“Conservatism as a moderating variable on the determinants of earnings management”

AUTHORS	Yuli Ardiany Niki Lukviarman Masyhuri Hamidi Elvira Luthan

ARTICLE INFO	Yuli Ardiany, Niki Lukviarman, Masyhuri Hamidi and Elvira Luthan (2023). Conservatism as a moderating variable on the determinants of earnings management. *Investment Management and Financial Innovations*, *20*(4), 324-334. doi:10.21511/imfi.20(4).2023.26
DOI	http://dx.doi.org/10.21511/imfi.20(4).2023.26
RELEASED ON	Thursday, 30 November 2023
RECEIVED ON	Monday, 25 September 2023
ACCEPTED ON	Tuesday, 14 November 2023

JOURNAL	"Investment Management and Financial Innovations"
ISSN PRINT	1810-4967
ISSN ONLINE	1812-9358
PUBLISHER	LLC “Consulting Publishing Company “Business Perspectives”
FOUNDER	LLC “Consulting Publishing Company “Business Perspectives”

NUMBER OF REFERENCES	NUMBER OF FIGURES	NUMBER OF TABLES
48	0	3

BUSINESS PERSPECTIVES

LLC "CPC "Business Perspectives"
Hryhorii Skovoroda lane, 10,
Sumy, 40022, Ukraine

www.businessperspectives.org

Yuli Ardiany (Indonesia), **Niki Lukviarman** (Indonesia), **Masyhuri Hamidi** (Indonesia), **Elvira Luthan** (Indonesia)

CONSERVATISM AS A MODERATING VARIABLE ON THE DETERMINANTS OF EARNINGS MANAGEMENT

Received on: 25th of September, 2023
Accepted on: 14th of November, 2023
Published on: 30th of November, 2023

Yuli Ardiany, Student, Business and Economics Faculty, Management Department, Andalas University, Indonesia. (Corresponding author)

Niki Lukviarman, Professor, Business and Economics Faculty, Management Department, Andalas University, Indonesia. (Corresponding author)

Masyhuri Hamidi, Associate Professor, Business and Economics Faculty, Management Department, Andalas University, Indonesia.

Elvira Luthan, Associate Professor, Business and Economics Faculty, Management Department, Andalas University, Indonesia.

Conflict of interest statement:
Author(s) reported no conflict of interest

Abstract

This study aims to provide empirical evidence about the determinants that can impact earnings management, through board diligence, ownership concentration, CEO ownership, and CEO tenure, as well as testing conservatism as a moderating variable. Secondary data, specifically information derived from annual financial reports, are utilized in this study. Information for financial reports is acquired from the Indonesia Stock Exchange (IDX) data stream and website from 2013 to 2022, the population of this study comprises all banking institutions listed on the Indonesia Stock Exchange. This study's findings demonstrate that the presence of board diligence significantly hinders earnings management. Moreover, the findings of this study demonstrate that organizations characterized by a significant concentration of ownership will have the capacity to mitigate the prevalence of earnings management practices. Additionally, this study's findings demonstrate that a reduction in earnings management activities is associated with greater CEO ownership. The findings of this study offer a practical illustration for stakeholders regarding the responsibilities of shareholders, which may prove beneficial in overseeing an organization's operations. This study shows that high conservatism in companies actually mitigates the good effects of the ownership concentration and CEO ownership variables on earnings management. In summary, this study establishes that companies characterized by elevated levels of conservatism do not actively engage in earnings management practices that are beneficial to the organization.

Keywords earnings management, board diligence, ownership concentration, CEO ownership, CEO tenure, conservatism

JEL Classification G32, G41, M41

INTRODUCTION

Banking is a key industry to ensure the leading role of finance in the economic development process. Frequently, management strives to preserve the bank's healthy condition. Profit data are frequently exploited for engineering objectives via opportunistic management practices. This is accomplished through the selection of a particular accounting method, which permits profits to be modified, increased, or decreased in accordance with management's preferences. According to Amin et al. (2017), income management is still evident in the financial statements of public companies in Indonesia, including those in the banking sector. In Indonesia, the subsequent financial institutions have been implicated in scandals involving earnings management: By selling cessie, or an organization's non-performing loans, to PT Perusahaan Pengelola Aset (PPA), PT Bank Tabungan Negara (Persero) engaged in the act of window dressing or manipulation of financial reports in 2018, then PT Bank Bukopin Tbk revised its 2016 net profit to IDR 183.56 billion from the initial IDR 1.08 trillion. The biggest decline was in the fees and commission income section, which

http://dx.doi.org/10.21511/imfi.20(4).2023.26

is income from credit cards. This income decreased from IDR 1.06 trillion to IDR 317.88 billion. PT Bank Jawa Barat and Banten (BJB) Syariah incurred estimated losses of IDR 548 billion as a result of an alleged fictitious credit case. Each of the losses or irregularities incurred has a monetary impact exceeding 100 million IDR. Additionally, BJB Syariah encountered a circumstance in 2018 in which it surpassed the Maximum Fund Distribution Limit (BMPD). Consequently, in accordance with Bank Indonesia Regulation No. 13/5/PBI/2011 regarding the Maximum Limit for Distribution of Sharia Rural Bank Funds, the organization is obligated to disclose its action plan to enhance GCG.

