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The Influence of Good Corporate Governance and Leverage on Earnings Management with Firm Size as a Moderating Variable in Property Companies Listed on the Indonesia Stock Exchange

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ABSTRACT

This study aims to obtain empirical evidence on the influence of good corporate governance mechanisms proxied by managerial ownership, institutional ownership, the composition of the independent board of commissioners, and the influence of leverage on earnings management with company size as a moderating variable. Using a purposive sampling technique, this study uses 20 samples of property companies listed on the Indonesia Stock Exchange (IDX) for 2018-2023. The research data were collected from annual reports for the 2018-2023 period. The data analysis methods used are panel data regression analysis and moderated regression analysis. The results of this study indicate that managerial ownership and leverage have a negative effect on earnings management. Meanwhile, institutional ownership and the composition of the independent board of commissioners have a partially positive impact on earnings management. Other results also show that company size cannot moderate the influence of managerial ownership, the composition of the independent board of commissioners, and leverage on earnings management. However, company size can moderate the impact of institutional ownership on earnings management.

Keywords: Good corporate governance, leverage, earnings management, firm size, property companies, Indonesia Stock Exchange

INTRODUCTION

Real estate and property are central to economic growth and national progress. In addition, this sector is an essential indicator in evaluating economic development and equitable development in Indonesia. The Indonesian real estate and property sector shows bright potential through collaboration between global investors and local developers. According to the General Chairperson of DPP REI in the Asian Super Blok Forum seminar, foreign investment in real estate projects in Indonesia reached 603 million dollars in the first quarter of 2020, with 490 projects starting in the same period (medcom.id, 2020). The property and real estate industry requires significant investment from investors and lenders to support its operational activities. New companies force existing companies to innovate and adapt to environmental changes, including changes in the national economy, consumer preferences, and competitor dynamics. It will have an impact on the company's profitability. If the company cannot survive in its environment and fails to innovate, the competitiveness of its products will decline. Management will

take steps to increase profitability and improve company performance.

There is still a phenomenon in Indonesia where companies carry out profit management practices related to several accounting principles. Among them occur in the real estate and property sectors, such as what happened to PT Hanson International Tbk, which is a public company in the property and real estate sector, in the records of the Financial Services Authority (OJK) PT Hanson International Tbk was proven to have carried out manipulation in the presentation of annual financial reports. The sale of ready-to-build plots resulted in the company's income-increasing sales revenue, which could not be proven using the full accrual method. PT Hanson International Tbk violated Financial Accounting Standards 44 concerning Real Estate Development Activities, so the OJK imposed sanctions on the company and the auditors who carried out their duties at the company (Magaret, 2015). The practice of profit management is also suspected of being carried out by several other companies, including PT Bumi Serpong Damai Tbk, PT Agung Podomoro Land Tbk, and PT Alam Sutera Realty Tbk. It is suspected to be due to a very high increase in company performance. The performance improvement seen from the irregular income recorded in 2017 did not come entirely from the increase in sales performance but instead at a relatively significant level of value. The considerable increase in profit and revenue at PT Bumi Serpong Damai Tbk was due to sales worth Rp 2.98 trillion to third parties, which, compared to total revenue that did not occur in 2016, could exceed 10%.

At Agung Podomoro Land Tbk, the increase of 117.09% was due to the sale of fixed assets of the Pulman Jakarta Central Park hotel in the form of strata title ownership rights and office equipment with a selling price of Rp 1.28 trillion to Strategic Property Investor Company Limited. A similar thing also happened at PT Alam Sutera Realty Tbk, which recorded sales to third parties in 2017 at PT. CFLD Investment Indonesia is worth over 10% of Rp 1.37 trillion or 35% of its total sales (Caesario, 2018). From this description, it raises the possibility of a phenomenon of profit management practices by several companies in the real estate and property sectors.

Earnings management practices occur as a response to a decrease in profits or losses experienced by the company in the current year. The goal is to maintain the stability of profits reported in the financial statements by increasing the value of profits. This practice can change the content of the information presented in the company's financial statements, and weaknesses in the implementation of corporate governance cause this condition. If Corporate governance is carried out effectively, it will create quality reports and finances without earnings management practices and fraud (Saputra et al., 2015). Improvement efforts are needed to develop effective corporate management, known as good corporate management or commonly abbreviated as Good Corporate Governance (GCG). By implementing several principles of Good Corporate Governance, companies can achieve their goals of creating added value for all stakeholders and ensuring that the transparency of the company's financial information is maintained (Sutedi, 2011). Several factors influencing earnings management practices are leverage, company size, and good corporate governance (managerial ownership, institutional ownership, and the composition of the independent board of commissioners). Good corporate governance is essential for the survival of the company. In addition to acting as a tool to monitor company performance to achieve profit goals and long-term vision, good corporate governance also provides input and suggestions to company management in carrying out operational activities according to the company's vision. Implementing good corporate governance mechanisms according to company standards and procedures will reduce the possibility of profit management practices.

