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Analysis of the Effect of Ownership Structure and Debt Structure on Earnings Management with Financial Distress as a Mediating Variable on the Indonesian Stock Exchange

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Abstract

This research aims to analyze and determine the relationship between ownership structure (ownership concentration, managerial ownership, financial institution ownership, family ownership) and debt structure (long-term debt and short-term debt) on earnings management which is mediated by financial difficulties.

This research uses a quantitative method where data is tabulated from the annual financial reports of non-financial companies listed on the Indonesia Stock Exchange (BEI), obtained from 392 non-financial companies according to sample criteria from 2016-2020. The sample data that is the object of research is 1823 data. This research processes data using SmartPLS software to analyze panel regression so that conclusions can be drawn.

The results of this study show that the variables ownership concentration, managerial ownership, non-financial institution ownership, family ownership, short-term debt and financial difficulties are not significant in influencing earnings management, but the variables financial institution ownership and long-term debt significantly influence earnings management. And managerial ownership is not significant in influencing financial difficulties. The financial difficulty variable as a mediating variable between shares owned by managers and earnings management does not have a significant mediating impact.

Keywords:

Earnings Management, Ownership Structure, Debt Structure, Financial Difficulties

Introduction

The increasingly widespread world of investment among the public has increased the importance of financial reports published by companies (Tang & Fiorentina, 2021). Financial reports are the responsibility of internal parties, namely management to internal and external parties for financial reporting. In financial reports, information about company profits can be seen (Yopie & Erika, 2018). The role of financial reports is a source of communication regarding finances directly to internal and external parties in a timely and credible manner(Ilmas, Tahir, and Asrar-ul-Haq, 2018). Profit is a fundamental part of financial reports used by internal parties to report the company's economic conditions to external parties. Profit information can be used as a guide in making investments by external parties such as investors or other parties to assess the company's ability to generate profits in the future(Mudjiyanti, Agustin, Rachamwati, and Wibowo, 2021).

Earnings management is planned involvement in financial reporting with the aim of achieving profit targets by varying accounting practices (Chandra & Junita, 2021). Earnings management is the practice of changing earnings figures before reporting to external parties based on considerations that are permitted by Generally Accepted Accounting Principles (GAAP).(Ilmas et al., 2018).Shareholders generally only concentrate on income information without paying attention to the procedures, methods and judgments applied by company managers in seeking these profits. To minimize earnings management, there are several factors that can influence it, including: ownership concentration, managerial ownership, financial institution ownership, non-financial institution ownership, family ownership, long-term debt and short-term debt. Apart from that, a factor in the emergence of earnings management practices is conditions where companies experience financial difficulties. Financial distress is an economic crisis situation in companies that are experiencing profit losses in recent years and are deemed unable to pay off obligations when they fall due (Edi & Tania, 2021).

Based on the description above, ownership structure and debt structure influence earnings management. This research was conducted with the aim of analyzing the influence of ownership structure and debt structure on earnings management with financial distress as a mediating variable. Therefore, the author wants to take the title "Analysis of the Influence of Ownership Structure and Debt Structure on Earnings Management with Financial Distress as a mediating variable on the Indonesian Stock Exchange".

Literature review

Profit management

Earnings Management is the action of a manager to establish accounting policies to achieve certain goals and the accounting policies in question are accrual-based accounting policies in preparing financial reports. Earnings management is an attempt to manipulate the information in financial reports by changing the accounting methods and procedures used by the company(Mudjiyanti et al., 2021). It can be said that earnings management is an action carried out by internal parties, namely managers to replace profits obtained during a specified time using accounting methods. Earnings management is a good choice for managers in managing profits according to accounting policies. Earnings management occurs more often in countries where investor protection is weak (Ilmas et al., 2018).

Earnings management arises when managers utilize evaluations in financial reports and preparation of transactions with the aim of changing the annual report with the intention of diverting several stakeholders regarding the economic performance which is the company's fundamental or is used to modify the results of contracts that depend on the accounting numbers reported.(Swai & Mbogela, 2016).

