terms of board composition and the expertise of the independent commissioners themselves, will improve 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. Increased (Abdulah, 2004). that earning management is effected by managerial ownership as a significant negative (Ujiyantho, 2007). The managerial ownership structure with earnings management has a negative significant implications (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 (2003) establishes a link between incentive compensation and earnings management.

**Methods**

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:

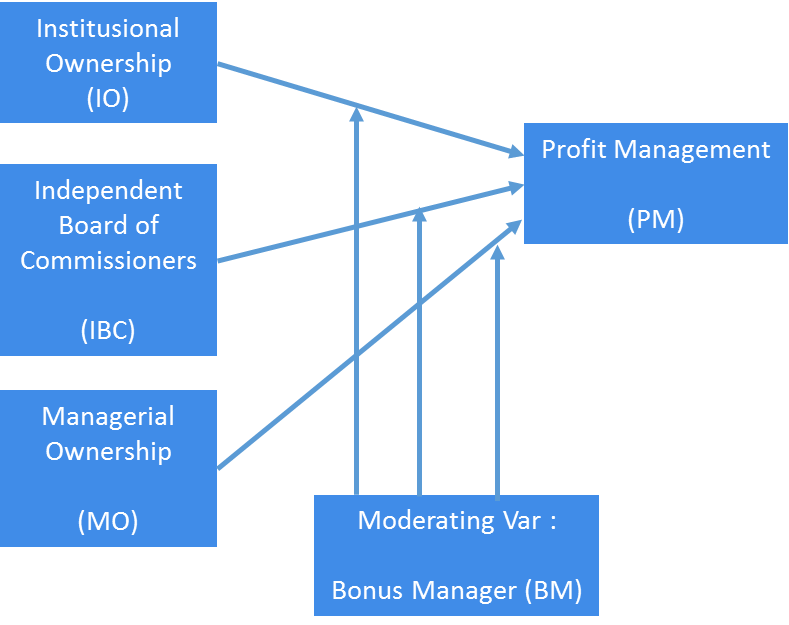


Figure 2.1. Research Methods

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 :

∆AR = Changes in Accounts Receivable

∆R1\_3 = First three quarter earnings

∆R4 = Last quarter earnings

Good Corporate Governance uses three variables, namely Institutional Ownership (IO), Managerial Ownership (MO), and Independent Board of Commissioners (IBC). The manufacturing corporations record on the Indonesia Stock Exchange for the period of 2016-2018. This technique uses purposive sampling. The sample amounted to 59 companies within a 3 year period. The criteria for taking the sample are as follows: All manufacturing companies registered on the Indonesia Stock Exchange (IDX) for 2016-2018 period, Availability of complete and published annual financial reports during the period 2016-2018, and 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)*.* This study is detailed analysis and confirmation. Eviews9 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 a large number of 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*

α + β.Xi + εi = Yi ; i =1,2,...,N…. (3.1)

N : *total of cross section data*

*Time series data model*

α + β.Xt + εt = Yt ; t =1,2,...,T..... (3.2)

T : *total of time series data*

Considering that panel data can be written as follows:

α + β. Xit+ ε = Yit ; i = 1,2,... N; t = 1,2...,T....... (3.3)

That :

N = observation total

T = total of time

N x T = total of panel data

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

Yit= α + β1.X1.it + β2.X2;it + β3.X3.it + εit

Equation 2 : The Implication of Earnings Management on Manager Bonus

Zit= α + β Yit+ ε

That:

Zit = Manager Bonus Variable

α = Constant

β = Coefficient’s regression

Yit = Earnings Management

ε = 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:

*Yit= α + β Xit+ εit*

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:

*Yit= α + β Xit+ αit+ εit*

where, α 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:

*Yit= α + β Xit+ wit,* that *wit =εit + ui*

Chow test

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

*H0: β1 = 0* {uses random effect model}

*H1: β1 ≠ 0* {uses fixed effect model}

The drawing conclusions from the Chow test are as follows:

1. If probability F value > 0.05 and H0 : accepted; then the common effects model.
2. If probability F value < 0.05 and H0 : 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:

H0: β1 = 0 { used effect of model random }

H1: β1 ≠ 0 { used effect of model fixed }

The Hausman test parameters are as follows:

1. If the Chi-Square probability is > 0.05, and H0 is received, thus the pattern is random effect.
2. If the Chi-Square probability is < 0.05, and H0 is refused, thus the pattern is fixed effect.

