

Research Paper**THE MODERATING EFFECT OF POLITICALLY CONNECTED BOARDS ON THE RELATIONSHIP BETWEEN BOARD CHARACTERISTICS AND EARNINGS MANAGEMENT**Sheila Septiany¹, Teddy Jurnal², Erna Wati³, Juma Pertiwi⁴^{1,2,3,4}Department of Accounting, Faculty of Management and Business, Batam International University, Batam, Indonesia*Corresponding Author: sheila@uib.ac.id¹, teddy@uib.ac.id², erna.wati@uib.ac.id³, 1842198.juma@uib.edu⁴**ABSTRACT**

This research aims to test the effect of board characteristics on earnings management. Politically connected boards serve as a moderation variable that affects the relationship of board ownership to earnings management. This research used a quantitative approach and panel regression analysis method. The population of this research used data from companies listed on the Indonesia Stock Exchange (BEI) from 2016 to 2020. The study used a sample of 357 companies. The results revealed that board ownership, board financial expertise, board tenure, politically connected boards, leverage, and board nationality had no significant impact on earnings management. Meanwhile, both firm age and firm size had a significant influence on earnings management practice.

Keywords: Board Characteristics, Politically Connected Boards, Earnings Management

JEL code: G34, M41, M48.

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INTRODUCTION

Recording financial statements is a common thing that is done by companies around the world. The integrity of financial statements is highlighted and considered by stakeholders because financial reports are used as indicators for making decisions, assessing investment risk and studying the characteristics of the type of return (Usman et al., 2022). The integrity of financial statements is often a concern due to earnings management problems that have occurred in several well-known companies, such as Enron, Xerox, Worldcom, even in Indonesia it also occurred in the Garuda company and Jiwasraya Insurance (Sidik, 2019; Sugianto, 2019).

Board characteristics as part of the corporate governance structure are an important part of managing the company (Rajeevan & Ajward, 2020). The characteristics of the board act to prevent earnings management practices. The board has an obligation to ensure that the numbers presented in the financial statements appropriately reflect the company's performance (Rajeevan & Ajward, 2020; Usman et al., 2022). This is done so that stakeholders, especially shareholders, can make wise decisions (Peasnell et al., 2005). However, agency problems often arise because the board of directors has different personal interests and goals from shareholders (Sehrawat et al., 2019). Jensen & Meckling (1976) revealed that agency problems can arise due to differences in roles between the board of directors and shareholders. It is this role difference that encourages the board of directors to carry out earnings management. Earnings management occurs when the board of directors presents financial statements that have been modified for personal gain. This can certainly make it difficult for stakeholders in the decision-making process because the reports analysed are unreliable and no longer relevant (Klein, 2002).

Research on the relationship between directors' policies and political linkages with earnings management has been widely researched in developed countries such as the UK, Canada, or America (Peasnell et al., 2005). In contrast to developing countries such as Indonesia, where research discussing the relationship between these three variables can be said to be limited (Sehrawat et al., 2019). On the other hand, many literatures show that earnings management occurs more in developing countries than developed countries. This is due to weak law enforcement and limited guarantees for stakeholders in developing countries to obtain relevant information from financial statements. Taking advantage of this situation, directors with existing powers and policies can easily find loopholes in managing earnings (Haw et al., 2004).

This study examines the relationship of board characteristics consisting of board ownership, board financial expertise, board tenure on earnings management by exploring politically connected boards as moderation. This study contributes new knowledge about the moderating effect of politically connected boards on board characteristics on earnings management. This research also provides empirical evidence for companies to consider the existence of political connections within the company, especially companies in Indonesia.

This article is followed by another section. Section 2 explains previous studies in building hypotheses. Section 3 explains the methodology of this research. Section 4 discusses the results of the research that has been conducted. Finally, section 5 explains the conclusions and implications of this research.