The Effect of Ownership Concentration on Earnings Management

Research argues that there are government weaknesses in countries that can strengthen the level of concentrated ownership, such as the scenario in Asian countries. Several studies have this view and found an indirect relationship between concentrated ownership and earnings management(Ilmas et al., 2018). Concentrated ownership can reduce earnings management(Amarsanaa & Tserenchimed, 2020).

Ilmas et al., (2018)describes the impact of concentrated ownership on earnings management as a linear curve relationship. Shareholders who own the largest shares can reduce managerial takeover or agency problems in companies with concentrated ownership and control. Blockholders encourage managers to fully report information and have a greater threat of intervention than minority holders, thereby creating incentives for managers to reduce earnings management, especially in companies whose performance is declining or poor.(Reyna, 2018). StudyAondoakaa & Joseph, (2020)found that significantly and negatively, concentrated ownership affects earnings management. Companies must be encouraged to maintain a high amount of blockholder ownership because concentrated ownership is the strongest and most reliable ownership structure in preventing management's tendency to behave opportunistically (profit management). StudySwai & Mbogela, (2016)found that ownership concentration has a significant and negative effect on earnings management. This research results in significantly lower real earnings management for companies with relatively high blockholders and institutional investors. These results corroborate the efficient monitoring hypothesis which states that large shareholders reduce the scope for managerial opportunism.

H1 Ownership concentration has a negative and significant effect on earnings management.

The Influence of Managerial Ownership on Earnings Management

Basically managers have personal goals, namely the return obtained from share ownership in the company. The greater the proportion of shares held by internal parties, namely management, the greater the possibility of the company committing profit fraud practices. Several studies argue that managerial ownership can be used to minimize agency problems(Moslemany & Nathan, 2019).

Managerial ownership is the proportion of company ownership given to managers to attract them to align their goals with shareholders(Saline, 2020). Managerial shares are one of the things involved in influencing earnings fraud. The practice of profit fraud can be minimized by adjusting conflict of interests between owners and management by increasing managerial ownership(Mudjiyanti et al., 2021).

Increasing managerial shares can minimize managers' agency conflicts and*stakeholders*hereby reducing opportunistic behavior of managers(Amarsanaa & Tserenchimed, 2020). Increasing manager ownership and including foreign ownership in the ownership structure, as in minimizing opportunities for earnings management manipulation(Saline, 2020).

H2 Managerial ownership has a negative and insignificant effect on earnings management.

The Influence of Managerial Ownership on Financial Distress

Agency theory proposes an incentive system to motivate management to act in the interests of share owners. If management owns a proportion of shares in the company, then management will also experience the same risks as other share owners, especially risks when experiencing financial difficulties(Etna & Yuyetta, 2019). Managerial ownership can be a way to overcome agency problems with managers and adjust the interests of managers and shareholders (Anita & Amalia, 2021). Managerial ownership can control the company's profit management practices to decrease because there is a company owner, so it can be controlled directly by the owner. Company management will reduce the occurrence of financial difficulties. However, there is no influence between financial difficulties and managerial ownership(Dirman, 2020;Khafid et al., 2019). Managerial ownership significantly negatively affects financial distress (Etna & Yuyetta, 2019;Widhiadnyana & Ratnadi, 2019). In this research, it was stated that a high proportion of managerial ownership can minimize the possibility of financial difficulties. The higher managerial ownership can motivate management to consistently take responsibility for controlling the company. Because managers are also owners who face the same risk of failure.

H3 Managerial ownership has a negative and significant effect on financial distress.

The Influence of Institutional Ownership on Earnings Management

According to researchIlmas et al., (2018)Institutional ownership is shares owned by financial institutions (including banks and non-bank financial institutions) and non-financial institutions (including public institutions and private institutions). Institutional ownership will receive high incentives if they are active in monitoring and engaging in earnings management actions such as reducing profit fraud. The higher the institutional ownership, the fewer earnings management practices.

Because institutional investors can be trusted to monitor the actions of managers rather than individuals(Rahmawati & Fajri, 2021). Institutional ownership is a professional investor who has a long-term focus(Aondoakaa & Joseph, 2020). StudyIlmas et al., (2018)found evidence to support the notion that institutional ownership improves earnings management.