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

H0 : β1 = β2 = β3 = 0,

where there is no impact of Institutional Ownership, Self-sustained Board of Commissioners and Managerial Ownership on Earnings Management.

H1 : β1 ≠ β2  ≠ β3 ≠ 0,

where there is an impact of Institutional Ownership, Self-sustained 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.

Stipulation of F-test

The assumption test used is the Fcount test, using the following formula:

*F = R2/ ((n-k-1) k (1− k2))*

Information:

F = Fn test

Total of K sample = Total of Independent Variable

R2 = Determination Coefficient

Decision-making criteria

H0 : received and H1 : refused, when F-count is greater than F-table and Sig value is greater than 0.05.

H0 : refused and H1 : received, if F-count is greater than F -table and Sig value is greater than 0.05.

Conclusion Drawing

If H0 is received an influence is not significant, there is no impact between the self-sustained variables on the dependent variable, which if H0 is refused, a significant affect of the independent variables together dependent variable.

The following steps are required to test the partial hypothesis using the t-test:

The making of the hyphotesis test formula.

1. Institutional Ownership

0 = H0 : β1, where there is no influence of Institutional Ownership on Earnings Management

0 ≠ H1 : β1, where there is no influence of Institutional Ownership on Earnings Management

1. Board of Self-sustained Commisioners

H0 : β2 = 0, where there is no influence of the Self-sustained Board of Commissioners on Earnings Management

H1 : β2 ≠ 0, where there is no influence of the Self-sustained Board of Commissioners on Earnings Management

1. Managerial Ownership

H0 : β2 = 0, where there is no effect of Managerial Ownership on Earnings Management

H1 : β2 ≠ 0, where there is no effect of Managerial Ownership on Earnings Management

1. Earnings Management

H0 : β2 = 0, where there is is no influence of Earnings Management on Manager Bonus

H1 : β2 ≠ 0, where there is is an influence of Earnings Management on Manager Bonus

Determining the Significance Level

Using a significance level of = 0.05, this study determines that the possibility of the conclusions being true has a 95% probability or a 5% error tolerance.

Stipulation of t-test

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

t = r√n – k − 1

√1 − r

Information:

t = t test

r = Defined correlation of partial

n = Total sample

k = Total Variable of Self-sustained

Decision-making criteria

The outcome of the t-count are differentiated by the t-table:

H0 : received and H1 : refused, if t-count is less than t-table and Sig value is greater than 0.05

H0 : refused and H1 : received, if t-count is greater than t-table and Sig value is less than 0.05

Drawing conclusions

If H0 is accepted, the influence is not significant, implying that there is no partial effect of the self-sustained variables on the dependent variable, whereas if H0 is refused, the influence is significant, implying that there is a partial effect of the self-sustained variables on the dependent variable.

In order to avoid this bias, the adjusted R2 grade is used, in which the adjusted R2 value can increase or decrease in response to the addition of a single self-sustaining variable (Ghozali, 2016). The researcher used the Eviews 9 program to calculate the Coefficient of Determination in this study simultaneously.

Table 4.1 Descriptive statistics

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
|  | **IO** | **ICB** | **MO** | **REMUNERATION** | **EM** |
| **Mean** | 0.57 | 0.03 | 0.06 | 0.19 | 0.00 |
| **Median** | 0.58 | 0.00 | 0.00 | 0.00 | -0.004 |
| **Maximum** | 0.99 | 0.49 | 4.86 | 8.52 | 0.78 |
| **Minimum** | 0.00 | 0.00 | 0.00 | 0.00 | -0.19 |
| **Std. Dev.** | 0.24 | 0.08 | 0.48 | 1.06 | 0.09 |
| **Skewness** | -0.34 | 3.79 | 9.76 | 6.61 | 5.16 |
| **Kurtosis** | 2.32 | 17.86 | 97.17 | 47.77 | 43.93 |
|  |  |  |  |  |  |
| **Jarque-Bera** | 3.93 | 1172.37 | 38926.84 | 9173.27 | 7502.03 |
| **Probability** | 0.13 | 0.00 | 0.00 | 0.00 | 0.00 |
|  |  |  |  |  |  |
| **Sum** | 58.38 | 3.10 | 6.25 | 19.45 | 0.22 |
| **Sum Sq. Dev.** | 5.89 | 0.71 | 23.47 | 112.38 | 0.93 |
|  |  |  |  |  |  |
| **Observations** | 101 | 101 | 101 | 101 | 101 |

