Global Financial Accounting Journal, Vol. 06, No. 02, October 2022
ISSN: 2655-836X
https://journal.uib.ac.id/index.php/gfa

Research Paper

CORPORATE GOVERNANCE, FINANCIAL RATIO AND REAL EARNINGS MANAGEMENT IN INDONESIA STOCK EXCHANGE

Maharani Dwi Nastiti[1], Yulius Kurnia Susanto[2*]

[1] Department Accounting, Trisakti School of Management, Jakarta, Indonesia
* Corresponding Author: yulius@tsm.ac.id

ABSTRACT

Purpose - The goal of this study is to gather empirical information on the impact of audit quality, board of directors, independent commissioners, managerial ownership, institutional ownership, profitability, firm leverage, firm size, and firm age on earnings management.
Research Method - The demographic for this study was non-financial companies that were listed on the Indonesia Stock Exchange between 2018 and 2020. This study examined a sample of 148 listed non-financial companies. Purposive sampling was utilized in the sample methodology, and multiple regression was used to evaluate the data.
Findings - Board of directors, independent commissioners, institutional ownership, and profitability have an impact on real earnings management. While, audit quality, managerial ownership, firm leverage, firm size, and firm age have no impact on real earnings management.
Implication - Increased profitability signals good firm performance, and shareholders will benefit as well. Furthermore, managers will benefit as well if company performance improves, thus managers are not driven to adopt earnings management initiatives.

Keywords: Board of directors, independent commissioners, institutional ownership, profitability, real earnings management

JEL code: G34, M41

Article History	DOI : http://dx.doi.org/10.37253/gfa.v6i2.6783
Received : 12 July 2022 Revised : 21 October 2022 Accepted : 24 October 2022	Web : https://journal.uib.ac.id/index.php/gfa/article/view/6783

Citation
Nastiti, M. D., & Susanto, Y. K. (2022). Corporate governance, financial ratio and real earnings management in Indonesia stock exchange. *Global Financial Accounting Journal*, *6*(2), 250-264. doi:10.37253/gfa.v6i2.6783

INTRODUCTION

Earnings management sometimes can become the fundamental reason why financial scandals arise. According to Khanh and Khuong (2018), earnings management may be undertaken through two primary methods including accrual-based earnings management and real earnings management. Company-issued financial information has fall primary resource for any market entrant, as it decreased asymmetries of information among executives, investors, and other stakeholders, and the most significant economic data is profit (Dakhlallh *et al*., 2020).

In this research, will focusing about the Real Earnings Management (REM). Managers will become the main role that relate with the Real Earnings Management (REM). Profit is defined as the excess of the revenue with the cost within a certain period cannot be separated from management performance (Susanto & Pradipta, 2016). Managers assign as an agent of shareholders, they manage the firm for shareholders and after their work hard they will get compensation or salary, so they have incentives to manipulate earnings for their own benefit. Then, such manipulation usually comes at the expense of long-term firm value and thus harm the shareholders.

Based on News in January 2020, they doing investigation and found that PT Hanson International has committing a violation. In the records of the Otoritas Jasa Keuangan (OJK), PT Hanson International was proven to have manipulated the presentation of the annual financial statements (LKT) for 2016. The OJK also imposed sanctions, both for the company and the managing director, Benny Tjokro. In the examination conducted by the OJK, manipulation was found in the presentation of accounting related to the sale of ready-to-build lots (Kasiba) with a gross value of Rp 732 billion, so that the company's revenue rose sharply. In the sale and purchase, Hanson International Violated Financial Accounting Standard 44 concerning Accounting for Real Estate Activities (PSAK 44). OJK took issue with the recognition using the full accrual method, even though in the 2016 LKT, the transaction was not disclosed in the 2016 LKT (Idris, 2020).

Can real earnings management be illegal? Actually, the definition of earnings management itself is the activities that reasonable decision making and reporting to achieve financial results. Earnings management can be done legally, but it is nevertheless seen as an ethical issue in the context of financial reporting. Financial Statement is a useful information for the external parties, so they will know how the performance of the company. However, external parties(shareholders) conclusions on a given entity's performance may be erroneous if they are unable to identify and adjust for the effects of earnings management that is embedded in the financial statements, this distortion will become clear in future results, when the entity's performance does not match their estimates (Vakilifard & Mortazavi, 2016).

Motivation to do this research is to find that all the factors in this research really effect on Real Earnings Management (REM) and knowing if there is any changes in current year. As a reference, this research is a development from Khanh and Khuong (2018) and combined with Susanto and Pradipta (2016). The different from the prior research. Khanh and Khuong (2018) used audit quality, firm size, firm age, firm leverage, and profitability as an independent variable. Moreover, added more variables, which are boards of directors, independent commissioner, managerial ownership, and institutional ownership from Susanto and Pradipta (2016). Khanh and Khuong (2018) got the data from companies on Vietnam Stock Markets (HNX and HOSE), while Susanto and Pradipta (2016) from manufacturing companies listed in Indonesia Stock Exchange (IDX). The data of this research are obtained from the non-financial companies listed in Indonesia Stock Exchange. Khanh and Khuong (2018) the data research was from period from 2010 to 2016 and Susanto and Pradipta (2016) from the period from 2011 to 2014. This research period is 3 years taken from 2018 to 2020.

LITERATURE REVIEW AND HYPOTHESIS DEVELOPMENT

Agency Theory

An agency relationship is a relationship involving two or more parties called the principal and the agent. In an agency relationship there is an employment agreement (contract) where one or more persons (the principal) govern another person (the agent) to perform a service on behalf of the principal and authorized agent to make the best decisions for the principal (Susanto & Pradipta, 2016). From here, we know that the principal is the shareholder, while the agent is the management party, that given the authority to do management actions of the entity. This theory approach is highly related or complete each other.