According to researchAondoakaa & Joseph, (2020)Institutional investors are large investors other than individual investors, who exercise discretion over the investments of others. This research finds that the proportion of institutional investor ownership negatively influences the amount of earnings management. The results of this research show that, if institutional shares increase, management's fraudulent practices will decrease.

H4 Financial institution ownership does not significantly influence earnings management.

H5 Ownership of non-financial institutions does not significantly influence earnings management.

The Influence of Family Ownership on Profit Management

Across countries, family members have significant representation on the boards of family-controlled companies and account for most CEOs and chairs. Therefore, a company can have inefficient monitoring through the board that weakens its corporate governance. Because of this dominance of family ownership, family-controlled firms are noted to have the second type of agency problem involving minority shareholders against controlling shareholders(Athanasios, 2016). Family firms are expected to have lower agency costs because family shareholders and management are more congruent in pursuing common corporate goals and seeking lower levels of earnings management.(Hassan, Ahmed, Naveed, & Khalil, 2021). StudyLassoued, Attia, and Sassi, (2017)states that family ownership can reduce earnings management.

H6 Family ownership is positively and significantly related to earnings management.

The Effect of Debt on Earnings Management

Short-term debt is an emergency loan but can still be repaid in less than 1 year. Debt is a funding obligation that requires payment in the form of money, services or other things in the future. Long-term debt is an emergency loan where this loan can be repaid over a long period of time and usually more than one year. Companies that have high leverage will be more likely to implement earnings management with the aim of avoiding debt violations(Edison & Nugroho, 2020).

In his researchIlmas et al., (2018)states a positive influence on the low level of debt ratio with earnings management. This research also states a positive influence on increasing income, earnings management and debt because it increases the bargaining power of negotiations with external and internal creditors. This research studies the impact of debt on earnings management and documents the results of companies with high leverage ratios pressuring companies to manipulate earnings to win the trust of creditors. The driving factor for managers in carrying out earnings management is the leverage ratio, which is a ratio to determine the extent to which company assets are financed with debt(Edison & Nugroho, 2020).

H7 Short-term debt does not significantly affect earnings management.
H8 Long-term debt does not significantly affect earnings management.

The Effect of Financial Difficulties on Earnings Management

*financial distress*is a situation when a company is unable to earn sufficient income to meet its financial obligations. Financial distress can be said to be the company's inability to pay debts due to insufficient profits and cash flow(Humeedat, 2018). However, when conditions are lacking in funding, managers take the initiative to manage profits in order to obtain the necessary financing, reduce the incidence of bankruptcy in the company, avoid violations of debt agreements, and provide very optimistic estimates.(Humeedat, 2018).

H9 Financial difficulties are positively and significantly related to earnings management.

The Influence of Managerial Ownership on Earnings Management with Financial Difficulties as a Mediating Variable

According toJensen & Meckling, (1976)Managerial shareholders are a way of managing the main company that can prevent agent problems and influence company expenditure in order to increase company value. An increasing proportion of manager shares can reduce potential funding and earnings management difficulties. It was found that financial distress intervenes in managerial share ownership in earnings management significantly and negatively(Riandiani & Wahyudin, 2015). Increased managerial ownership can reduce financial difficulties. After financial difficulties, managers practice earnings manipulation to give investors a favorable outlook. A manager who also owns shares has an individual interest in making a profit from his share ownership in the company. Thus, managers have the opportunity to manipulate profits by increasing or minimizing profits for their own interests. This is due to information asymmetry, namely a condition where one party has more information than the other party(Gumanti, 2000). So the higher the share ownership by managers, the greater the opportunity to manipulate profits. Financial distress was found to have a positive and significant mediating variable related to managerial ownership in earnings management(Ewanto, Haryeti, & Fathoni, 2014). Financial difficulties were found not to play a mediating role in influencing managerial ownership on earnings management(Yolanda, Hapsari, Akbar, & Herawaty, 2019). Financial difficulties were found to have a negative effect after mediating managerial ownership with earnings management(Riandiani & Wahyudin, 2015).