Earnings management is an incentive for company executives to enhance the company's performance with the intention of enticing shareholders to allocate capital towards the organization. Earnings management is a deliberate attempt by company executives to manipulate financial reporting and transaction arrangements in order to alter financial statements in a way that misleads several stakeholders about the company's economic performance or to "influence contractual results" (Healy & Wahlen, 1998). The policy that allows bank executives to make decisions within the limits set by the regulator can have a significant impact on risks faced by the company (Rahim et al., 2020). Earnings management occurs when managers exercise discretion in financial reporting and execute transactions to modify financial statements, with the intention of deceiving stakeholders about the company's financial performance and influencing the outcomes of contracts that rely on the reported accounting figures. Researching earnings management is crucial due to the detrimental consequences that can ensue when it obfuscates the rational calculations of investors, thereby diminishing the caliber of information presented in financial reports. According to Mahrani and Soewarno (2018), the low quality of information contained in financial reports will have a negative impact on a company's financial performance; this study was conducted at 102 manufacturing companies listed on the Indonesia Stock Exchange in 2014. Tabassum et al. (2015), using the Generalized Least Square (GLS) method to analyze 119 companies listed on the Karachi Stock Exchange (KSE) from 2004 to 2011, found that companies that engaged in Real Earnings Management (REM) by manipulating sales to appear as though profits were substantial experienced a decline in future financial performance.

Fama and Jensen (1983) explain that Board Diligence can serve as an intermediary between internal managers regarding issues that arise, as well as monitor and advise the board of directors on its policies. An additional determinant believed to impact earnings management is the tenure and ownership of the CEO. Di Meo et al. (2017) examine the impact of CEO ownership on earnings management in Delaware-domiciled and non-Dominant companies from 1992 to 2011. The focus is on regulated industries (SIC codes between 4400 and 5000) and financial institutions (SIC codes between 6000 and 6500). The results indicate that CEO ownership reduces the likelihood of shareholders being harmed by earnings management activities; thus, earnings management is less likely to occur.

In addition, two hypotheses – the monitoring hypothesis and the entrenchment hypothesis – contribute to the relationship between ownership concentration and earnings management. The monitoring hypothesis posits that certain researchers regard ownership concentration as a management discipline instrument that serves to sustain the process of value creation. According to Rahnamay Roodposhti and Nabavi Chashmi (2010), the presence of significant shareholders can serve as an effective mechanism to oversee management and prevent opportunistic earnings management practices. Conservatism is the moderating variable utilized in this study. Accounting conservatism is associated with earnings management practices characterized by a consistent decline in profits. García Lara et al. (2020) who examined Thomson financial-listed companies from 1990 to 2018 indicated that more conservative firms had a lower likelihood of employing any method to manage profits to meet profit benchmarks. Bertomeu et al. (2017) show that conservatism can foster earnings management incentives. The objective of this study is to examine the factors that impact earnings management, including board due diligence, ownership concentration, tenure of the CEO, and ownership concentration. In addition to examining the potential moderating effect of conservatism on the determinants of earnings management.

1. LITERATURE REVIEW AND THEORETICAL FRAMEWORK

The theory underlying the framework of this study consists of Agency Theory. According to Jensen and Meckling (1976), the interaction between agents (business management) and principals (shareholders) constitutes agency theory. Principals (stakeholders) and agents (management) in interaction are highly susceptible to agency conflicts. Agency issues are discernible when there are disparities in interests and insufficient information (referred to as information asymmetry) between the principal and agent. This may occur because the corporation's management, which shareholders have hired to oversee the business, does not always act in their best interests. In contrast to shareholders, who demand dividends and increased corporate profitability, managers are agents who are incentivized to maximize the satisfaction of economic and psychological needs. According to agency theory, managerial entrenchment is detrimental to shareholders, as supported by numerous sources. Several other agency theory texts, however, contend that under specific conditions, managers' and shareholders' interests can coincide. As stated by Di Meo et al. (2017), the absence of shareholder-detrimental earnings management activities is the result of managerial entrenchment. Numerous factors influence management earnings, including board diligence, ownership concentration, CEO tenure, and ownership.

Literature regarding earnings management was first revealed by Healy (1985) that managers use accruals to strategically manipulate bonus income. DeAngelo (1986) hypothesized that managers of companies going private would have an incentive to understate reported earnings to reduce buyout compensation. Managerial Hypotheses emphasizes the significance of managers' ownership and conflict of interest between managers and stockholders (Hamidi et al., 2013). According to Schipper (1989), earnings management is a deliberate intervention in the external financial reporting process, with the intention of gaining some personal benefit. Healy and Wahlen (1999) found that earnings management takes place when managers alter financial reports and manipulate results in contracts that rely on the reported accounting figures to mislead stakeholders regarding the economic performance of the company. This is accomplished using discretion in financial reporting and transaction preparation. In contrast, Parfet (2000) revealed that good earnings management is "reasonable and appropriate practices that are part of well-managed business operations and provide value to shareholders." He views good earnings management as occurring "where management takes action to try to create stable financial performance with acceptable voluntary business decisions. According to San Martin Reyna (2018), earnings management is a key device for managers to influence investor perceptions as measured by the wisdom that managers can have in their financial reporting. Talab et al. (2018) stated earnings management is one of the practices that has the greatest impact on the quality of financial reporting in a company's financial reports, because it affects the accounting policy method's process for determining the company's actual performance.