According to Antoniadis *et al*. (2008), agency problems arises because of the conflict of interest between the principles who own an asset and the agents who are responsible for the managing this asset on behalf of its owners (principals). The difference desire between principles and agents eventually creates a problem. On the owner's side does not have the power to control and the other side, the agent acts according to what they think is profitable for themselves. It is important to make a separation between the ownership and control.

Now focus on the management side, management have a desire to get more profit. According to Susanto and Pradipta (2016), manager wants contractual fee as a means of fulfilling the needs of economic and psychological. Otherwise, the owner is motivated to contract with agencies to maximize the return to add to well-being. The management do some of any activity that we called, Real Earnings Management (REM). Agents may record the financial statements that are not based on reality to gain more benefits for themselves.

Real Earnings Management

One purpose of financial statement is to knowing the performance of the company. Earning management is defined as intentionally taking steps under generally accepted accounting principles (GAAP) to achieve from the reported earnings to the desired earnings (Bhundia, 2012). The management party do activity, which is Real Earnings Management to achieve their goals (Yunus & Sutrisno, 2022).

Some studies view earnings management as a problem that needs an urgent remedy, while others consider it as a purposeful intervention to gain some private benefits (Callao, Jarne, & Wróblewski, 2014). In this research make us know that there are differences prove that Real Earnings Management (REM) not always bad activity. Then, the Real Earnings Management (REM) practiced by Indonesian listed companies was efficient to do.

An example of what a company might do is to use discretionary cash flow by manipulating sales. According to Arizoni, Ratnawati, and Andreas (2020) sales manipulation is done by offering discounts and softening the credit sales period, this sales manipulation has an impact on increasing sales in the current period (temporary sales), but lowering gross profit margin due to discounts provided and reducing operating cash flow due to credit sales.

Audit Quality

Auditing is the process of accumulating and evaluate evidence of company information to determine and report about the level of correspondence between the information and criteria that have been established (Alexander & Hengky, 2017). The auditor can evaluate the information that already given by the company and then they start to do evaluation based on some standard that existed. External parties for example like the investors or shareholders hired the internal or external auditor to auditing the fairness of the financial statements.

According to Hasan, Kassim, and Hamid (2020), audit quality divided into two types, which are audit quality Big 4 and audit quality change. The purpose of appointing the Big 4 auditor is to enables firms to detect larger losses earlier and thus reduce the amount of tampering with earnings. Professional accountants in carrying out their duties have binding guidelines such as the code of ethics in this case is the Indonesian Accountant Code of Ethics, so that in carrying out their activities public accountants have clear directions and can provide appropriate and accountable decisions to parties who use the results. Auditor's decision (Hanjani & Rahardja, 2014)

Big-4 KAPs are more influential in hindering earnings management practices than non-Big-4 KAPs. By doing some report of the fairness of financial statements, this improves the quality of audited financial information and reduces management revenue (Astuti, 2017). Aaudit quality has negative influence on real earnings management (Lupita, 2019).

H_1: Audit quality has influence on real earnings management.

Boards of Directors

The duties of the board of directors are decision-making, company operations, for the sake of the company's goals. The board of directors is an elected group of individuals who represent shareholders. The board of directors usually meets periodically to establish policies for the management and oversight of the company. The diversity of directors should give a positive impact. The greater diversity in board members can lead to more conflicts, but this diversity can provide alternative solutions to a problem that is more diverse than homogeneous board members (Astuti, 2017). Each member of the board of directors can carry out his duties and make decisions in accordance with the division of duties and authorities, the implementation of duties by each of them members of the board of directors remain a shared responsibility (Rahmawati *et al*., 2017). The number of board of directors has a negative influence on earnings management, the number of board of directors will be less effective in doing so is believed to minimize the monitoring of earnings management (Rinta, 2021).

H_2: Boards of directors has influence on real earnings management.

Independent Commissioner

Independent commissioners are central to resilience and success of the company as the board of commissioners in charge of ensuring the company's strategy, requires the accountability and responsible for overseeing management in improving the efficiency, competitiveness and corporate value (Mukhtaruddin, Relasari, & Felmania, 2014). Independent commissioners have an important role in the corporate governance mechanism, namely to determine the policies that the company will run. Independent commissioners can also communicate shareholder goals to managers.

According to Fadillah (2017) an independent commissioner is defined as a person who is not affiliated in all respects to the controlling shareholder, has no affiliation with the board of directors or the board of commissioners and does not serve as a director in a company related to the owner company. Rano and Midiastuty (2011) state that an independent board of commissioners will usually be more objective in enforcing company regulations.

The number of commissioners is an important consideration for a company. The lesser the board of commissioners produces more informative earnings information. A larger proportion of outsider directors can significantly reduce fraudulent financial presentation and reporting. The task of the independent board of commissioners is to supervise the management policies in general, regarding the company and to provide advice to the directors (Rano & Midiastuty, 2011).

H_3: Independent commissioner has influence on real earnings management.

Managerial Ownership

Christiawan *et al*. (2007) state managerial ownership is a situation where the manager owns the shares of the company or in other words the manager is also the shareholder of the company. Managers who have shares in the company tend to manage the company better because it is related to the interests of the manager (Fadillah, 2017). In financial reports, this situation is indicated by the percentage of the company's share ownership by the manager. Managerial ownership shows the dual role of a manager, namely the manager also acts as a shareholder.

As a manager and shareholder, they did not want the company to experience financial difficulties or even bankruptcy. Financial difficulties or business bankruptcy will harm him either as a manager or as a shareholder. As a manager, they will lose incentives and as a shareholder will lose return and even the funds, they invested. When, the managerial ownership in the company is getting bigger, the management will tend to try to improve its performance for the benefit of shareholders and for the benefit of themselves (Christiawan *et al*., 2007). Guna and Herawaty (2010) provides empirical evidence of managerial ownership can restrict managers for earnings management. Managerial ownership has a negative influence on Earnings Management (Lestari & Murtanto, 2018).

H_4: Managerial ownership has influence on real earnings management.