LITERATURE REVIEW AND HYPOTHESIS DEVELOPMENT

Board Ownership and Earnings Management

The relationship between board ownership and earnings management is one of the variables that is often discussed among experts, although the research results shown vary (Chou & Chan, 2018). Directors are generally seen as the most powerful people in the organisation. Directors are given authority and responsibility for all company decision making, including preparing and presenting financial reports (Sani et al., 2019). For this great responsibility, directors are usually compensated in the form of salaries, bonuses, incentives, and even share ownership. In line with agency theory, directors with large shareholdings tend to have the same interests as shareholders. Directors who own more and more shares in the companies they manage can make good decisions to protect their investments. This causes, directors can avoid earnings management practices that can reduce company value (Jensen & Meckling, 1976). This statement is in line with research conducted by Nguyen (2020), Piosik & Genge (2019) and Lu and Zhang (2016) showing board ownership has a significant negative effect on earnings management. From some of the explanations above, the hypothesis can be concluded, as follows:

H1: Board ownership has a significant negative effect on earnings management.

Board Financial Expertise and Earnings Management

Directors as the highest officials are required to have knowledge in the field of company operations to demonstrate credibility and gain the trust of the board and shareholders (Zouari et al., 2015). Boards with financial knowledge and expertise play an important role in implementing appropriate accounting policies and overseeing the financial reporting process (Baatwah et al., 2015). Regression test results regarding the positive relationship of board financial expertise and earnings management can be found in various countries, such as research found in the United States by (He et al., 2015), Republic of China (Li et al., 2016), and in Indonesia (Mahardika & Fitriana, 2019). Zhao et al. (2016) state, boards with good financial expertise can have strong analytical skills. This financial expertise can be used to modify financial statements using professional judgement or actual transaction design to change accounting information that triggers earnings management.

Boards with financial expertise can understand financial reporting standards and codes of conduct and are more aware of the legal potential for earnings management. This understanding in finance causes directors with financial expertise to have less potential to practice earnings management. It can be concluded that when boards have expertise in finance, the tendency for earnings management practices in the company can be reduced. This finding is in line with research conducted by Xiong (2016), Gounopoulos and Pham (2018), Kouaib et al. (2018), Khunkaew and Qingxiang (2019) which state that board financial expertise has a negative relationship with earnings management. Based on the many research results that have been described in the statement above, the following hypothesis is obtained:

H2: Board financial expertise has a significant negative effect on earnings management.

Board Tenure and Earnings Management

Ghosh and Moon (2005) argue that boards with a long tenure are more likely to use their power to manipulate financial statement results. Long board tenure provides significant knowledge of the smooth running of the company and makes it easier for them to carry out earnings management. When the company shows poor performance, the boards can carry out earnings management to achieve the above objectives. Research to examine the relationship between board tenure and earnings management was also researched by Alhmood et al. (2020) in Jordan. This study did not find any significance between board tenure and earnings management. This research from the Middle East states that earnings management activities in a company can occur both in new boards and long-serving boards. This indicates that earnings management practices are not tied to the board tenure.

The results of the above research are contradicted by Zhang (2009) statement. Boards with new terms of office tend to want to build a good reputation and be competent. This encourages boards in the early years of their tenure to report good performance to get strong incentives. Research by Livnat et al. (2019) revealed that long tenure also has a strong reputation. Long tenure makes boards not want to damage their reputation as a result of activities such as data manipulation, so boards who have a long tenure do their work more carefully. According to Usman et al. (2022), long board tenure provides experience and knowledge in improving the monitoring process so that earnings management practices can be avoided. Several studies with the same results were found in Indonesia, Nurmayanti M and Rakhman (2017), Setyawan and Anggraita (2017) said, board tenure has a significant and negative effect on earnings management. Research with the same results is also obtained in countries such as the United States by (Chou & Chan, 2018), and (Xiong, 2016) in China.

H3: Board tenure has a significant negative effect on earnings management.