Furthermore, regarding board diligence, the board of commissioners is an organ within the company which has the task of supervising the actions of the directors and providing advice (Aprilian et al., 2020). Chatterjee (2020) states that Board Diligence is an additional important measure of the quality of the Board of Commissioners. Board Diligence measurements used in the study by Chatterjee (2020) is the average percentage of board meetings attended by the Board of Commissioners. In the Republic of Indonesia Financial Services Regulation Number 57/POJK.04, (2017), Article 27 paragraphs 1 and 2, the Board of Commissioners is obliged to hold a meeting at least 1 (one) time in 3 (three) months, which is attended by the majority of all members of the Board of Commissioners. Board Diligence can better monitor managers and thereby reduce opportunistic behavior manager. The next variable in this study is one of the characteristics of corporate governance in Indonesia, such as concentrated ownership structure. Concentrated ownership structure means ownership mostly by one party of a company. Ownership concentration as a management discipline instrument that functions to maintain the value creation process – Monitoring hypothesis. Rahnamay Roodposhti

http://dx.doi.org/10.21511/imfi.20(4).2023.26

and Nabavi Chashmi (2010) stated that the presence of a majority shareholder ensures that management is effectively monitored to prevent opportunistic earnings management. The entrenchment hypothesis posits that managers are subject to significant influence from controlling shareholders, which results in managers formulating decisions that cater to the interests of said shareholders. Controlling shareholders exert pressure on managers to make self-serving decisions that negatively affect non-controlling shareholders. La Porta et al. (1999) stated that significant power over the corporation is owned by the controlling shareholder. This indicates an agency conflict between controlling and non-controlling shareholders. This conflict is called the Agency Problem. The agency problem that occurs in developing countries is not an agency conflict between shareholders and managers as stated by Berle and Means (1932), however, where controlling and non-controlling shareholders have divergent interests. Based on this agency problem, support is provided to management for earnings management in the preparation of financial reports. According to agency theory, managerial entrenchment is detrimental to shareholders, as supported by numerous sources. Several other agency theory texts, however, contend that under specific conditions, managers' and shareholders' interests can coincide. This study hypothesizes that board diligence has a significant negative effect on earnings management.

A concentration of ownership occurs when one party holds the majority of shares in a company. That party has considerable control over the corporation due to its high total ownership; therefore, the majority of shareholders are also referred to as controlling shareholders. Some researchers consider ownership concentration as a management discipline instrument that functions to maintain the value creation process – Monitoring hypothesis. According to Rahnamay Roodposhti and Nabavi Chashmi (2010), large shareholders can effectively monitor management to prevent opportunistic income behavior on the part of management. On the contrary to alternative viewpoints, ownership concentration is a determinant that may facilitate opportunistic behavior and, consequently, serves as a mechanism for value expropriation. According to the entrenchment hypothesis, value expropriation occurs when controlling shareholders exert significant influence over managers, causing them to make decisions in accordance with their interests. Controlling shareholders exert pressure on managers to make self-serving decisions that result in financial losses for non-controlling shareholders. La Porta et al.'s (1999) findings of an investigation into the ownership structures of major corporations in 27 wealthy economies demonstrate that controlling shareholders wield considerable influence over the companies, particularly through the use of ownership pyramids and management participation. Because managers frequently hold shares, OC (Ownership Concentration) is utilized in this study to quantify ownership concentration, specifically the total percentage of shares owned by the five largest shareholders. Hence, relying solely on the proportion of shares held by the largest shareholder does not furnish a dependable indication of the level of investor protection (Sousa & Galdi, 2016). This study hypothesizes that Ownership Concentration has a significant positive effect on Earnings Management.

The implementation of entrepreneurial practices may also influence earnings management by relieving management of short-term market pressure in favor of long-term investments that increase the value of the company. Di Meo et al. (2017) proved that entrenched managers are less susceptible to being involved in earnings management activities that are detrimental to shareholders. Di Meo et al. (2017) also proved that earnings management has a low contribution to harming company value if the manager is already established (entrenched). Managerial entrenchment is a form of defense by company managers which can be seen from the tenure of the CEO and the manager's share ownership (Di Meo et al., 2017). Stein (1989) contends that non-entrenched CEOs will be subject to market pressure and will tend to act "myopically" by using short-term value increases to signal company efficiency to stakeholders. Therefore, managers under stress are more inclined to select projects that yield immediate outcomes, disregarding long-term investments that are anticipated to yield greater long-term benefits. In this study, managerial entrenchment is defined as the duration of CEO tenure and CEO ownership. CEOs must hone their leadership abilities early in their tenure to meet the requirements of their new position. Subsequently, managerial opportunism becomes more probable. According to Fredrickson et al. (1988), initial vulnerability arises when the tenure of the CEO is equal to or shorter than three years. The CEO begins to gain influence and becomes more entrenched after three years. The measurement of CEO Tenure in this study is in accordance with the research measurements conducted by Di Meo et al. (2017), namely a dummy variable that takes the value 1 if the CEO has a tenure of more than three years, and 0 otherwise. In the case of banking, Ungureanu (2008) stated that concentrated managerial ownership increases a bank's control and monitoring of its activities through better information flow. Large shareholders are more effective in exercising their rights, so they have greater control over management (Husni et al., 2020). The measurement of CEO Ownership in this study is the number of shares owned by the CEO, divided by the number of company shares outstanding (Di Meo et al., 2017). This study hypothesizes that CEO tenure and CEO ownership have a significant negative effect on earnings management.