Institutional Ownership

Institutional ownership act, as they are the controller side and manage the organization. Viewed from the perspective of agency theory, institutional ownership that is a big shareholder tends to be alert to agency problems because with large investments they will more closely supervise the actions of management (Samasta, Muharam, & Haryanto, 2018).

Institutional ownership can act as a party that monitors the company, because the greater the institutional ownership, the more efficient the utilization of company assets, thus institutional ownership acts as a deterrent to waste by management. The greater the level of stock ownership by institutions, then the control mechanisms on performance management will be more effective (Mukhtaruddin, Relasari, & Felmania, 2014).

There is a negative influence between institutional ownership and earnings management (Aygun, Ic, & Sayim, 2014). When the proportion of institutional ownership is high, then the motivation to do earnings management is diminish, it will reduce the activity of discretionary accounting accrual. The institutional investors have an important role in monitoring company managements' activities by using their knowledge and dominant ownership (Shah & Shah, 2014). Institutional investors have the opportunities, resources and abilities to monitor, discipline and control the decisions of managers in the company. Therefore, that will have a negative impact to the management side, because they oversee by institutional ownership.

H_5: Institutional ownership has influence on real earnings management.

Profitability

By looking at the profit that conducted by a company, if the company is able to increased profits, this means that the company is able to perform the company well. So that it can create positive responses from investors and increase the share price of the company. Profitability is an important KPI to inform to the firm stockholders (Khanh & Khuong, 2018). The profitability variable is measured by looking at the ability of the company's invested capital in the total amount of assets to generate return on assets (Dhani & Utama, 2017).

According to Lubis, Sinaga, and Sasongko (2017) profitability is one of the factors that theoretically determines the value of a company, companies that are able to generate large and stable profits will attract investors, because they will automatically benefit investors. The measure of profitability can be of various kinds such as operating profit, net profit, return on investment/assets, and return on owner's equity. Profitability is a metric that can be used to assess the efficiency and effectiveness of management initiatives.

H_6: Profitability has influence on real earnings management.

Firm Leverage

Firm Leverage are some efforts made by the firm which conduct strategy by doing investment activity using borrowed money, in particular, the use of various financial report or borrowed capital and have a purpose to increase the value of return on investment. Company used leverage to help their financial performance. Leverage (debt structure) is a ratio that shows the amount of debt owned by the company to finance its operating activities (Putri & Putra, 2017).

According to Suwardika and Mustanda (2017) leverage is a description of the use of a company's debt to finance the company's operational activities. But every company must devise a strategy to stay able to pay, and do not have trouble paying it off and may end up filing for bankruptcy. Leverage management is very important, because the decision to use high debt can increase company value due to a reduction in income tax (Suwardika & Mustanda, 2017).

H_7: Firm leverage has influence on real earnings management.

Firm Size

Company size is a scale where large and small companies can be classified in various ways, including: total assets, log size, sales, and market capitalization. The size of a company can be classified into three types, which are, large companies, medium companies, and small companies (Yuliana & Trisnawati, 2015). The larger the size or scale of the company, the easier it will be for the company to obtain funding sources, both internal and external.

According to Agustia and Suryani (2018) the size of the company can also be seen from the company's performance, which is the number of total assets. This influences the investor's expectation of dividend from the company (Hirdinis, 2019). Usually, large companies have also a good performance, and along with the dividend for the investors. The larger the company are, the better they manage the earnings.

Do not assume that small companies are having bad performance and bad while manage earnings, there are also a few small companies are very flexible and can react quickly and even proactively to environmental pressures. Barriers to increasing firm size include being under capitalization, having few employees, and owner managers who do not have the managerial skills needed to implement practices outside their core technical expertise (Andries & Stephan, 2019).

Firm size has a negative influence on earnings management, because large companies would try to remain cautious than small companies ((Taco & Ilat, 2016; Khanh & Khuong, 2018; Arthawan & Wirasedana, 2018; Miftakhunnimah, Juanda, & Syam, 2020). Larger companies will try to stay stable and try to fulfill stakeholders and investors' desires. In addition, they need to maintain the image of the company because large companies tend to be noticed by the public rather than small firms (Firnanti, Pirzada, & Budiman, 2019).

Real earnings management and firm size related each other. It is difficult for outside parties to access the activity of management, so that will allow more rooms for managers to do earnings management. The larger the firms, they have less incentive to doing earnings management activities. This is because the operating activities of large companies are more complex, so they will be more careful in engineering the company's profits and in carrying out their financial reporting, they will report it more accurately (Astuti, 2017).