H10 Financial difficulties mediate the effect of managerial ownership on earnings management

Research methodology

This research tests variables using data in the form of numbers on a ratio scale and nominal data which is quantitative data. This research is research with the basic aim of showing the development of theory regarding the variables of this research. This research is categorized as comparative causal research because this research uses tests of causal influences

Variable Definition

Dependent Variable

The dependent variable is a variable that is dependent and is able to influence the independent variable. The dependent variable in this research is earnings management. Earnings management is measured by discretionary accruals using the developed modelHumeedat, (2018). This model is a development of the Modified Jones model. Discretionary accruals are components of accruals made by managers using freedom, freedom in estimating using accounting standards (Edison & Nugroho, 2020). The following are earnings management measurements:

Total Accruals = Net Profit – Operating Activities cash flow

$$\left(\frac{TAC_t}{A_{t-1}}\right) = \alpha_1\left(\frac{1}{A_{t-1}}\right) + a_2\left(\frac{\Delta REV_t - \Delta REC_t}{A_{t-1}}\right) + a_3\left(\frac{PPE_t}{A_{t-1}}\right) + a_4\left(\frac{ROA_{t-1}}{A_{t-1}}\right) + e$$

$$NDA_t = \alpha_1\left(\frac{1}{A_{t-1}}\right) + a_2\left(\frac{\Delta REV_t - \Delta REC_t}{A_{t-1}}\right) + a_3\left(\frac{PPE_t}{A_{t-1}}\right) + a_4\left(\frac{ROA_{t-1}}{A_{t-1}}\right) + e$$

$$DA_t = \left(\frac{TAC_t}{A_{t-1}}\right) - NDA_t$$

Information :

TAC_t = Total accruals

A_{t-1} = Total company assets in year t-1

REV_t = Change in company income from year t-1 to year t.

REC_t = Change in company income from year t-1 to year t.

$PPE_{i,t}$ = Change in company income from year t-1 to year t.

ROA_{t-1}= Return on assets of the company at the end of year t-1.

Independent Variable

Concentration of Ownership

Concentrationownershipis ownership whose shares are at least 5% of the equity ownership in the company. Block holdings or blockholders also known as ownership concentration is an internal governance device that gives the largest shareholder control over management behavior and decisions. (Aondoakaa & Joseph, 2020).The indicators that researchers use to measure the ownership concentration variable are:

$$\text{Konsentrasi Kepemilikan} = \frac{\text{Jumlah saham yang ditahan lebih dari 5\% diperusahaan}}{\text{saham yang beredar}}$$

Managerial ownership

Managerial ownership is the proportion of corporate ownership given to managers to attract them to align their goals with those of the holders(Saline, 2020). According to researchMoslemany & Nathan, (2019)if managerial ownership increases, earnings management also increases. The ownership measurement scale is measured on a nominal scale, the percentage of shares held by management (Ilmas et al., 2018). The indicators that researchers use to measure managerial ownership variables are:

$$\text{Kepemilikan M}anajerial = \frac{\text{Jumlah kepemilikan manajerial}}{\text{Saham yang beredar}}$$

Financial Institution Ownership

Financial institution ownership is share ownership owned by financial institutions, both banks and non-banks. In researchIlmas et al., (2018)says that institutional investors reflect finances owned by investors who are not individuals, for example, banks, insurance companies, private investment organizations and other parties who save and invest their funds for the benefit of their customers. Institutional holdings include banks, insurance companies and pension schemes. The indicators that researchers use to measure financial institution ownership variables are:

$$Kepemilikan\ Institusi\ Keuangan = \frac{\text{Jumlah kepemilikan institusi keuangan}}{\text{Saham yang beredar}}$$

Ownership of Non-Financial Institutions

Institutional ownership is the proportion of interests controlled by financial institutions and non-financial institutions in a company (Saline, 2020). Non-financial institutional ownership is share ownership owned by non-financial institutions, whether public or private institutions (Ilmas et al., 2018). The indicators that researchers use to measure non-financial institutional ownership variables are:

$$Kepemilikan\ Institusi\ Non\ Keuangan = \frac{\text{Jumlah kepemilikan institusi Non keuangan}}{\text{Saham yang beredar}}$$