Politically Connected Boards and Earnings Management

Directors who have political connections can bring benefits to the company. The benefits of these political connections can include a better understanding of the public policy process, gaining direct access to political figures who have direct authority over economic performance (Hillman et al., 2002). Mohammed et al. (2010) argue that political connections can make directors unfocused in managing their company, which can have an effect on the low financial quality of a company. Weak internal controls can also encourage management to carry out earnings management, without the knowledge of the director.

Huobao and Boluo (2009) get the opposite conclusion from the above statement. Political relations are considered to have no effect on earnings quality in the context of low levels of external legal protection and internal corporate governance. The opposite research was found in China by Fan (2017) who said that to obtain funds, companies have two ways, namely through borrowing money from banks or the stock market. This action results in the company needing to report high income to show its ability to pay the debt. This activity triggers management to carry out earnings management activities. However, with the politically connected boards, the company can have a reputation and power that can help the company access funds from banks and other institutions (Chaney et al., 2011).

H4: Politically connected boards have a significant negative effect on earnings management.

Politically Connected Boards, Board Ownership and Earnings Management

Directors as the highest decision makers in a company can use their characteristics including share ownership to provide an increase in the quality of corporate earnings (Habib et al., 2017). The characteristics that should improve the quality of earnings in the company can sometimes be a hindrance due to the political activities of members of the board of directors. In practice, directors' ability to make economic decisions is often influenced by political connections. It can be concluded that the characteristics of the director to improve the quality of financial statements are closely related to the political relations of the company's directors (Sani et al., 2019). According to Sani et al. (2020), directors who have political relationships override and improve the CEO's ability to provide accurate and reliable financial reports.

Previous research on the politically connected boards suggests that directors who have positions in politics can bring benefits to the company. Politically connected boards can help increase company resources, either in the form of government subsidies, tax breaks, or cooperation contracts (Bliss & Gul, 2012; Chaney et al., 2011). On the other hand, Faccio et al. (2006) and Habib et al. (2017) suggest that politically connected boards may demand a fee in return for the benefits they bring to the company. The cost of the benefits of political connections can provide an advantage to a director to provide a position in the company. As a result, directors with political connections can use their power to empower the director's ability to improve the quality of financial statements. Based on the arguments described, the hypothesis is obtained as follows:

H5: Politically connected boards moderate the negative significant relationship between board ownership and earnings management.

RESEARCH METHODOLOGY

The research method uses historical research methods, quantitative research, and comparative causal research. Historical research is a research method that uses data obtained from the past as an object of research. Comparative and quantitative causal research is used to find the causal relationship of the earnings management variable to board ownership, board financial expertise, board tenure and politically connected boards using numbers. The object of this research uses the annual reports of companies listed on the IDX in the period 2016 to 2020. The sample selection technique used is purposive sampling method. The amount of data used in this study can be seen in (table 1).

Table 1. Companies Listed on the IDX that were Used as Research Samples

Description	Total
Companies listed on the IDX	727 companies
Companies listed after 2016	(188 companies)
Companies with incomplete financial reports	(182 companies)
Companies that were sampled	357 companies
Research year	5 years
Total company data for the period 2016-2020	1.785 data
Total data outliers	(423 data)
Total company data tested	1.362 data

From the sample collection results, there are 357 companies that the author considers having met the criteria for selecting the sample of this study, where the company is a company that publishes complete financial reports from 2016 to 2020.

The research model estimation to test hypotheses 1 and 2 is as follows:

Model 1

$$REM = \beta_0 + \beta_1COW + \beta_2CEX + \beta_3CET + \beta_4PC + \beta_5FAGE + \beta_6LEV + \beta_7FSZ + \beta_8CAN + \epsilon$$

Model 2

$$REM = \beta_0 + \beta_1COW + \beta_2CEX + \beta_3CET + \beta_4PC + \beta_5FAGE + \beta_6LEV + \beta_7FSZ + \beta_8CAN + \beta_9COW*PC + \epsilon$$

Description:

REM = Earnings Management

COW = Board Ownership

CEX = Board Financial Expertise

CET = Board Tenure

PC = Politically Connected Boards

FAGE = Firm Age

LEV = Leverage

FSZ = Firm Size

CAN = Board Nationality

Measurement of Variables

Dependent Variable

Earnings Management

Earnings management can be detected using the Roychowdhury (2006) model. This model is divided into three parts: abnormal production costs, abnormal cash flow from operating activities, and abnormal discretionary expenses with the following calculations:

- a. Calculate cash flow from normal operating activities (NCFO)

$$\frac{CFO_t}{Asset_{t-1}} = \alpha_0 + \alpha_1\left(\frac{CFO_t}{Asset_{t-1}}\right) + \beta_1\left(\frac{Sales_t}{Asset_{t-1}}\right) + \beta_2\left(\frac{\Delta Sales_t}{Assets_{t-1}}\right) + \epsilon_t$$

Where:

CFO_t = Cash flow from operating activities in year t

Asset_{t-1} = Total assets at the beginning of year t

Sales_t = Sales in year t

ΔSales_t = Difference in sales at the end of year t with the beginning of year t

- b. Determining the amount of cash flow from abnormal operating activities (Ab_CFO)

Ab_CFO can be calculated by finding the difference between cash flow from operating activities (CFO) and cash flow from normal operating activities (NCFO).

- c. Calculating normal discretionary expenses (NDEXP)

Normal discretionary expenses (NDEXP) can be found by estimating the coefficient of the regression test conducted with statistical software.

$$\frac{DEXP_t}{Asset_{t-1}} = \beta_0 + \beta_1 \left(\frac{1}{Asset_{t-1}} \right) + \beta_2 \left(\frac{Sales_{t-1}}{Assets_{t-1}} \right) + \epsilon_t$$

Where:

DEXP_t = Sum of selling expenses and general and administrative expenses

Asset t-1 = Total assets at the beginning of year t

Sales t = Sales in year t

- d. Determining the amount of abnormal discretionary expenses (Ab_DEXP)

Ab_DEXP can be calculated by finding the difference between discretionary expenses (DEXP) and normal discretionary expenses (NDEXP).

- e. Calculating normal production cost (NPROD)

Normal production costs (NPROD) can be calculated using the formula:

$$\frac{PROD_1}{Asset_{t-1}} = \alpha_0 + \alpha_1 \left(\frac{1}{Asset_{t-1}} \right) + \beta_1 \left(\frac{Sales_t}{Asset_{t-1}} \right) + \beta_2 \left(\frac{\Delta Sales_t}{Assets_{t-1}} \right) + \beta_3 \left(\frac{\Delta Sales_{t-1}}{Assets_{t-1}} \right) + \epsilon_t$$

- f. Determining the amount of abnormal production costs (Ab_PROD)

Ab_PROD can be calculated by finding the difference between production costs (PROD) and normal production costs (NPROD).

The earnings management number reflects the value of earnings management activities in a company. REM can be calculated by summing abnormal production costs (Ab_PROD), cash flow from abnormal operating activities (Ab_CFO), and abnormal discretionary expenses (Ab_DEXP).

Independent Variable

Board Ownership

Board ownership can be measured using a ratio scale with the following formula:

$$COW = \frac{\text{Number of common shares held by directors}}{\text{Total shares issued}} \times 100\%$$

Board Financial Expertise

According to Baatwah et al. (2015), board financial expertise plays an important role in implementing appropriate accounting policies in overseeing the financial reporting process and managing company resources. According to Zouari et al. (2015) board financial expertise can be measured using the following formula:

$$CFE = "1" \text{ if qualified in accounting, business, or finance and "0" if not}$$

Board Tenure

Board tenure is the period a managing board serves in a company (Muniroh, 2016). Board tenure can be measured by the following formula:

$$CT = \text{Number of years the director has served in the company}$$

Politically Connected Boards (PC)