H_8: Firm size has influence on real earnings management

Firm Age

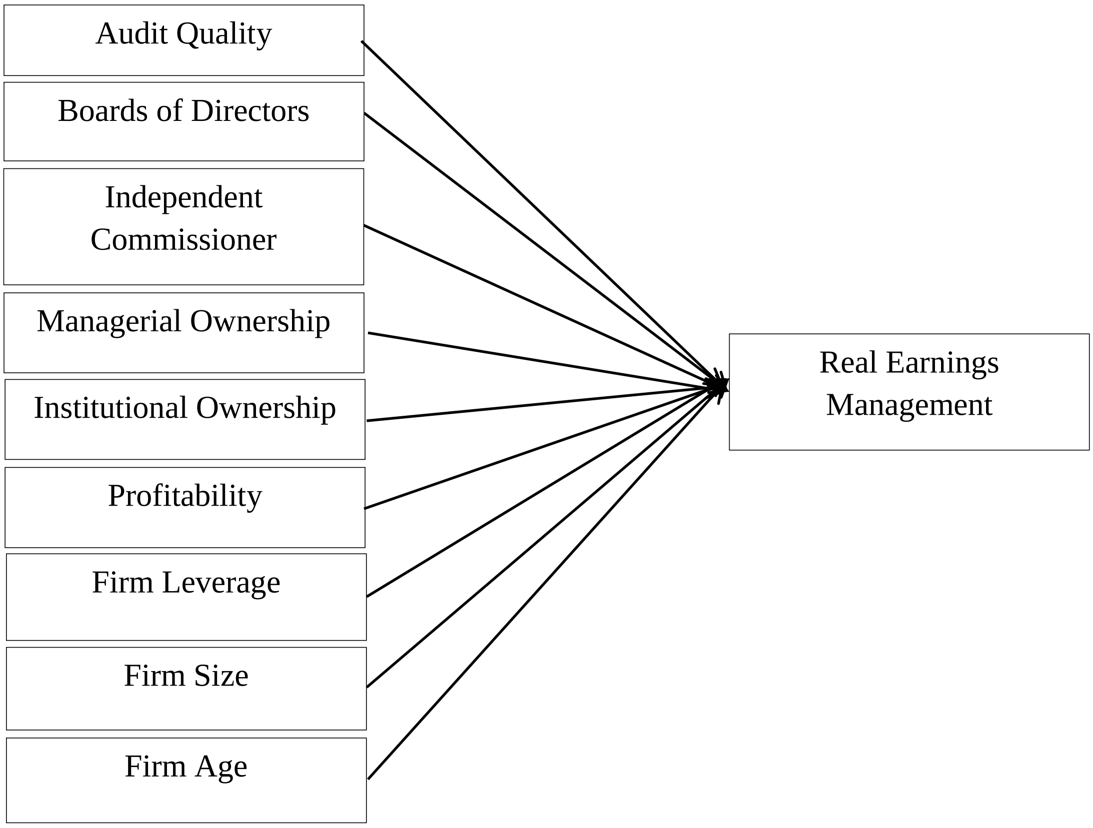
Firm age is usually used to represent that the company still exists and able to compete in the business globally. Firms with long history are also expected to be more experience corporate governance and exposure to more reputational risks; therefore, they would be more conservative to engage in earnings management to defend their reputation (Khanh & Khuong, 2018). Therefore, the role of management is very important to extend the life of the company.

Bassiouny *et al*. (2016) stated that the older the firms, the motivation to do earnings management becomes decrease, because they will have more intention to maintain their reputation, therefore they will more aware the regulation and improve the financial reporting. After all the fall, rise, trouble, blessings, a long company life, they are more concerned with image of their companies. The age of the company is also one aspect that is considered by investors in investing their capital (Astuti & Erawati, 2018).

H_9 Firm age has influence on real earnings management.

From the literature, review that already explained above can be described in the following below:

Figure 1. Research Model



RESEARCH METHODOLOGY

This research used the population of non-financial companies that are listed in Indonesia Stock Exchange from 2018 to 2020 as a sample. Sekaran and Roger (2016) stated that a sample is a subset of the population. This research used purposive sampling to determine the sample. Purposive sampling is confines to specific types of people who can provide the desired information, because either they are only one who have it, or they conform to some criteria set by researcher. Therefore, this is the procedure to collect sample:

Table 1. Sample Selection Procedure

Description	Firms	Data
1. Non-financial Companies that are listed in Indonesia Stock Exchange during 2018-2020.	620	1860
2. Companies that do not used IDR currency and have financial statements for the period 2018 – 2020.	(216)	(648)
3. Companies that consistently do not earned profit from 2018 to 2020.	(240)	(720)
4. Companies that consistently do not have institutional ownership in the financial statement from 2018 to 2020.	(15)	(45)
5. Companies that do not have financial statements end by December 31.	(1)	(3)
Number of sample firms used	148	444

Source: Data is obtained and processed from IDX (2020)

The dependent variable is a type of variable that is affecting by the independent variable. The dependent variable for this research is Real Earnings Management (REM). Susanto and Pradipta (2016), financial reports are published still an accrual basis so that it opens the opportunity for management to make earnings management. According to Khanh and Khuong (2018) there are three methods to measure the level of Real Earnings Management (REM).
First Method, with the following cross-sectional regression in order to calculate the normal level of cash flows from operations:

$$\frac{CFO_{i,t}}{A_{i,t-1}} = \beta_1 \frac{1}{A_{i,t-1}} + \beta_2 \frac{SALES_{i,t}}{A_{i,t-1}} + \beta_3 \frac{\Delta SALES_{i,t}}{A_{i,t-1}} + \varepsilon_{i,t} \qquad \text{.................................(1)}$$

Where:

CFO i, t : Cash flows from operations of firm i in period t.
Ai, t −1 : Total assets of firm i in year t−1.
Sales i, t : Sales of firm i in year t.
ΔSales i, t : Sales of firm i in year t less sales of firm i in year t-1.
εi, t : A residual term that captures the level of abnormal cash flows (REM_CFO) of firm i in year t.
β1, β2, β3 : Firm specific parameters.

The second method is to compute the normal level of discretionary expenses as follows:

$$\frac{DISCEXP_{i,t}}{A_{i,t-1}} = \beta_1 \frac{1}{A_{i,t-1}} + \beta_2 \frac{SALES_{i,t-1}}{A_{i,t-1}} + \varepsilon_{i,t} \qquad \text{.....................................(2)}$$

Where:

DISEXP i, t : The sum of selling and marketing expenses and general and administrative expenses of firm i in year t

$A_{i,t-1}$: Total assets of firm i in year t-1.
Sales i, t−1 : Sales of firm i in year t−1.
$\varepsilon_{i,t}$: A residual term that captures the level of abnormal discretionary expenses (REM_DISX) of firm i in year t.
β1, β2 : Firm specific parameters.

The third method, Real earnings management is also conducted through overproduction to utilize lower fixed cost per unit. Abnormal production costs through the model:

$$\frac{PROD_{i,t}}{A_{i,t-1}} = \beta_1 \frac{1}{A_{i,t-1}} + \beta_2 \frac{SALES_{i,t}}{A_{i,t-1}} + \beta_3 \frac{\Delta SALES_{i,t}}{A_{i,t-1}} + \beta_4 \frac{\Delta SALES_{i,t-1}}{A_{i,t-1}} + \varepsilon_{i,t} \quad \text{....................................(3)}$$

Where:
PROD i, t : The sum of cost of goods sold and change in inventory of firm i in year t. Ai, t−1 : Total assets of firm i in year t−1.
Sales i, t : Sales of firm i in year t.
ΔSales i, t : Sales of firm i in year t less sales of firm i in year t−1.
ΔSales i, t-1 : Sales of firm i in year t−1 less sales of firm i in year t−2.
Ei, t : A residual term that captures the level of abnormal production costs (REM_PROD) of firm i in year t.
β1, β2, β3, β4 : firm specific parameters.