*Source : Data processing and analysis, 2020*

In table 4.1, 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 4.2**

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

|  |  |  |
| --- | --- | --- |
| **Estimation Result Method Fixed Effect** | | |
| **Dependent Variable:** | | |
| **EARNINGS MANAGEMENT** | | |
| **Self-sustained Variable** | **Coefficient** | **Probability** |
| C | 0.04 | 0.00 |
|  | - |  |
| IO | 0.074 | 0.00 |
| ICB | 0.19 | 0.03 |
| MO | 0.12 | 0.00 |
| Manager Bonus | 0.04 | 0.04 |
|  | - |  |
| IO\_MB | 0.02 | 0.20 |
|  | - |  |
| ICB\_MB | 0.10 | 0.02 |
|  | - |  |
| MO\_MB | 31.10 | 0.00 |
| R2 | 0.63 |  |
| Adjusted  R2 | 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 4.2, the following multiple linear regression equation is obtained:

**ML=α+β1KI+β2KI\*BM+β3DKI+β4DKI\*BM+β5KM+β6KM\*BM+e**

Information:

EM = Earnings Management

IO = Institutional Ownership

ICB = Self-sustained Commisioners Board

MO = Managerial Ownership

MB = Manager Bonus

e = Error

With the fixed effect method, the adjusted R2 is 0.39 or 39.81%, which explains the ability of all self-sustained variables to explain 39.81% of the variation in the dependent variable, while the remaining 60.19% is explained by other self-sustained variables not included in the model.

The F-stat value extracted from Table 4.2 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; self-sustaining 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 4.2. It can be interpreted as follows based on the estimation results obtained using the fixed effect method:

* 1. IO has an influence on Earnings Management

The coefficient values in Table 4.2 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.

* 1. ICB has an influence on earnings management

The coefficient values in Table 4.2 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.

* 1. MO has an influence on earnings management

The coefficient values in Table 4.2 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.

* 1. 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 compensation 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.

* 1. Manager bonus 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 compensation 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.

* 1. Manager bonuses moderate the effect of MCB on earnings management

The coefficient values indicate that the magnitude of the effect of MCB on earnings management when moderated by the bonus manager is -31.10. That is, assuming ceteris paribus, if MCB moderated by the bonus manager increases by 1%, earnings management decreases by 31.10 percent. Because the sig value of MCB 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 MCB on earnings management.

**Discussion**

The t-test of Institutional Ownership has an effect on Earnings Management, and the effect is (0.00). The institutional ownership variable's sig. value is less than the set significance level of < 5% (α = 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 manager bonuses on earnings management achieved a significance value of (0.20). The institutional ownership variable has a significance value greater than 5% (α = 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 bonus compensation 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 compensation 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 bonus compensation has a negative but not statistically significant effect on earnings management. This is likely to occur because a company's bonus compensation is dominated by fixed salaries and allowances, with very little variable compensation.

The Self-Sustained Board of Commissioners' t-test has an effect on Earnings Management, and that effect is (0.03). The institutional ownership variable has a significance value less than the set threshold of 5% (α = 0.05), indicating that this self-sustaining board of commissioners has a negative effect on earnings management, implying that the presence of a self-sustaining commissioner can reduce the occurrence of profit-generating management actions. The more self-sustaining commissioners a company has the fewer earnings management actions. This demonstrates that self-supporting 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's (1996) assertion that self-sustaining commissioners have a detrimental effect on companies' earnings management practices. This finding contradicts Klein (2000) and Gideon (2005), who concluded that the proportion of self-sustained commissioners did not affect earnings management actions carried out in Indonesian companies.

According to the interaction test, the effect of the self-sustaining board of commissioners on earnings management has a sig. value of (0.2). The institutional ownership variable's sig. value is greater than 5% (α = 0.05), indicating that remuneration (bonus manager) cannot mitigate the influence of self-sustaining commissioners on earnings management. This means that the self-sustaining 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 compensation is dominated by fixed salaries and allowances, with very little variable compensation.

According to the results of the tests conducted, the t-test of managerial ownership affects earnings management, and the effect is (0.00). The institutional ownership variable's sig. value is less than the set sig. level of< 5% (α = 0.05), indicating that managerial ownership has a significant effect on earnings management in part. This article corroborates the research of Ujiyantho (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% (α = 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 compensation paid to management, the greater the incentive for management to take earnings management actions.