Family Ownership

Family ownership is shares owned by the family. Family ownership is considered as the percentage of shares owned by husband, wife, sons, daughters, and other family members, whose surname is with family members where the founder or family members are either by blood or by marriage and found a negative relationship with earnings management (Ilmas et al., 2018).

$$Kepemilikan\ Keluarga = \frac{\text{Jumlah kepemilikan keluarga}}{\text{Saham yang beredar}}$$

Short Term Debt

Short-term debt is a loan of funds which is referred to as an obligation that must be paid with a maturity period of less than a year. StudyIlmas et al., (2018)argue that managers in highly leveraged firms aim to increase earnings to increase their bargaining power to obtain debt for their operations. The existence of debt provides information that can be used by investors to evaluate major operating decisions including liquidation. Debt as a disciplinary tool that controls the management of opportunistic behavior(Al-Rahma & Juhmani, 2020). The short-term debt measurement scale is measured on a percentage scale(Ilmas et al., 2018).

$$Hutang\ Jangka\ Pendek = \frac{\text{Hutang Jangka Pendek}}{\text{Total Aset}}$$

Long-term debt

Long-term debt is an obligation whose payment is usually paid in installments over more than a year. Debt allows companies to gain risks and opportunities. Allows companies to take advantage of opportunities that have never been taken given their capital levels and also the risks inherent in the business since debt holders can shut down the company if there is default (Saline, 2020). Theoretically, the inclusion of debt holders in the ownership composition is expected to reduce earnings management. The long-term debt measurement scale is measured on a percentage scale(Ilmas et al., 2018).

$$Hutang\ Jangka\ Pendek = \frac{\text{Hutang Jangka Pendek}}{\text{Total Aset}}$$

Financial distress

Financial difficulties or financial distress is a condition where a company's financial performance continuously declines over a certain period of time. Financial difficulties are a stage of conditions where financial decline occurs before being declared bankrupt. Measurement of financial difficulties is measured using the z-score proposed by Altman in 1968. In researchHumeedat, (2018)shows that Altman's Z-Score measurement is the best known model for measuring financial distress which uses several ratios to produce predictions of distress. By using the z-score method.Damayanti & Kawedar, (2019)classify the company's financial condition into 3 categories. Companies that use the z-score method have a score of less than 1.81 are classified as distressed companies; healthy companies, namely companies whose z-score has a score of more than 2.67; and those between 1.81 and 2.67 are companies that are in a healthy or damaged condition. The formula for measuring financial distress is as follows:

$$Z = 0.012X1 + 0.014X2 + 0.033X3 + 0.006X4 + 0.999X$$

Information:
X1 = working capital / total assets
X2 = retained earnings / total assets
X3 = EBIT / total assets
X4 = market value of equity / total liabilities
X5 = sales / total assets

Results and Discussion

Descriptive Statistics Results

Information	N	*Mean*	*Min*	*Median*	*Max*	elementaryschool
E.M	1823	-0.4110	-2,1910	-0.4080	1,013	0.359
O.C	1823	0.7100	0,0000	0.7470	1,5355	0.1870
M.O	1823	0.060	0,000	0,000	5,599	0.259

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FIO	1823	0.089	0,000	0,000	1,721	0.206
NFIO	1823	0.564	0,000	0.625	1,131	0.297
F.O	1823	0.027	0,000	0,000	0.925	0.117
STDs	1823	0.331	0,000	0.245	4,833	0.375
LTD	1823	0.208	0,000	0.158	2,900	0.203
FD	1823	0.208	-3750.010	0.158	3046.986	121,672

Source: Secondary data processed (2022)

The table above shows the test on the dependent variable, namely, earnings management which shows the minimum result is -2.191 which is represented by PT Duta Intidaya Tbk with a maximum value of 1.013 which is represented by PT Merck Tbk and the average result is -0.411 with a standard deviation 0.359. In the earnings management test, it can be seen that the average earnings management is -0.411 which shows a negative result. It can be concluded that the percentage of non-financial companies on the IDX that practices earnings management tends to be lower.