From Cohen and Zarowin (2010)'s article, they integrate the three independent measurements to generate two complete metrics of real earnings management activities in order to represent the whole effects of real earnings management.

REM1 = abDISXEXP*-1 + abPRODCOST..(4)
REM2 = (abCFO + abDISXEXP)*-1..(5)

Audit quality in the form of transparency requires accurate disclosure (Eksandy, 2017). AUD is a proxy for audit quality. We utilize a dummy variable of 1 if the company is audited by a Big 4 audit firm and 0 otherwise in this study. Board of directors, which functions to supervise executives. Calculate the number of board of directors is total board of directors (Susanto & Pradipta, 2016). An independent board of commissioners will usually be more objective in enforcing company regulations, independent commissioners are members of the board of commissioners who are not affiliated with the board of directors, other commissioners, and controlling shareholders (Rano & Midiastuty, 2011). Besides they are free from business relations or other relationships because this can affect their ability to act independently or to act solely for the interests of the company (OJK, 2015). Independent commissioners, the proportion of commissioners who come from outside the company in commissioners (Susanto & Pradipta, 2016). Managerial ownership is a situation where the manager owns the shares of the company or in other words, the manager is also the shareholder of the company (Christiawan et al., 2007). Managerial ownership refers to the proportion of a company's shares owned by management (managers, directors, and commissioners) in the company itself (Firnanti, Pirzada, & Budiman, 2019). Dummy variable, which value of 1 there is a company that owns the management and 0 otherwise (Susanto & Pradipta, 2016). Institutional ownership refers to the proportion of company's shares owned by institutions, such as governments, financial institutions, legal institutions, foreign institutions, trust funds, and others (Firnanti, Pirzada, & Budiman, 2019).

The proportion of shares owned by institutional parties divided by the total shares outstanding (Susanto & Pradipta, 2016). ROA is defined by net income divided lagged total assets at year-end. We use ROA as a proxy for profitability (Khanh & Khuong, 2018). Financial Leverage is a tool to measure how much a company depends on creditors in financing the company's assets usually the use of leverage customized with company objectives. Firm size explains about how big the firm is (Alexander & Hengky, 2017). SIZE is a proxy for firm size. In this study, it is calculated by the natural logarithm of the book value of total assets at year-end (Luo, Xiang, & Huang, 2017). Firm age is measured by the number of years between the year of the company's established and the year of audit investigation (Khanh & Khuong, 2018).

The statistical analysis model used in this study is multiple regression analysis with the following regression models:

$$REM = \alpha + \beta 1(AUD) + \beta 2(BOD) + \beta 3(IC) + \beta 4(MO) + \beta 5(IO) + \beta 6(ROA) + \beta 7(LEV) + \beta 8(SIZE) + \beta 9(AGE) + \varepsilon$$

Where:

REM	= Real Earnings management
α	= Constant
β1,2,3,4,5,6,7,8,9	= Variable coefficients
AUD	= Audit quality
BOD	= Board of Directors
IC	= Independent Commissioner
MO	= Managerial ownership
IO	= Institutional ownership
ROA	= Return on asset
LEV	= Firm financial leverage
SIZE	= Firm size
AGE	= Firm age

RESULTS AND DISCUSSION

The following is the outcome of the descriptive statistics:

Table 2. Descriptive Statistics Result

Variable	Minimum	Maximum	Mean	Standard Deviation
REM	-16.271.386	2.068.506	-0.000000	0.862311364
REM2	-1.918.973	1.903.456	-0.00024655	0.231524914
AQ	0	1	35	0,332638889
BOD	2	11	0,234722222	1.850
IC	0.000000	0.833333	0.41167954	0.107124285
MO	0	1	00.56	0,345138889
IO	0.069728	0.997112	0.67752133	0.201614581
ROA	0.000282	0.920997	0.07063577	0.077878132
LEV	0.000037	0.980274	0.41938603	0.194233718
FSIZE	23.526.500	35.362.768	2.902.601.708	1.601.332.276
FAGE	7	92	35.88	14.961

Source: Data output statistics (2020)

Table 3. t Test Result

Variable	REM1		REM2	
	Coefficient	**Significance**	**Coefficient**	**Significance**
(Constant)	0.699	0.434	0.070	0.769
Audit Quality	-0.070	0.460	-0.009	0.736
Board of Directors	0.024	0.387	0.013	0.075
Independent Commissioners	0.739	0.060	0.009	0.933
Managerial Ownership	-0.028	0.744	0.023	0.324
Institutional Ownership	0.258	0.233	0.112	0.054
Profitability	0.856	0.138	-0.403	0.009
Firm Leverage	0.107	0.627	0.044	0.452
Firm Size	-0.046	0.141	-0.007	0.382
Firm Age	-0.001	0.745	0.000	0.855

Source: Data output statistics (2020)

Audit quality (AUD) has a coefficient value of -0.070 (-0.009) and a significance value of 0.460 (0.736) for REM1 (REM2). Because the significance value is greater than 0.05, so it can be concluded that H_1 is not supported. It implies that audit quality has no influence on real earnings management. This is because just a tiny percentage of the organizations in this study's sample hired Big-4 auditors, while the majority used non-Big-4 auditors.