The moderating variable in this study is conservatism. According to Basu (1997), conservatism is characterized by the practice of decreasing profits (and net asset value) in reaction to unfavorable information, while refraining from augmenting profits (and net asset value) in light of favorable news. This statement implies that accounting conservatism increases in tandem with the level of verification necessary to recognize profits. Conservatism pertains to a set of criteria for selecting accounting principles that promote the reduction of cumulative profit reporting through the implementation of the following measures: decelerating expense recognition, expediting revenue recognition, diminishing asset valuation, and increasing liability valuation (Givoly & Hayn, 2000). According to Watts (2003), conservatism is the response of management to foresee the absence of profit and expedite the recognition of losses. According to FASB Statement of Concept No. 2, accounting conservatism is a prudent response to the inherent uncertainty in a company, with the aim of ensuring that internal uncertainties and risks in the business environment are sufficiently considered. It is imperative that financial reports accurately reflect these uncertainties and risks to enhance their predictive value and neutrality. Prudent reporting will yield the greatest advantages for all stakeholders utilizing financial reports.

Fundamentally, the notion of conservatism is synonymous with the strategy of earnings management, which aims to minimize profits. The application of conservatism is motivated by the propensity for managers to manipulate financial reports; managers who possess an overly optimistic outlook may result in the excessive presentation of financial reports; this can be counterbalanced by the pessimistic approach of conservatism. García Lara et al. (2020) conducted research on companies listed on Thomson Financial from 1990 to 2018, the results showed that more conservative companies had a lower probability of managing profits with any method to achieve profit benchmarks. Bertomeu et al. (2017) prove that conservatism can create incentives for earnings management. Ahmed and Duellman (2007) stated that a strong board of directors, which signifies greater conservatism, may aid in diminishing agency costs caused by managers disclosing asymmetric information to third parties. In other words, conservatism may diminish the impact of board diligence on earnings management. Salehi et al. (2021) revealed that managerial entrenchment and unconditional conservatism as reported in the income statement and financial position have a significant and positive correlation. This study hypothesizes that the existence of conservatism can mitigate the impact of CEO ownership and tenure on earnings management.

2. METHODOLOGY

This study used secondary data. The data for this study originates from annual financial statements, which are publicly available on the Indonesia Stock Exchange website for the 2013–2022 period, with a total sample size of 290 companies. The analysis method used in this study is panel data regression.

http://dx.doi.org/10.21511/imfi.20(4).2023.26

Econometric Views (Eiviews 11) is used to analyze the data collected. In this work, panel data regression equation model is shown in model (1):

$$EM = \beta_0 + \beta_1 BD_{it} + \beta_2 BI_{it} + \beta_3 CT_{it} + \\ + \beta_4 CO_{it} + \beta_5 OC_{it} + \beta_6 KO_{it} + \\ + \beta_7 BD \cdot KO_{it} + \beta_8 BI \cdot KO_{it} + \\ + \beta_9 CT \cdot KO_{it} + \beta_{10} CO \cdot KO_{it} + \\ + \beta_{11} OC \cdot KO_{it} + \varepsilon, \quad (1)$$

where *EM* – Earnings Management; *BD* – Board Diligence (as a proxy for board quality); *BI* – Board Independence (as a proxy for board quality); *CT* – CEO tenure (as a proxy for managerial entrenchment); *CO* – CEO ownership (as a proxy for managerial entrenchment); *OC* – Ownership concentration; *KO* – Conservatism; Control variables: CAR and LDR.

Earnings management is measured using the formula of model (2):

$$LLP_{it} = a + \beta_1 BEGLLR_{it} + \beta_2 LASSET_{it} + \\ + \beta_3 LCO_{it} + \beta_4 CHLOAN_{it} + \\ + \beta_5 NPL_{it} + \beta_{6-11} L\_CATEGORE_{it} + \varepsilon_{it}, \quad (2)$$

where LLP_{it} – Loan Loss Provisions; $BEGLLR_{it}$ – Beginning Loan Loss Reserves; $LASSET_{it}$ – Natural Log Of Total Assets; LCO_{it} – net loans that have been written-off after after deducting any recoveries as a percentage of total loans; $CHLOAN_{it}$ – The Change In Total Outstanding Loans (change in total outstanding loans) in the end of year t; NPL_{it} – Loans that are more than 90 days past due and are still subject to interest; $L\_CATEGORE_{it}$ – different loan categories such as individual, corporate, other bank, and government loans ; ε_{it} – the error term of model 1.

$$RSLG_{it} = a + \beta_1 LASSET_{it} + \\ + \beta_2 URSGL_{it} + \varepsilon_{it}, \quad (3)$$

where $RSLG_{it}$ – Realized Securities Gains And Losses (realized securities gains and losses from securities held until maturity (HTM) and available for sale (AFS) as a percentage of total assets; $LASSET_{it}$ – Natural Log Of Total Assets; $URSGL_{it}$ – unrealized securities gains and losses from AFS as a percentage of total assets.

So, the earnings management model is like that in model (4):

$$EM_a = DRSGL_a + DLLP_a \quad (4)$$

Abu-Dawleh et al. (2021)

Board Diligence is measured by model (5)

$$BD = \frac{\Sigma DK}{\Sigma RDK} \cdot 100\%, \quad (5)$$

where *BD* – Board Diligence or number of board meetings attended; *ΣDK* Number of board of commissioners; ΣRDK: Number of board of commissioners' meetings (Chatterjee, 2020).