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TestingThe independent variable shows that ownership concentration has a minimum value of 0.000 represented by PT Bakrie Sumatera Plantations Tbk and a maximum value of 1.535 represented by PT Lippo Karawaci Tbk and the average value is 0.711 with a standard deviation of 0.187. The managerial ownership variable states that the minimum value is 0.000 with the maximum value being 5,599, represented by PT Ristia Bintang Mahkotasejati Tbk with an average value of 0.060 and a standard deviation of 0.206. The variable financial institution ownership and non-financial institution ownership shows a minimum value of 0.000 with a maximum value of 1.721 and 1.131, represented by PT Bhuwanatala Indah Permai Tbk and PT Garuda Indonesia (Persero) Tbk. The average value of the financial institution ownership and non-financial institution ownership variables is 0.089 and 0.564 with standard deviations of 0.206 and 0.297. The family ownership variable shows a minimum value of 0.000 and a maximum value of 0.925 which is represented by PT HM Sampoerna Tbk and an average value of 0.027 with a standard deviation of 0.375. The short-term debt and long-term debt variables show a minimum value of 0,000 which is represented by PT Duta Pertiwi Nusantara Tbk and PT Sumber Energi Andalan Tbk and also PT Mitra Investindo Tbk and a maximum value of 4,833 and 2,900 which is represented by PT Asia Pacific Fibers Tbk and PT FKS Food Sejahtera Tbk. The average values of short-term debt and long-term debt are 0.332 and 0.208 with standard deviations of 0.375 and 0.203. Next, testing the mediating variable, namely, financial difficulties. In the table above it can be seen that the minimum value for financial difficulties is -3750,010 which is represented by PT SMR Utama Tbk and the maximum value is 3046,986 which is represented by PT Sumber Energi Andalan Tbk. The average value of financial difficulties is 3.967 with a standard deviation of 121.672.

Outer Model Test Results

Convergent Validity Test Results

Outer Loadings Test Results

Variable	Factor Loadings	Information
Earnings Management	1,000	Valid
Ownership Concentration	1,000	Valid
Managerial Ownership	1,000	Valid
Financial Institution Ownership	1,000	Valid
Non Financial Institution Ownership	1,000	Valid

Family Ownership	1,000	Valid
Short Term Debt	1,000	Valid
Long Term Debt	1,000	Valid
Financial Distress	1,000	Valid

Source: Secondary data processed (2022)

Based on table *outer loadings test*. It can be seen that all variables show an outer loading value > 0.7 which can be concluded as meeting the outer loading criteria to be declared valid.

Average Variance Extracted （AVE） Test Results

Variable	**Factor Loadings**	**Information**
Earnings Management	1,000	Valid
Ownership Concentration	1,000	Valid
Managerial Ownership	1,000	Valid
Financial Institution Ownership	1,000	Valid
Non Financial Institution Ownership	1,000	Valid
Family Ownership	1,000	Valid
Short Term Debt	1,000	Valid
Long Term Debt	1,000	Valid
Financial Distress	1,000	Valid

Source: Secondary data processed. (2022)

Based on the AVE test table, it can be seen that all variables show a value > 0.5, where an Average Variance Extracted (AVE) value greater than 0.5 is declared to meet the convergent validity criteria.

Discriminant Validity Test Results

Fornell-Larcker Criterion Test Results

Discriminant Validity

Fornell-Larcker Criterion | Cross Loadings | Heterotrait-Monotrait Ratio (HTMT) | Copy to Clipboard:

	EM	FD	FIO	FO	FS	L	LTD	MO	NFIO	OC	ROA	ROE	SG	STD
EM	1.000													
FD	0.029	1.000												
FIO	0.072	-0.000	1.000											
FO	0.009	0.006	-0.048	1.000										
FS	-0.004	-0.009	0.065	0.006	1.000									
L	-0.056	-0.056	0.010	-0.027	-0.054	1.000								
LTD	-0.115	-0.066	0.044	-0.033	0.147	0.548	1.000							
MO	0.013	0.004	-0.045	0.265	-0.090	-0.031	0.007	1.000						
NFIO	-0.080	0.017	-0.509	-0.202	-0.112	-0.044	-0.083	-0.228	1.000					
OC	-0.051	0.031	0.033	0.057	-0.152	-0.063	-0.101	-0.033	0.434	1.000				
ROA	0.104	0.057	-0.008	0.042	0.168	-0.236	-0.146	-0.031	0.066	0.064	1.000			
ROE	-0.001	0.002	-0.005	0.005	0.035	-0.023	0.010	0.001	-0.006	-0.005	0.133	1.000		
SG	-0.118	-0.000	0.045	-0.007	-0.034	0.003	-0.008	-0.006	-0.011	0.021	-0.004	-0.000	1.000	
STD	-0.006	-0.028	-0.014	-0.014	-0.144	0.891	0.108	-0.041	-0.006	-0.020	-0.202	-0.033	0.008	1.000

Source: Secondary data processed. (2022)

Picture*Fornell-Larcker Criterion Test,*It can be seen from the results above that the correlation value between indicators on the variable itself is 1,000, which means that the existing indicators have met the testing requirements or are said to be valid.

Reliability Test Results

Cronbach's Alpha Test Results

Variable	***Cronbach's Alpha***	**Information**
Earnings Management	1,000	Reliable
Ownership Concentration	1,000	Reliable
Managerial Ownership	1,000	Reliable
Financial Institution Ownership	1,000	Reliable
Non Financial Institution Ownership	1,000	Reliable
Family Ownership	1,000	Reliable
Short Term Debt	1,000	Reliable
Long Term Debt	1,000	Reliable
Financial Distress	1,000	Reliable

Source: Secondary data processed. (2022)

The Cronbach's alpha test table shows the test value has a value of 1,000. The Cronbach's alpha value shows above 0.70, so all variables are declared reliable.

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Composite Reliability Test Results

Variable	***Composite Reliability***	Information
Earnings Management	1,000	Reliable
Ownership Concentration	1,000	Reliable
Managerial Ownership	1,000	Reliable
Financial Institution Ownership	1,000	Reliable
Non Financial Institution Ownership	1,000	Reliable
Family Ownership	1,000	Reliable
Short Term Debt	1,000	Reliable
Long Term Debt	1,000	Reliable
Financial Distress	1,000	Reliable

Source: Secondary data processed. (2022)

TableThe composite reliability test results show that the test value for each variable has a value of 1,000. The composite reliability value shows above 0.70, so that all variables can be declared reliable.

Inner Model Test Results

Hypothesis Test Results

Direct Effect Hypothesis Test Results

Variable	B	*t-statistic*	*P-Value*	Results	Information
OC -> ML	-0.051	1,878	0.061	Not significant	H1 is rejected
MO -> ML	0.007	0.337	0.737	Not significant	H2 is rejected
MO -> FD	0.004	0.602	0.547	Not significant	H3 is rejected
FIO -> ML	0.062	2,242	0.025	Significant	H4 is accepted
NFIO -> ML	-0.036	1,058	0.290	Not significant	H5 is rejected
FO -> ML	0.001	0.051	0.959	Not significant	H6 accepted
STD -> ML	0.008	0.311	0.756	Not significant	H7 is rejected
LTD -> ML	-0.125	5,369	0,000	Significant	H8 is rejected
FD -> ML	0.023	1,465	0.143	Not significant	H9 is rejected

Source: Secondary data processed. (2022)

Test results of control variables on earnings management through adversity.

In the direct influence test table above, it is clear that most of the direct influence of ownership structure on earnings management is not significant, except that ownership of financial institutions has a significant positive influence on earnings management. Hypothesis H1 is not accepted. Because generally earnings management is carried out to attract the attention of investors, and most of the concentration of ownership in Indonesia is controlled by institutional companies which have their own goals. Hypothesis H2 is not accepted. The research was