Board of directors (BOD) has a coefficient value of 0.024 (0.013) and a significance value of 0.387 (0.075) for REM1 (REM2). Because the significance value is greater than 0.05 for REM1 and bellow than 0.10 for REM2, so it can be concluded that H_2 is supported. It implies that board of directors has influence on real earnings management. This is because the size of the board of directors is able to guarantee effectiveness in carrying out the monitoring function of management performance. Board of directors can carry out his duties and make decisions in accordance with the division of duties and authorities, the implementation of duties by each of them members of the Board of directors remain a shared responsibility (Rahmawati *et al.*, 2017). The number of board of directors will be less effective in doing so is believed to minimize the monitoring of earnings management (Rinta, 2021).

Independent commissioners (IC) has a coefficient value of 0.739 (0.009) and a significance value of 0.060 (0.933) for REM1 (REM2). Because the significance value is bellow than 0.10 for REM1 and greater than 0.05 for REM2, so it can be concluded that H_3 is supported. It implies that independent commissioners have influence on real earnings management. Independent commissioners have the ability to control management to minimize earnings management practices. The independent board of commissioners will usually be more objective in enforcing company regulations (Rano & Midiastuty, 2011).

Managerial ownership (MO) has a coefficient value of -0.028 (0.023) and a significance value of 0.744 (0.324) for REM1 (REM2). Because the significance value is greater than 0.05 for REM1(REM2), so it can be concluded that H_4 is not supported. It implies that managerial ownership has no influence on real earnings management. If the company's management and the owner are on the same page, the agency problem is likely to disappear since management will operate in accordance with the owner's wishes, reducing the need for earnings management. Managerial ownership, on the other hand, has not been shown to limit earnings management methods. Audit committees, for example, are essential to monitor actions that are detrimental to the company's management.

Institutional ownership (IO) has a coefficient value of 0.258 (0.112) and a significance value of 0.233 (0.054) for REM1 (REM2). Because the significance value is greater than 0.05 for REM1 and bellow than 0.10 for REM2, so it can be concluded that H_5 is supported. It implies that managerial ownership has influence on real earnings management. This is because, in reality, all institutional investors (sophisticated investors) have the ability to digest information and have the experience to limit management's ability to carry out earnings management actions. The greater the level of stock ownership by institutions, then the control mechanisms on performance management will be more effective (Mukhtaruddin, Relasari, & Felmania, 2014). The proportion of institutional ownership is high, then the motivation to do earnings management is diminish, it will reduce the activity of discretionary accounting accrual. The institutional investors have an important role in monitoring company managements' activities by using their knowledge and dominant ownership (Shah & Shah, 2014). Institutional investors have the opportunities, resources and abilities to monitor, discipline and control the decisions of managers in the company. Therefore, that will have a negative impact to the management side, because they oversee by Institutional Ownership.

Profitability (ROA) has a coefficient value of 0.856 (-0.403) and a significance value of 0.138 (0.009) for REM1 (REM2). Because the significance value is greater than 0.05 for REM1 and bellow than 0.05 for REM2, so it can be concluded that H_6 is supported. It implies that profitability has influence on real earnings management. This shows that when the company has good performance, it affects earnings management.

Firm leverage (LEV) has a coefficient value of 0.107 (0.044) and a significance value of 0.627 (0.452) for REM1 (REM2). Because the significance value is greater than 0.05, so it can be concluded that H_7 is not supported. It implies that firm leverage has no influence on real earnings management. The presence or absence of earnings management in manufacturing organizations is not determined by the amount of leverage used.

Firm size (SIZE) has a coefficient (B) value of –0.046 (-0.007) and a significance value of 0.141 (0.382) for REM1 (REM2). Because the significance value is greater than 0.05, so it can be concluded that H_8 is not supported. It implies that firm size has no influence on real earnings management. This shows that if the value of the size of the company increases or the company is large, the tendency of the company to carry out earnings management increases (Suheny, 2019).

Firm age (AGE) has a coefficient value of -0.001 (0.000) and a significance value of 0.745 (0.855) for REM1 (REM2). Because the significance value is greater than 0.05, so it can be concluded that H_9 is not supported. It implies that firm age has no influence on real earnings management. This means that both companies that have just operated and companies that have been around for a long time do not affect positive profit reporting in reporting company losses (Savitri, 2014).

CONCLUSION AND SUGGESTION

The conclusion shows that board of directors, independent commissioners, institutional ownership, and profitability have an impact on real earnings management. While, audit quality, managerial ownership, firm leverage, firm size, and firm age have no impact on real earnings management. Recommendation for future research is change the model that corporate governance as moderating on the relation between financial ratio and real earnings management. Use the sample from different country to look behaviour of corporate governance especially for board of directors, independent commissioners.

REFERENCES

Agustia, Y.P., & Suryani, E. (2018). Pengaruh Ukuran Perusahaan, Umur Perusahaan, Leverage, dan Profitabilitas terhadap Manajemen Laba. *Jurnal ASET (Akuntansi Riset), 10*(1).

Alexander, N., & Hengky. (2017). Factors Affecting Earnings Management in the Indonesian Stock Exchange. *J. Bank. Fin. Review*.

Andries, P., & Stephan, U. (2019). Environmental Innovation and Firm Performance: How Firm Size and Motives Matter. *Sustainability (Switzerland)*. https://doi.org/10.3390/su11133585.

Antoniadis, I., Lazarides, T., Sarrianidis, N., & Goupa, H. (2008). The Impact of Agency Problem in Firm Value and the Greek Stock Exchange Market Financial Crisis. *International Conference on Applied Economics*.

Arizoni, S.S., Ratnawati, V., & Andreas. (2020). Pengaruh Manajemen Laba Akrual, Manajemen Laba Riil Dan Inventory Intensity Terhadap Agresivitas Pajak: Peran Moderasi Foreign Operation. *Bilancia: Jurnal Ilmiah Akuntansi 4*(1).

Arthawan, P.T., & Wirasedana, W.P. (2018). Pengaruh Kepemilikan Manajerial, Kebijakan Utang Dan Ukuran Perusahaan Terhadap Manajemen Laba. *E-Jurnal Akuntansi*. https://doi.org/10.24843/eja.2018.v22.i01.p01.