Politically connected boards is a director who has a relationship or concurrent position as a politician related to a political party, government official, former government official, military official or former military official (Faccio et al., 2006). According to Chaney et al. (2011), Faccio et al. (2006), and Hashmi et al. (2018), politically connected boards can be measured using the following ratio scale:

$$PC = \frac{\text{Number of directors with political connections}}{\text{Number of Directors}}$$

Control Variables

The research control variables consist of firm age, leverage, firm size, and board nationality. Firm age is measured by the number of years since the company's listing date. Leverage is the use of assets by the company to measure the ability to make debt payments. Firm size is a measure that describes the scale of a company based on the determination of the logarithmic value of year-end assets. According to Masulis et al. (2012), board nationality can be measured by a dummy formula, code 1 if it has a director with foreign nationality, and code 0 if not.

RESULTS AND DISCUSSION

Results of Descriptive Statistical Test

Quantitative descriptive statistics show the minimum, maximum, mean and standard deviation values of each variable studied. Meanwhile, the descriptive statistics of qualitative data show the frequency of the dummy variables studied. The results revealed that earnings management actions in companies in Indonesia are still very minimal because the average figure is only -0.8888. If the earnings management value is close to 0, it indicates that the fewer companies practice earnings management. However, this does not indicate that Indonesia is free from earnings management activities.

The board ownership variable shows an average value of 0.0214. This result shows that most boards in companies listed on the IDX do not have significant share ownership in the companies they lead. As shown in Table 3, boards with expertise in economics amounted to 47.7%, which means that the proportion of directors with expertise outside the field of economics is greater. The presence of board financial expertise in economics can make the financial statements presented to the board of directors have gone through an evaluation and adjustment process that further highlights the director's performance.

The variable board tenure shows an average number of 7, this value indicates that the average board tenure is for seven years. It is also known that the maximum value for board tenure is 49 years. This can occur because based on Law No. 40 of 2007 concerning Limited Liability Companies which states that members of the board of directors who are appointed for a certain period can be reappointed and do not limit the term of office of directors in the company. Politically connected boards show an average value of 0.0189, which means that directors who serve and have political links in Indonesia are still relatively minimal.

The firm age variable shows an average value of 16.99. This means that the average company listed on the IDX has listed its shares for 16 years. The leverage control variable shows an average value of 0.64. This indicates that companies in Indonesia usually use 64% of their debt to finance company assets. The firm size variable shows that the average assets of companies in Indonesia are 28.8142.

Table 2. Descriptive Statistical Test Results

Description	Descriptive Statistics			
	Minimum	Maximum	Mean	Standard Deviation
Earnings Management	-52,32220	20,88051	-0,88775	1,68606

Board Ownership	0,00000	0,93124	0,02142	0,08500
Board Tenure	0,00000	49,00000	7,69523	9,67592
Politically Connected Boards	0,00000	0,66667	0,01895	0,06566
Firm Age	1,00000	43,0000	16,99607	9,20807
Leverage	0,00052	90,98972	0,64912	2,87687
Firm Size (Log)	22,83692	33,49453	28,81420	1,66894
N (amount of data)	1.785	1.785	1.785	1.785

Source: Data Processed, 2022

Table 3. Descriptive Statistical Test Results

CEX (Board Financial Expertise)					
		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Non-CEX	712	52,3	52,3	52,3
	CES	650	47,7	47,7	100,0
	Total	1362	100,0	100,0	
CAN (Board Nationality)					
		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Non-CAN	990	72,7	72,7	72,7
	CAN	372	27,3	27,3	100,0
	Total	1362	100,0	100,0	

Source: Data Processed, 2022

Result of Panel Regression Test

Panel regression testing is conducted to prove the hypothesis of each variable. Model determination is done by chow test and hausman test to get the results of f test, t test and coefficient of determination.