CEO tenure is measured with a dummy variable taking the value 1 if the CEO has a tenure of more than three years, and 0 otherwise.

CEO Ownership is measured like model (6)

$$CO = \frac{\sum \text{shares owned by the } CEO}{\sum \text{outstanding shares}} \cdot 100\%, \quad (6)$$

where *CO* – CEO Ownership
Conservatism is measured by formula (7):

$$NOACC_{it} = \frac{Net\ profit - AKO - Dep}{Total\ Asset}, \quad (7)$$

where $NOACC_{it}$ – Accounting Conservatism Index; *AKO* – Cash Flow from Operating Activities; *Dep* – Accumulated Depreciation of Fixed Assets; *TA* – Total Assets.

3. RESULTS AND DISCUSSION

The research objective is to empirically test the influence of Board Diligence, Ownership Concentration, CEO Tenure, and CEO Ownership on earnings management with conservatism as a moderating variable. Table 1 is the regression results from the research model (1).

According to the regression results presented in Table 1, there is substantial evidence to suggest that earnings management is negatively impacted by the board diligence variable. Specifically, an increase in board diligence is associated with a decrease in earnings management. This indicates

Table 1. Model regression results

Variable	Prediction	Coefficient	Probability
BOARD_DILIGANCE	–	–0.000139	0.0009***
CONCENTRATION_OWNERSHIP	+	0.028760	0.0045**
CEO_OWNERSHIP	–	–3.48E–06	0.0515*
CEO_TENURE	–	0.049257	0.2599
CONSERVATISM	–	0.042164	0.2967
BOARD_DILIGANCE* CONSERVATISM	–	0.000599	0.1217
CEO_OWNERSHIP* CONSERVATISM	–	–1.334687	0.0153**
CONCENTRATION_OWNERSHIP* CONSERVATISM	–	–0.155446	0.0012***
CEO_TENURE* CONSERVATISM	–	0.018505	0.1556
LDR	–	–9.63E–05	0.0666*
CAR	–	–0.000117	0.0710*
Adj R-squared		0.318096	
F-statistic		4.063937	
Prob (F-statistic)		0.000000	

Note: BOARD_DILIGACE = Board Diligence; CONSCENTRATION_OWNERSHIP = Majority of the top 5 shareholders; CEO_OWNERSHIP = share ownership; CEO_TENURE = CEO tenure; CONSERVATISM = Accounting Conservatism; CAR = Capital Adequacy Ratio; LDR = Loan to Deposit Ratio. Significance at *10%, **5%, and ***1%.

that as the board of commissioners attends meetings more frequently, the company's level of earnings management decreases. Additionally, it has been demonstrated that the CEO_OWNERSHIP variable has a substantial adverse impact on earnings management. This implies that an increase in the CEO's ownership stake in a company will result in reduced earnings management. This indicates that the CEO has a greater number of company shares, which reduces the company's earnings management. Concerning the subsequent variable, CEO_TENURE, the outcomes are inconsequential. The final independent variable is CONCENTRATION_OWNERSHIP, which has a significant positive effect on earnings management, according to the results of regression model 1. Thus, the degree of earnings management in a company is proportional to the proportion of ownership held by its five largest shareholders.

The regression model incorporates two control variables: the CAR variable exhibits a negative direction, indicating that an increase in the company's Loan to Deposit Ratio correlates with a decrease in earnings management actions; and the LDR variable also displays a negative direction, indicating that an increase in a company's Capital Adequacy Ratio corresponds to a decrease in earnings management actions. Conversely, this study offers empirical support for the notion that a significant proportion of chief executive officers (CEOs) of banking institutions in Indonesia possess over three years of service. This is indicated by the proportion of results approaching 57% and the count of 165 companies out of 290 samples whose CEOs possess such tenure (Refer to Appendix B).

The findings of this study align with agency theory, which proposes various mechanisms to reconcile the concerns of shareholders and managers, as well as controlling and non-controlling shareholders, including implementers of corporate governance. Agency theory subsequently demonstrates that the presence of a monitoring mechanism can mitigate opportunistic conduct that arises from agency conflict. This underscores the critical significance of the board of directors in corporate governance mechanisms, as evidenced by the agency conflict. Consequently, a competent board can mitigate earnings management. This study contributes to the accounting literature on earnings management and offers an alternative viewpoint on the moderating effect of accounting conservatism on earnings management determinants. The vulnerability of this study is that the tenure of the CEO is assessed using a dummy variable. Additional research may be undertaken to ascertain the reasons why companies exhibiting a pronounced conservatism may enhance or diminish earnings management-influencing factors in specific business contexts. Further research can examine more specific activities of conservatism, such as which activities resemble earnings management the most and why.

http://dx.doi.org/10.21511/imfi.20(4).2023.26

CONCLUSION

The objective of this study is to determine the impact of conservatism as a moderating variable in addition to earnings management determinants, including board diligence, ownership concentration, CEO ownership, and CEO tenure. The findings of this study indicate that organizations that have diligent boards will engage in less earnings management. This demonstrates that board diligence can motivate organizations to cease earnings management practices. The findings of this study demonstrate that organizations characterized by a significant concentration of ownership will have a greater capacity for engaging in earnings management activities within a company. According to the findings of this study, companies with a high CEO ownership rate will be less likely to engage in company earnings management activities. In relation to the moderating variable, empirical evidence suggests that conservatism mitigates the impact of board diligence, ownership concentration, and CEO ownership on earnings management, respectively. Nonetheless, there is no empirical evidence to suggest that conservatism mitigates the impact of CEO tenure on earnings management. This study's findings offer a useful illustration for stakeholders who ought to be more cognizant of the responsibilities of shareholders with regard to monitoring the company's operations.