Astuti, E.P. (2017). Pengaruh Diversitas Dewan Direksi Terhadap Nilai Perusahaan Pada Perusahaan Manufaktur Yang Terdaftar Di Bursa Efek Indonesia Periode 2008-2011. *KREATIF: Jurnal Ilmiah Prodi Manajemen Universitas Pamulang, 4*(2).

Astuti, W., & Erawati, T. (2018). Pengaruh Profitabilitas, Umur Perusahaan Dan Ukuran Perusahaan Terhadap Ketepatan Waktu Penyampaian Laporan Keuangan Perusahaan (Studi Pada Perusahaan Manufaktur Yang Terdaftar Di Bursa Efek Indonesia Tahun 2012-2016). *Jurnal Kajian Bisnis, 26*(2).

Aygun, M., Suleyman Ic, & Sayim, M. (2014). The Effects of Corporate Ownership Structure and Board Size on Earnings Management: Evidence from Turkey. *International Journal of Business and Management* 9 (12): 123–32. https://doi.org/10.5539/ijbm.v9n12p123.

Bae, S.M., Masud, M.A.K., & Kim, J.D. (2018). A Cross-Country Investigation of Corporate Governance and Corporate Sustainability Disclosure: A Signaling Theory Perspective. *Sustainability (Switzerland), 10*(8). https://doi.org/10.3390/su10082611.

Bassiouny, Sara W, Soliman, M.M., & Ragab, A. (2016). The Impact of Corporate Characteristics on Environmental Information Disclosure: An Empirical Study on the Listed Firms in Egypt. *Journal of Business and Retail Management Research, 12*(2), 232–41. https://doi.org/10.24052/jbrmr/v12is02/tioccoeidaesotlfie.

Bhundia, A. (2012). A Comparative Study between Free Cash Flows and Earnings Management. *Business Intelligence Journal*.

Callao, S., Jarne, J., & Wróblewski, D. (2014). The Development of Earnings Management Research A Review of Literature from Three Different Perspectives. *Zeszyty Teoretyczne Rachunkowości*. https://doi.org/10.5604/16414381.1133395.

Christiawan, Y.J., Tarigan, & Josua. (2007). Kepemilikan Manajerial:" *Jurusan Ekonomi Akuntansi, Fakultas Ekonomi - Universitas Kristen Petra*.

Cohen, D.A., & Zarowin, P. (2010). Accrual-Based and Real Earnings Management Activities Around Seasoned Equity Offerings." *Journal of Accounting and Economics, 50*(1). https://doi.org/10.1016/j.jacceco.2010.01.002.

Dakhlallh, M.M., Rashid, N., Abdullah, W.A.W., Qawqzeh, H.K., & Dakhlallh, A.M. (2020). Accrual-Based Earnings Management, Real Earnings Management and Firm Performance: Evidence from Public Shareholders Listed Firms on Jordanian's Stock Market. *Journal of Advanced Research in Dynamical and Control Systems, 12*(1). https://doi.org/10.5373/JARDCS/V12I1/20201004.

Damayanti, C.R., & Kawedar, W. (2019). Pengaruh Profitabilitas, Mekanisme Pemantauan Dan Financial Distress Terhadap Manajemen Laba. *Diponegoro Journal of Accounting, 7*(4).

Dhani, I.P., & Utama, AA.G.S. (2017). Pengaruh Pertumbuhan Perusahaan, Struktur Modal, Dan Profitabilitas Terhadap Nilai Perusahaan. *Jurnal Riset Akuntansi Dan Bisnis Airlangga, 2*(1). https://doi.org/10.31093/jraba.v2i1.28.

Eksandy, A. (2017). Pengaruh Komisaris Independen, Komite Audit, Dan Kualitas Audit Terhadap Penghindaran Pajak (Tax Avoidance). *COMPETITIVE, 1*(1).

Fadillah, A.R. (2017). Analisis Pengaruh Dewan Komisaris Independen, Kepemilikan Manajerial Dan Kepemilikan Institusional Terhadap Kinerja Perusahaan Yang Terdaftar Di Lq45. *Jurnal Akuntansi, 12*(1).

Firnanti, F., Pirzada, K., & Budiman. (2019). Company Characteristics, Corporate Governance, Audit Quality Impact on Earnings Management. *GATR Accounting and Finance Review*. https://doi.org/10.35609/afr.2019.4.2(2).

Guna, W.I, & Herawaty, A. (2010). Pengaruh Mekanisme Good Corporate Governance, Independensi Auditor, Kualitas Audit Dan Faktor Lainnya Terhadap Manajemen Laba. *Jurnal Bisnis Dan Akuntansi* 12 (1): 53–68.

Hanjani, A., & Rahardja. (2014). Pengaruh Etika Auditor, Pengalaman Auditor, Fee Audit, Dan Motivasi Terhadap Kualitias Audit (Studi Pada Auditor KAP Di Semarang). *Diponegoro Journal of Accounting, 3*(2).

Hasan, S., Kassim, A.A.M., & Hamid, M.A.A. (2020). The Impact of Audit Quality, Audit Committee and Financial Reporting Quality: Evidence from Malaysia. *International Journal of Economics and Financial Issues*. https://doi.org/10.32479/ijefi.10136.

Hirdinis, M. (2019). Capital Structure and Firm Size on Firm Value Moderated by Profitability. *International Journal of Economics and Business Administration*. https://doi.org/10.35808/ijeba/204.

Idris, M. (2020). Jejak Hitam PT Hanson International, Manipulasi Laporan Keuangan 2016. Kompas.Com - 15/01/2020, 16:06 WIB. 2020. https://money.kompas.com/read/2020/01/15/160600526/jejak-hitam-pt-hanson-international-manipulasi-laporan-keuangan-2016?page=all.

Khanh, H.T.M., & Khuong, V.K. (2018). Audit Quality, Firm Characteristics and Real Earnings Management: The Case of Listed Vietnamese Firms. *International Journal of Economics and Financial Issues*.