Result of Chow Test

Selection of pooled least square method and fixed effect model using Chow test. The criteria for selecting this method depend on the probability value. If the probability number is above 0.05, we will use the pooled least square method. Conversely, if the probability number shows a value below 0.05 then we will re-examine the data using the Hausman test.

Tabel 4. Result of Chow Test

Effects Test	Statistic	d.f.	Prob.
Cross-section F	18.371787	(308,1045)	0.0000
Cross-section Chi-square	2531.432859	308	0.0000

Source: Data Processed, 2022

Hausman Test

Hausman test is a test conducted to decide the best research method between Fixed effect method and random effect method. The criteria for selecting this model depend on the probability results of the random cross section in the Hausman test. If the probability value is above 0.05, the random effect method is used. Conversely, if the probability value of the Hausman test shows a value below 0.05, the fixed effect method will be used.

Tabel 5. Result of Hausman Test

Test Summary	Chi-Sq. Statistic	Chi-Sq. d.f.	Prob.
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Source: Data Processed, 2022

Hypothesis Test Results

Result of F Test

The F test results below show that the value of earnings management is at the significance level of 0.0000, which means that the variables of board ownership, board financial expertise, politically connected boards, board tenure, firm age, leverage, firm size, and board nationality have a significant influence on earnings management.

The Result of the T Test

Obtaining the T test value is done with two tests. The first test is used to find the effect of each independent variable on the dependent. The second test is used against the moderation variable.

Table 6. Hypothesis Test Results of the First Model

Variables	Coefficients	Prob	Description
C	3,5398	0,0000	
Board Ownership	-0,4221	0,7395	Insignificant
Board Financial Expertise	0,0089	0,8515	Insignificant
Board Tenure	0,0005	0,9094	Insignificant
Politically Connected Boards	-1,6426	0,3098	Insignificant
Firm Age	0,0576	0,0000	Positively significant
Leverage	0,0379	0,6124	Insignificant
Firm Size	-0,1825	0,0003	Negatively significant
Board Nationality	-0,1049	0,1113	Insignificant

Source: Data Processed, 2022

The data test results above show that the independent variable of board ownership shows a regression coefficient value of -0.4221 and a probability of 0.7395. The test results show that the board ownership variable is considered to have no significant effect because it is greater than 0.05. This result is in line with research conducted by (Parveen *et al.*, 2016). This can occur because share ownership by directors in publicly listed companies in Indonesia is still too small (the average value is only 6%) so that it is unable to influence earnings management figures. The relationship between the effect of board ownership on earnings management in previous studies has negative significant results. This hypothesis is not proven because it is not in line with the research results obtained.

The board financial expertise variable did not succeed in significantly influencing earnings management. This result is in line with the research conducted by Lai & Tam (2016), Parveen *et al.* (2016), Qawasmeh & Azzam (2020) and Bouaziz *et al.* (2020). Previous research uses accrual earnings management as a benchmark while this study uses real earnings management as a calculation. It cannot be denied that in practice, the director gives responsibility to the financial director in the presentation of financial statements. As a control holder, the finance director has the opportunity to carry out earnings management in the company. When the financial director performs accrual earnings management, directors with financial expertise can certainly more easily detect this behavior through financial statements. It is different if the financial director carries out real earnings management, where real earnings management is carried out in line with the company's operations. Directors are usually not too involved in the company's overall operational process, so the director's financial expertise cannot influence earnings management in the company (Chou & Chan, 2018).

The test results for board tenure show a regression coefficient value of -0.0005 and a probability significance value of 0.9094. This indicates that the relationship between board tenure

and earnings management is not significant. This can happen because generally directors, both newly appointed and long-serving directors, want to show their ability to generate profits to stakeholders. This is in line with research from Alhmoed *et al.* (2020) which suggests that there is no significant relationship between board tenure and earnings management.