AUTHOR CONTRIBUTIONS

Conceptualization: Niki Lukviarman.
Data curation: Yuli Ardiany.
Formal analysis: Yuli Ardiany.
Funding acquisition: Yuli Ardiany.
Investigation: Masyhuri Hamidi.
Methodology: Masyhuri Hamidi.
Resources: Elvira Luthan.
Software: Masyhuri Hamidi.
Supervision: Niki Lukviarman, Elvira Luthan.
Validation: Niki Lukviarman.
Visualization: Elvira Luthan.
Writing – original draft: Yuli Ardiany.
Writing – review & editing: Niki Lukviarman, Masyhuri Hamidi, Elvira Luthan.

ACKNOWLEDGMENT

This research received no specific grant from any funding agency in the public, commercial, or non-profit sectors.

REFERENCES

1. Abu-Dawleh, A., Lybaert, N., Steijvers, T., & Jans, M. (2021). Board of directors and earnings management: conventional and Islamic banks. *Asia-Pacific Journal of Accounting and Economics,* 1-17. https://doi.org/10.1080/16081625.2021.1886951
2. Ahmed, A. S., & Duellman, S. (2007). Accounting conservatism and board of director characteristics: An empirical analysis. *Journal of Accounting and Economics, 43*(2-3), 411-437. https://doi.org/10.1016/j.jacceco.2007.01.005
3. Amin, A, Djuminah, Suhardjanto, D. (2017). Agustiningsih SW. Board-Auditor Interaction and Earnings Management: The Model of Company with Concentrated Ownership. *Review of Integrrative Business & Economics Research,* 6(3), 217-238. Retrieved from https://sibresearch.org/uploads/3/4/0/9/34097180/riber_6-3_a17-208_217-238.pdf
4. Anabella, C. N., & Wijaya, H. (2022). Pengaruh Komisaris Independen dan Demografi Komisaris terhadap Manajemen Laba pada Perusahaan IPO pada Tahun 2015–2019. *Forum Ekonomi, 24*(1), 144-154. Retrieved from https://journal.feb.unmul.ac.id/index.php/FORUMEKONOMI/article/view/10730

5. Arief, T. (2019). *Terjadi 4 Internal Fraud di BJB Syariah Selama 2018 [There were 4 internal frauds at BJB Syariah during 2018]*. (In Indonesian). Retrieved from https://finansial.bisnis.com/read/20190423/90/914480/terjadi-4-internal-fraud-di-bjb-syariah-selama-2018

6. Augustpaoal, N., & Venina. (2020). Pengaruh Kontrak Hutang, Biaya Politik dan Kepemilkan Institusional Terhadap Manajemen Laba [Effect of Debt Contracts, Political Costs and Institutional Ownership on Earnings Management]. *Jurnal Multiparadigma Akuntansi Tarumanagara., 2*(4), 1623. (In Indonesian). Retrieved from https://lintar.untar.ac.id/repository/penelitian/buktipenelitian_10110011_5A180921114929.pdf

7. Avabruth, S. M., & Padhi, S. K. (2022). Earnings management by family firms to meet the debt covenants: evidence from India. *Journal of Accounting in Emerging Economies*. https://doi.org/10.1108/JAEE-12-2020-0331

8. Basu, S. (1997). The conservatism principle and the asymmetric timeliness of earnings: An event-based approach. *Journal of Accounting and Economics, 24*(1), 3-37. Retrieved from https://papers.ssrn.com/sol3/Delivery.cfm/SSRN_ID563002_code56750.pdf?abstractid=437144

9. Ben-Amar, W., Chang, M., & McIlkenny P. (2017). Board Gender Diversity and Corporate Response to Sustainability Initiatives: Evidence from the Carbon Disclosure Project. *Journal of Business Ethics, 142*(2), 369-383. http://dx.doi.org/10.1007/s10551-015-2759-1

10. Berle, A. A., & Means, G. C. (1932). The Modern Corporation and Private Property. *Journal of Financial Economics, 24*. Retrieved from https://edisciplinas.usp.br/pluginfile.php/106085/mod_resource/content/1/DCO0318_Aula_0_-_Berle__Means.pdf

11. Bertomeu, J., Darrough, M., & Xue, W. (2017). Prudence optimale et manipulation des résultats. *Contemporary Accounting Research, 34*(1), 252-284. Retrieved from https://onlinelibrary.wiley.com/doi/abs/10.1111/1911-3846.12247

12. Chatterjee, C. (2020). Board Quality and Earnings Management: Evidence from India. *Global Business Review, 21*(5), 1302-24. https://doi.org/10.1177/0972150919856958

13. Claessens, S., Djankov, S., & Lang, L. H. P. (2000). The separation of ownership and control in East Asian Corporations. *Journal of Financial Economics, 58*, 81-112. https://doi.org/10.1016/S0304-405X(00)00067-2

14. Di Meo, F., García Lara, J. M., & Surroca, J. A. (2017). Managerial entrenchment and earnings management. *Journal of Accounting and Public Policy, 36*(5), 399-414. http://dx.doi.org/10.1016/j.jaccpubpol.2017.07.003