Lestari, E., & Murtanto, M. (2018). Pengaruh Efektivitas Dewan Komisaris Dan Komite Audit, Struktur Kepemilikan, Dan Kualitas Audit Terhadap Manajemen Laba. *Media Riset Akuntansi, Auditing & Informasi* 17 (2). https://doi.org/10.25105/mraai.v17i2.2063.

Lubis, I.L., Sinaga, B.M., & Sasongko, H. (2017). Pengaruh Profitabilitas, Sruktur Modal, Dan Likuiditas Terhadap Nilai Perusahaan. *Jurnal Aplikasi Bisnis Dan Manajemen*. https://doi.org/10.17358/jabm.3.3.458.

Luo, J.H., Xiang, Y., & Huang, Z. (2017). Female Directors and Real Activities Manipulation: Evidence from China. *China Journal of Accounting Research*, *10*(2). https://doi.org/10.1016/j.cjar.2016.12.004.

Lupita, I.W. (2019). Pengaruh Surplus Arus Kas Bebas, Ukuran Perusahaan, Leverage Dan Kualitas Audit Terhadap Manajemen Laba. *Diponegoro Journal of Accounting* 7 (4).

Miftakhunnimah, A.D., Juanda, A., & Syam, D. (2020). Pengaruh Financial Distress, Leverage, Profitabilitas, Dan Ukuran Perusahaan Terhadap Manajemen Laba. *Jurnal Akuntansi Indonesia* 16 (2).

Mukhtaruddin, R., & Felmania, M. (2014). Good Corporate Governance Mechanism, Corporate Social Responsibility Disclosure on Firm Value: Empirical Study on Listed Company in Indonesia Stock Exchange. *International Journal of Finance & Accounting Studies*. https://doi.org/10.7575/aiac.ijfas.v.2n.1p.1.

OJK. 2015. “Otoritas Jasa Keuangan Republik Indonesia.”

Putri, V.R., & Putra, B.I. (2017). Pengaruh Leverage, Profitability, Ukuran Perusahaan Dan Proporsi Kepemilikan Institutional Terhadap Tax Avoidance. *Jurnal Manajemen Dayasaing, 19*(1). https://doi.org/10.23917/dayasaing.v19i1.5100.

Rahmawati, I.A., Rikumahu, B., & Dillak, V.J. (2017). Pengaruh Dewan Direksi, Dewan Komisaris, Komite Audit Dan Corporate Social Responsibility Terhadap Kinerja Keuangan Perusahaan. *Jurnal Akuntansi Dan Ekonomi, 2*(2).

Rano, & Midiastuty, P.P. (2011). Struktur Kepemilikan, Good Corporate Governance, Investasi Dan Nilai Perusahaan: Suatu Pengujian Sistem Persamaan Simultan. *Jurnal Akuntansi*.

Rinta, M. (2021). Ukuran Dewan Direksi, Aktivitas Komite Audit Dan Ukuran Komite Audit Terhadap Manajemen Laba. *Journal of Accounting Science* 5 (1). https://doi.org/10.21070/jas.v5i1.1336.

Samasta, A.S., Muharam, H., & Haryanto, A.M. (2018). The Effect of Board of Director, Audit Committee, Institutional Ownership to Firm Value, With Firm Size, Financial Leverage and Industrial Sector as Control Variables (Study on Listed Companies in Indonesian Stock Exchange Period 2011-2015). *JURNAL BISNIS STRATEGI*. https://doi.org/10.14710/jbs.27.1.53-62.

Savitri, E. (2014). Analisis Pengaruh Leverage Dan Siklus Hidup Terhadap Manajemen Laba Pada Perusahaan Real Estate Dan Property Yang Terdaftar Di Bursa Efek Indonesia. *Jurnal Akuntansi, 3*(1).

Sekaran, U. & Roger, B. (2016). *Research Methods for Business: A Skill Building Approach*. *Wiley PLUS Learning Space Card*. Seventh Ed.

Shah, K., & Shah, A. (2014). The Impact of Corporate Governance and Ownership Structure on Earnings Management Practices: Evidence from Listed Companies in Pakistan. *The Lahore Journal of Economics*. https://doi.org/10.35536/lje.2014.v19.i2.a2.

Suheny, E. (2019). Pengaruh Corporate Governance, Ukuran Perusahaan, Leverage Dan Kualitas Audit Terhadap Manajemen Laba. *Jurnal Ekonomi Vokasi, 2*(1).

Susanto, Y.K., & Pradipta, A. (2016). Corporate Governance and Real Earnings Management. *International Journal of Business, Economics and Law*.

Suwardika, I, & Mustanda, I. (2017). Pengaruh Leverage, Ukuran Perusahaan, Pertumbuhan Perusahaan, Dan Profitabilitas Terhadap Nilai Perusahaan Pada Perusahaan Properti. *None*, *6*(3).

Taco, C., & Ilat, V. (2016). Pengaruh Earning Power, Komisaris Independen, Dewan Direksi, Komite Audit Dan Ukuran Perusahaan Terhadap Manajemen Laba Pada Perusahaan Manufaktur Yang Terdaftar Di Bursa Efek Indonesia. *Jurnal Emba: Jurnal Riset Ekonomi, Manajemen, Bisnis Dan Akuntansi* 4 (4).

Vakilifard, H., & Mortazavi, M.S.S. (2016). The Impact of Financial Leverage on Accrual-Based and Real Earnings Management. *International Journal of Academic Research in Accounting, Finance and Management Sciences*. https://doi.org/10.6007/ijarafms/v6-i2/2039.

Yuliana, A., & Trisnawati, I. (2015). Pengaruh Auditor Dan Rasio Keuangan Terhadap Managemen Laba. *Jurnal Bisnis Dan Akuntansi*.

Yunus, I., & Sutrisno, P. (2022). Information Asymmetry, Institutional Ownership, Related Party Transactions and The Board Size to Real Earnings Management. *Global Financial Accounting Journal*, 6(1), 77-88. doi:10.37253/gfa.v6i1.6526