Politically connected boards show a regression coefficient value of -1.6425 with a significance value of 0.3098. This shows that politically connected boards is unable to significantly influence earnings management. Huobao & Boluo (2009) assesses that political relationships have no effect on earnings quality in the context of low levels of external legal protection and internal corporate governance. This can occur because directors who have political ties are not necessarily in a position to take earnings management actions. In addition, the number of politically connected boards in Indonesia is also very limited, which is only 1.8%, so it is not able to significantly influence earnings management. The insignificant relationship of the politically connected boards were also found by several other studies such as research from Lu & Zhang (2016) and Fan (2017).

The second test is divided into 2 stages. The first stage tests the independent variables of director ownership and director political linkage. The second stage of testing was carried out again after the two variables were multiplied (moderated). The table below shows the results of the t test, namely:

Table 7. Results of t Test on Moderation Variables (FEM)

Variables	Coefficients	Prob	Description	Hypothesis
C	-64,3783	0,0000		
Board Ownership	-0,0273	0,9782	Insignificant	Unproven
Politically Connected Boards	0,3423	0,7322	Insignificant	Unproven

Source: Data Processed, 2022

Table 8. Results of t Test on Moderation Variables (FEM)

Variables	Coefficients	Prob	Description	Hypothesis
C	-63,9839	0,0000		
Board Ownership	-0,0273	0,9782	Insignificant	Unproven
Politically Connected Boards	0,5038	0,6145	Insignificant	Unproven
Politically Connected Boards*Board Ownership	-0,4939	0,6214	Insignificant	Unproven

Source: Data Processed, 2022

The test results in table 8 show that the moderation of the politically connected boards with the independent variable of board ownership has a probability value of 0.6214. This indicates that politically connected boards are unable to significantly strengthen the relationship between board ownership and earnings management. This research is consistent with the results obtained Mahardika & Fitriana (2019).

The firm age control variable has a significant positive effect on earnings management with a significance value that is below 0.05, namely, 0.0000. This indicates that the longer the company is established, the management tends to carry out earnings management. This causes companies to pay more attention to performance in previous periods and try to show better or stable performance. This action encourages management to carry out earnings management so that the company's reputation is maintained. This finding is in line with research conducted by Qawasmeh & Azzam (2020) and Bouaziz *et al.* (2020). The control variables leverage and board nationality show insignificant results on earnings management. Meanwhile, firm size shows a negative significant result with a significance value of 0.036. This shows that directors in companies with a large scale tend not to

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 carry out earnings management. This condition can occur because larger companies can get greater public attention as well Choi *et al.* (2020).

Result of Determination Coefficient Test

Table 9. Test Results of the Coefficient of Determination (R2)

Dependent Variable	Adjusted R Square
Earnings Management	0.7757
Earnings Management (Moderation)	0.7758

Source: Data Processed, 2022

The result of the adjusted R-squared means how much the dependent variable can be explained by the independent variable. The Coefficient of Determination test was carried out twice to determine the magnitude of the role of the moderating effect. The Adjusted R Square value show around 0.7757 for direct model and 0.7758 for moderating model. This means that the board characteristics, politically connected boards have a significant effect on earnings management.

CONCLUSION AND SUGGESTION

This study was conducted to determine whether directors with their political policies and activities can play an important role in limiting real earnings management. This study found that board ownership, board financial expertise, board tenure, politically connected boards, leverage, and board nationality have no significant relationship with earnings management. The moderating effect of politically connected boards also did not have a significant effect on earnings management practices in Indonesia due to its minimal percentage. However, this study obtained positive significant results from the firm age variable on earnings management and negative significant results from the firm size variable on earnings management.

In this study there are several limitations. First, this study only focuses on companies in Indonesia, so the generalizability of the findings needs to be examined carefully when applied to the global business context. Second, the analysis only involves certain variables, and it is possible that there are other factors that are not included in this study but may affect the results. For future research, it is recommended to involve more variables that can deepen the understanding of the factors that influence earnings management. In the context of moderation, further research could explore alternative moderating variables or identify additional factors that could strengthen or weaken the relationship between board ownership and earnings management.

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