15. Draief, S., & Chouaya, A. (2022). The effect of debt maturity structure on earnings management strategies. *Managerial Finance, 48*(7), 985-1006. https://doi.org/10.1108/MF-07-2021-0314

16. Fama, E. F., & Jensen, M. C. (1983). Separation of ownership and control. *Corporate Governance: Values, Ethics and Leadership*, 163-88. Retrieved from https://www.jstor.org/stable/725104

17. Fitri, V., & Siswantoro, D. (2021). Can corporate governance mechanisms reduce earnings-management practices in Islamic banks? *Journal of Islamic Accounting and Business Research, 13*(1), 16-31. https://doi.org/10.1108/JIABR-04-2019-0081

18. García Lara, J. M., García Osma, B., & Penalva, F. (2020). Conditional conservatism and the limits to earnings management. *Journal of Accounting and Public Policy, 39*(4). https://doi.org/10.1016/j.jaccpubpol.2020.106738

19. Givoly, D., & Hayn, C. (2000). The Changing Time-Series Properties of Earnings, Cash Flows and Accruals. *Journal of Accounting and Economics, 29*, 287-320. https://doi.org/10.1016/S0165-4101(00)00024-0

20. Gull, A. A., Nekhili, M., Nagati, H., & Chtioui, T. (2018). Beyond gender diversity: How specific attributes of female directors affect earnings management. *The British Accounting Review, 50*(3), 255-274. https://doi.org/10.1016/j.bar.2017.09.001

21. Habbash, M. (2019). The role of corporate governance regulations in constraining earnings management practice in Saudi Arabia. *Research in Corporate and Shari'ah Governance in the Muslim World: Theory and Practice*, 127-40. https://doi.org/10.1108/978-1-78973-007-420191011

22. Hamidi, M., Mansor, N., Sultan, U., Abidin, Z., & Asid, R. (2013). Capital Expenditure Decisions: a Study of Malaysian Listed Companies Using an Ordered Logistic Regression Analysis. *Journal of the Asian Academy of Applied Business, 2*(1), 66-81. Retrieved from https://jurcon.ums.edu.my/ojums/index.php/JAAAB/article/view/962

23. Jensen, M. C., & Meckling, W. H. (1976). Theory of the firm: Managerial behavior, agency cost and ownership structure. *Journal of Financial Economics, 3*, 305-360. https://doi.org/10.1016/0304-405X(76)90026-X

24. Jiang, Y., Li, M., & Xia, P. (2021). Bank supply chain efficiency analysis based on regional heterogeneity: a data-driven empirical study. *Industrial Management & Data Systems, 121*(4), 940-63. https://doi.org/10.1108/IMDS-10-2019-0541

25. Kabara, A. S., Khatib, S. F. A., Bazhair, A. H., & Sulimany, H. G. H. (2022). The Effect of the Board's Educational and Gender Diversity on the Firms' Performance: Evidence from Non-Financial Firms in Developing Country. *Sustainability, 14*(17). https://doi.org/10.3390/su141711058

26. La Porta R., Lopez-de-Silanes, F., & Shleifer, A. (1999). Corporate ownership around the world. *The Journal of Finance, 54*(2), 471-517. https://doi.org/10.1111/0022-1082.00115

27. Lukviarman, N. (2004). Etika Bisnis Tak Berjalan di Indonesia: Ada Apa Dalam Corporate Governance? [Business Ethics Doesn't Work

in Indonesia: What's Happening in Corporate Governance?] *Jurnal Siasat Bisnis, 2*(9), 139-156. (In Indonesian). http://dx.doi.org/10.20885/jsb.vol2.iss9.art2