**Conclusion**

According to the output of the data testing, the study's findings are as follows: The influence of institutional ownership on earnings management in Indonesia can be interpreted as follows: institutional owners are long-term investors who prioritize long-term profits, while concentrated ownership typically has a low share reflecting power and therefore cannot intervene. This manager bonus does not affect the earnings management effect of institutional ownership. Its high level is thought to increase control within the company, allowing for the reduction of manipulative actions by company managers, such as earnings management. Thus, it can be concluded that providing bonus compensation does not always increase management's motivation to take earnings management actions.

The rationale behind the explanation is that management is more concerned with attracting investors' attention in order 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 compensation package in the long run, as opposed to earnings management, which is only profitable in the short term. This self-supporting board of commissioners wields considerable influence over revenue management. The more of it a company has, the fewer earnings management actions will occur. This demonstrates that self-supporting commissioners have been effective in carrying out their responsibilities to monitor the quality of financial reporting in order to rein in earnings management within a company. The bonus manager has no control over the self-sustaining board of commissioners' influence on earnings management.

This means that it can be used to 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 compensation is dominated by fixed salaries and allowances, with very little variable compensation. 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, but if managers' and shareholders' interests can be aligned, managers will be disincentivised to manipulate. The bonus manager has no control over the self-sustaining board of commissioners' influence on earnings management. This means that it 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 compensation is dominated by fixed salaries and allowances, with very little variable compensation.

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's (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.

**REFERENCES**

A. Basuki ; N. Prawoto. (2017). *Analisis Regresi Dalam Penelitian Ekonomi & Bisnis: Dilengkapi Aplikasi SPSS & Eviews*. PT. Raja Grafindo Persada.

Abdulah, F. (2004). *Manajemen Perbankan (Teknik Analisis Kinerja Keuangan Bank)* (Edisi Pert). Universitas Muhammadiyah Malang.

Agustina, D. (2013). Pengaruh Faktor Good Corporate Governance, Free Cash Flow, dan Leverage Terhadap Manajemen Laba. *Jurnal Akuntansi Dan Keuangan*, *15*(1), 27–42. https://doi.org/https://doi.org/10.9744/jak.15.1.27-42

Ahman, Eeng; Rohmana, Y. (2010). *Teori Ekonomi Mikro*. Universitas Pendidikan Indonesia.

Anis Chariri, I. G. (2003). *Teori Akuntansi*. Badan Penerbit Universitas Diponegoro.

Boediono Gideon S.B. (2005). Kualitas Laba: Studi Pengaruh Mekanisme Corporate Governance dan Dampak Manajemen Laba Dengan Menggunakan Analisis Jalur. *Proceeding Simposium Nasional Akuntansi VIII*.

Cohen, D.A. dan Zarowin, P. (2008). Accrual-based and Real Earnings Management Activities Around Seasoned Equity Offerings. *Journal of Accounting and Economics*, *50*, 2–19.

Dustriyani, D. R. ; N. M. R. (2015). Pengaruh Mekanisme Good Corporate Governance Dan Kompensasi Bonus Terhadap Manajemen Laba. *E-Proceeding of Management*.

Emma García‐Meca ; Juan P. Sánchez-Ballesta. (2009). Corporate Governance and Earnings Management: A Meta-Analysis. *Corporate Governance: An International Review*, *17*(5), 594–610.

Enomoto, M., Kimura, F., & Yamaguchi, T. (2015). Accrual-based and real earnings management: An international comparison for investor protection. *Journal of Contemporary Accounting & Economics*, *11*(3), 183–198. https://doi.org/https://doi.org/10.1016/j.jcae.2015.07.001

Fauziyah, N. (2017). Pengaruh Good Corporate Governance dan Leverage terhadap Manajemen Laba Riil pada Perusahaan Manufaktur yang Terdaftar di Bursa Efek Indonesia Periode 2010-2012. *Journal Profita*, *2*, 1–14.

Ghozali, H. I. (2016). *Aplikasi Analisis Multivariate dengan Program IBM SPSS 21*. Badan Penerbit Universitas Diponegoro.

Gunny, A. . (2005). *What The Consequences of Real Earnings Management?*

Halima Shatila Palestin. (2003). *Analisis pengaruh struktur kepemilikan, praktik Corporate governance dan kompensasi bonus Terhadap Manajemen laba (studi empiris pada di P.T. Bursa efek indonesia)*.