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conducted based on research resultsAgustin & Widiatmoko, (2022)who found managerial shares did not significantly influence earnings management. These results conclude that a low proportion of managerial shares has no impact on earnings fraud. Because the average proportion of ownership in non-financial companies listed on the IDX from 2016 to 2020 is low, managers are unable to prevent agency problems that arise from differences in the proportion of shares and control. direct influence of sharesownedmanagers on funding difficulties are not significant. This means that a high proportion of managerial shares does not help the company overcome financial difficulties. Thus, Hypothesis H3 is not accepted. This research is in line with the research resultsDirman, (2020)AndKhafid et al., (2019)which states that managerial ownership does not significantly influence financial difficulties. This shows that a high level of managerial shareholders cannot predict whether the company is facing financial difficulties or not. This means that the size of managerial ownership is not an appropriate predictor for measuring financial difficulties in a company. High managerial ownership cannot be categorized as a company experiencing financial difficulties, nor can companies with smaller managerial ownership be categorized as companies not facing financial difficulties. Research states that shares owned by financial institutions significantly and positively influence earnings management so that hypothesis H4 is not accepted. Hypothesis H5 is accepted. Institutional ownership is not significant to earnings management, where this finding is in accordance with research resultsAgustia, (2013),Felicya & Sutrisno, (2020),Giovani, (2017), AndMudjiyanti et al., (2021)which found that institutional shareholders do not significantly influence earnings management. Because institutional shareholders become temporary owners of the company who are more focused on profits now. Hypothesis H6 is not accepted. Because the average proportion of ownership in non-financial industries in Indonesia is owned by institutions, family ownership cannot overcome profit management practices in companies. Short-term debt has no significance related to earnings management. Thus, hypothesis H7 is not accepted. Because short-term debt is a current liability whose debt amount is not large, it does not affect companies that practice earnings management. Long-term debt has a significant positive effect on earnings management. Thus, hypothesis H8 is not accepted. Long-term debt is a large amount of debt that allows the company to carry out earnings management so that it can stabilize the company and one way is to attract the attention of investors to invest so that investment can help the company cover the debt. Financial distress does not have a significant influence on earnings management. Thus, hypothesis H9 is not accepted. Because the majority of non-financial companies on the IDX implement earnings management practices to attract investors' attention for investment. So, it can be said that financial distress is not a factor for non-financial companies carrying out earnings management.

Indirect Effect Hypothesis Test Results

Variable	B	*t-statistic*	*P-Value*	Results	Information
MO -> FD -> ML	0,000	0.530	0.596	Not significant	H_{10} rejected

Source: Secondary data processed. (2022)

Hypothesis test results of the influence of managerial ownership on earnings management through financial difficulties as a mediating variable:

In the indirect effect test table, it can be concluded that financial distress does not have a significant mediating impact. This research found that shares owned by managers were not significantly related to earnings management, with financial distress as a mediating variable. In general, managers practice earnings management in order to keep the company operating in the long term by attracting investors to invest. If financial distress occurs, the company is in an emergency situation, so it is very unlikely that it can attract investors to invest.

Coefficient of Determination Test Results

R-Square Test Results

Variable	*R-Square*	*Adjusted R-Square*	Information
Earnings Management	0.025	0.021	Weak
Financial Distress	0,000	-0.001	Weak

Source: Secondary data processed. (2022)

The R2 value shows that the earnings management variable is 0.025, meaning that the ownership structure and debt structure are able to explain earnings management by 0.025 or 2.5%. Meanwhile, the remaining 97.5% is explained by other variables that are not in the model. The R2 value for the financial distress variable is 0.001, meaning that ownership structure, debt structure and earnings management are able to explain financial distress by 0.001 or 0.1% and the remaining 99.9% is explained by other variables not included in the model.

Quality Index Test Results

Table 4.1GoF Test Results

Communality	R-Square	GoF	Information
1,000	0.025	0.025	Weak

Source: Secondary data processed. (2022)

Based on the results of the Gof test, according to the criteria the model is included in the weak model category and in the sense that the research model used in the research is still considered less feasible to implement.

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Conclusion

Based on these data, it shows that the variables of ownership concentration, managerial ownership, non-financial institution ownership, family ownership, short-term debt and financial difficulties are not significant in influencing earnings management, but the variables of financial institution ownership and long-term debt significantly influence earnings management. And shares owned by managers are not significant in influencing financial difficulties. The financial difficulty variable as a mediating variable between shares owned by managers and earnings management does not have a significant mediating impact.

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