28. Lukviarman, N. (2016). *Corporate Governance : Menuju Penguatan Konseptual dan Implementasi di Indonesia [Corporate Governance: Towards Conceptual Strengthening and Implementation in Indonesia].* Jakarta: Era Adicitra Intermedia. (In Indonesian). Retrieved from https://Library.Bpk.Go.Id/Koleksi/Detil/Jkpkbpkpp-P20170803145451
29. Luthan, E., Satria, I., & Ilmainir. (2016). The Effect of Good Corporate Governance Mechanism to Earnings Management before and after IFRS Convergence. *Procedia - Social and Behavioral Sciences, 219,* 465-471. https://doi.org/10.1016/j.sbspro.2016.05.021
30. Mahrani, M., & Soewarno, N. (2018). The effect of good corporate governance mechanism and corporate social responsibility on financial performance with earnings management as mediating variable. *Asian Journal of Accounting Research, 3*(1), 41-60. https://doi.org/10.1108/AJAR-06-2018-0008
31. Mahrani, M., & Soewarno, N. (2020). The effect of good corporate governance mechanism and corporate social responsibility on financial performance with earnings management as mediating variable. *Asian Journal of Accounting Research, 3*(1), 41-60. https://doi.org/10.1108/AJAR-06-2018-0008
32. Rahnamay Roodposhti, F., & Nabavi Chashmi S. A. (2010). The effect of board composition and ownership concentration on earnings management: Evidence from Iran. *World Academy of Science, Engineering and Technology, 66*(6), 165-171. Retrieved from https://zenodo.org/records/1079562
33. Rahim, R., Husni, T., Yurniwati, Y., & Desyetti, D. (2020). The Relation Between Cash Compensation of Banking Executives, Charter Value, Capital Requirements and Risk Taking. *International Journal of Business, 25*(4), 400–420. https://ijb.cyut.edu.tw/var/file/10/1010/img/866/V25N4-5.pdf
34. Sáenz González J., & García-Meca E. (2014). Does Corporate Governance Influence Earnings Management in Latin American Markets? *Journal of Business Ethics, 121*(3), 419-440. http://dx.doi.org/10.1007/s10551-013-1700-8
35. Salehi, M., Dashtbayaz, M. L., & Mohtashami M. (2021). The effects of corporate characteristics on managerial entrenchment. *Iranian Journal of Management Studies, 14*(1), 245-272. http://dx.doi.org/10.22059/ijms.2020.293765.673878
36. San Martin Reyna, J. M. (2018). The effect of ownership composition on earnings management: evidence for the Mexican stock exchange. *Journal of Economics, Finance and Administrative Science, 23*(46), 289-305. https://doi.org/10.1108/JEFAS-01-2017-0011
37. Scott, W. R. (2015). *Financial Accounting Theory* (7th ed.).
38. Setianto, R. H., & Sari, P. K. (2017). Perusahaan Keluarga dan Kebijakan Dividen di Indonesia [Family Companies and Dividend Policy in Indonesia]. *Jurnal Siasat Bisnis., 21*(2), 107-118. https://doi.org/10.20885/jsb.vol21.iss2.art1
39. Shleifer, Vishny, R. W. (1997). A Survey of Corporate Governance. *The Journal of Finance, 1*(2), 737-783. Retrieved from https://scholar.harvard.edu/files/shleifer/files/surveycorpgov.pdf
40. Sousa, E. F. De., & Galdi, F. C. (2016). The relationship between equity ownership concentration and earnings quality: evidence from Brazil. *Revista de Administração, 51*(4), 331-343. https://doi.org/10.1016/j.rausp.2016.07.006
41. Stein, J. C. (1989). Efficient Capital Markets, Inefficient Firms: A Model of Myopic Corporate Behavior. *The Quarterly Journal of Economics, 104*(November), 655-669. https://doi.org/10.2307/2937861
42. Tabassum, N., Kaleem, A., & Nazir, M. S. (2015). Real Earnings Management and Future Performance. *Global Business Review, 16*(1), 21-34. http://dx.doi.org/10.1177/0972150914553505
43. Tahir, M., Ibrahim, S., & Nurullah, M. (2019). Getting compensation right - The choice of performance measures in CEO bonus contracts and earnings management. *The British Accounting Review, 51*(2), 148-169. https://doi.org/10.1016/j.bar.2018.09.004
44. Villalonga, B., & Amit, R. (2006). How do family ownership, control and management affect firm value? *Journal of Financ Economics, 80*(2), 385-417. https://doi.org/10.1016/j.jfineco.2004.12.005
45. Watts, R. L. (2003). *Conservatism in Accounting – Part I: Explanations and Implications.* Retrieved from https://papers.ssrn.com/sol3/papers.cfm?abstract_id=414522
46. Wiratmini, M. E. & N. P. E. (2018). Dirut BTN Menjawab Dugaan Window Dressing Laporan Keuangan 2018 dan Praktik Korupsi BTN [President Director Responds to Allegations of Window Dressing of 2018 Financial Reports and Corrupt Practices]. *Financial.* (In Indonesian). Retrieved from https://finansial.bisnis.com/read/20200203/90/1196718/dirut-btn-menjawab-dugaan-window-dressing-laporan-keuangan-2018-dan-praktik-korupsi
47. Wu, S., Chen, C. M., & Lee, P. C. (2016). Independent directors and earnings management: The moderating effects of controlling shareholders and the divergence of cash-flow and control rights. *The North American Journal of Economics and Finance, 35,* 153-165. https://doi.org/10.1016/j.najef.2015.10.007
48. Zulfikar, R., Lukviarman, N., Suhardjanto, D., Ismail, T., Astuti, K. D., & Meutia, M. (2020). Corporate governance compliance in banking industry: The role of the board. *Journal of Open Innovation: Technology, Market, and Complexity, 6*(4), 137. https://doi.org/10.3390/joitmc6040137

APPENDIX A

Table A1. Descriptive statistics

Variable	Minimal	Maximum	Mean	Standard Deviation
EARNING_MGT	–0,043	0,083	0,014	0,023
BOARD_DILIGACE	0,000	0,400	0,173	0,060
OWNERSHIP_CONCENTRATION	0,356	1,000	0,756	0,173
CEO_OWNERSHIP	1,000	5,000	1,150	0,544
CEO_TENURE	0,000	1,000	0,568	0,496
CONSERVATISM	62,702	103,94	79,801	8,331
CAR	6,803	11,731	9,705	1,219
LDR	12,35	162,2	84,22	17,17

Note: EARNING_MGT = Earnings Management; BOARD_DILIGACE = Board Diligence; CONSCENTRATION_OWNERSHIP = Majority of the top 5 shareholders; CEO_OWNERSHIP = Share ownership; CEO_TENURE = CEO tenure; CONSERVATISM = Accounting Conservatism; CAR = Capital Adequacy Ratio; LDR = Loan to Deposit Ratio.

APPENDIX B

Table B1. CEO tenure dummy percentage

Note	Total	Percentage (%)
CEO has a tenure of over three years	165	56,9
CEO whose term of office does not exceed three years	125	43,1
Total	290	100

http://dx.doi.org/10.21511/imfi.20(4).2023.26