Hamid Mehran. (1995). Executive compensation structure, ownership, and firm performance. *Journal of Financial Economics*, *38*(2), 163–184. https://doi.org/https://doi.org/10.1016/0304-405X(94)00809-F

I Gede Siswantaya. (2007). *Mekanisme Corporate Governance dan Manajemen Laba. Studi Pada Perusahaan-Perusahaan Yang Terdaftar di Bursa Efek Jakarta*.

Jensen, M., C., dan W. M. (1976). Theory of the firm: Managerial behavior, agency cost and ownership structure. *Journal of Finance Economic*, *3*, 305–360.

Jones, J. J. (1991). Earnings Management during Import Relief Investigations. *Journal of Accounting Research*, 193–228.

Klein, A. (2000). *Audit Committee, Board of Director Characteristics, and Earnings Management*.

Linda DeAngelo. (1988). Discussion of Evidence of Earnings Management from the Provision for Bad Debts. *Journal of Accounting Research*, *26*, 32–40. https://doi.org/https://doi.org/10.2307/2491177

Manmohan D. Chaubey, M. S. K. (1988). EXECUTIVE COMPENSATION AND PERFORMANCE OF FIRMS. *Managerial Finance*, *14*(4), 14–18. https://doi.org/https://doi.org/10.1108/eb013603

Marcia Millon Cornett, Alan Marcus, A. S., & Tehranian, H. (2007). The impact of institutional ownership on corporate operating performance. *Journal of Banking and Finance*, *31*(6), 1771–1794.

Mark S. Beasley. (1996). An Empirical Analysis of the Relation between the Board of Director Composition and Financial Statement Fraud. *The Accounting Review*, *71*(4), 443–465.

Moradi, M., Salehi, M. B. S. . (2012). A Study of Relationship between Board Characteristics and Earnings Management: Iranian Scenario. *Niversal Journal of Management And Social Sciences*, *2*(3), 12–29.

Patricia M. Dechow, R. G. S. and A. P. S. (1995). Detecting earnings management. *The Accounting Review*, *70*(2), 193–225.

Roychowdhury, S. (2006). Earnings management through real activities manipulation. *Journal of Accounting and Economics*, *42*(3), 335–370. https://doi.org/10.1016/j.jacceco.2006.01.002

SISCA CHRISTIANTY DEWI. (2008). PENGARUH KEPEMILIKAN MANAGERIAL, KEPEMILIKAN INSTITUSIONAL, KEBIJAKAN HUTANG, PROFITABILITAS DAN UKURAN PERUSAHAAN TERHADAP KEBIJAKAN DIVIDEN. *Jurnal Bisnis Dan Akuntansi*, *10*(1). https://doi.org/https://doi.org/10.34208/jba.v10i1.252

Stephen R. Stubben. (2010). Discretionary Revenues as a Measure of Earnings Management. *The Accounting Review*, *85*(2), 695–717.

Suryani, D. I. (2010). *Pengaruh Mekanisme Corporate Governance dan Ukuran Perusahaan Terhadap Manajemen Laba Pada Perusahaan manufaktur yang Terdaftar di BEI*. Universitas Diponegoro Semarang.

Ujiyantho, M. A. ; B. A. P. (2007). Mekanisme Corporate Governance, Manajemen Laba, dan Kinerja Keuangan. *Simposium Nasional Akuntansi X*.

Utrero-González, N., & J. Callado-Muñoz, F. (2016). Do investors react to corporate governance news? An empirical analysis for the Spanish market. *BRQ Business Research Quarterly*, *19*(1), 13–25. https://doi.org/10.1016/j.brq.2015.04.002

Uwuigbe, Uwalomwa, Olubukunola Ranti Uwuigbe, O. B. (2015). Assessment of The Effect of Firms’ Characteristic on Earnings Management of Listed Firms in Nigeria. *Asian Economic and Financial Review*, *5*(2), 218–228.

Widyastuti, T. (2009). Pengaruh Struktur Kepemilikan dan Kinerja Keuangan Terhadap Manajemen Laba. *Jurnal Maksi*, *9*(1), 30–41.

Wien Ika Permanasari. (2010). *Pengaruh Kepemilikan Manajemen, Kepemilikan Institusional, Dan Corporate Social Responsibility Terhadap Nilai Perusahaan*. Universitas Diponegoro. Semarang.

William R. Scott. (1997). *Financial Accounting Theory*. Prentice Hall.

Zang, A. Y. (2012). Evidence on the trade-off between real activities manipulation and accrual-based earnings management. *Accounting Review*, *87*(2), 675–703. https://doi.org/10.2308/accr-10196