Meanwhile, leverage refers to using debt capital or loans to finance company activities. The higher the leverage, the smaller the amount of capital required from the owner to fund the company's investment, or the greater the level of debt used by the company (Wahyuni, 2015). According to research by Pande and Suryanawa (2017), it was concluded that profit management practices can be influenced by the company's debt level (leverage). In addition, company size also has an impact on profit management practices. Companies on a large scale tend to have significant profits; thus, management tends to avoid large profit fluctuations. Management will try to maintain an attractive profit appearance to prevent negative reactions from the market.

Hardianingsih (2010) revealed that institutional share ownership does not significantly impact the integrity of a company's financial statements. However, Wulandari and Budiartha (2014) produced different results, showing that institutional ownership affects the integrity of a company's financial statements. Gul et al. (2003) investigated the relationship between the level of corporate debt and earnings management practices. Their findings showed a significant relationship between earnings management practices and the level of corporate debt. According to the debt covenant hypothesis, companies with high debt levels manage earnings to avoid violating debt agreements. The results of Gul et al.'s research (2003) are in line with the research of Halim et al. (2005) and Guenther (1994). However, the results of this study are related to the findings of a survey conducted by Lobo and Zhou (2001), where they obtained results that there was a significant negative relationship between the level of corporate debt and earnings management practices. Akhoondnejad et al. (2013) state that large companies significantly impact earnings management practices.

LITERATURE REVIEW

Earnings Management

Earnings management refers to arranging financial statements within the boundaries of generally accepted accounting principles, either outside or within the framework of Generally Accepted Accounting Principles (GAAP). In earnings management practices, managers can increase or decrease reported earnings in a period. It is not related to the increase or decrease in the company's profitability in the long term (Fischer and Rosenzweig, 1995). According to Scoot (2009), earnings management occurs when managers make decisions related to accounting policies by referring to applicable accounting standards to optimize the utility or market value of the company naturally. Earnings management practices carried out by managers in running company operations can be explained through agency theory. Agency theory explains that various parties involved in the company, including owners, managers, employees, and creditors, tend to be opportunistic because each has different interests fundamentally. Discretionary accruals are used as dependent variables in measuring earnings management. Discretionary accruals are a method to minimize earnings reporting that is difficult to detect from accounting policy manipulation related to accruals (Scott, 2009). Jones (1991) developed an earnings management model by dividing the company's total accruals into non-discretionary accruals (reasonable accrual levels) and discretionary accruals (abnormal accrual levels). The following is the calculation formula for the Discretionary Accrual De Angelo Model:

$$DAit = (TAit - TAit\text{-}1)/ Ait\text{-}1$$

Description:
DAit: Discretionary accruals of the company i in period t
TAit: Total accruals of company i in period t
TAit-1: Total accruals of company i in period t - 1

Ait-1: Total assets of company i in period t – 1

Good Corporate Governance

According to the OECD (1999), corporate governance is a series of interactions between the board of directors, shareholders, and company management with other parties interested in the company. Furthermore, corporate governance involves the establishment of structures and tools needed to achieve organizational goals, as well as monitoring performance. Effective corporate governance provides strong incentives for the board of directors and management to achieve goals that benefit shareholders and the company while facilitating efficient monitoring to ensure optimal use of resources. The National Committee on Governance Policy (2006) defines corporate governance as a structural mechanism used by company organs to provide added value to the company sustainably over a long period for shareholders by continuing to observe the interests of other stakeholders based on applicable laws, regulations, and norms. The concept of good corporate governance implemented by a company can be assessed through two aspects, namely managerial ownership, and institutional ownership. These two forms of ownership form the company's ownership structure, which determines the fairness of the submitted financial statements (Leo, 2012).

Managerial Ownership

Managerial ownership refers to the company's shares owned by managers. According to Rahmawati (2013) and Anggana and Prastiwi (2013), managerial ownership has a negative impact on earnings management practices. Thus, if the level of managerial ownership in a company is significant, then the earnings management practices in the company tend to be minor, and vice versa. Managerial ownership is the ownership of shares obtained from management. A high level of managerial ownership encourages company management to increase performance to achieve profit significantly, not by implementing earnings management practices, because management as shareholders also expects real profits from the company's performance.

On the other hand, according to Sari et al. (2014), managerial ownership has a positive impact on earnings management practices but is not significant. However, the view of Aygun et al. (2014) shows that managerial ownership has a positive and significant impact on earnings management practices. It implies that if the level of managerial ownership in a company is substantial, then the earnings management practices in the company tend to be significant, and vice versa. Management tends to implement more extensive earnings management practices to meet their needs as substantial shareholders. In addition, the motivation to obtain bonuses also encourages the practice of earnings management; with high managerial ownership, management will be more enthusiastic about implementing earnings management to receive large bonuses from the company.

$$Managerial\ Ownership = \frac{Number\ of\ shares\ owned\ by\ management}{Total\ shares\ outstanding}$$

Institutional Ownership

Institutional ownership refers to all shares owned by institutional entities such as private companies, NGOs, banks, and insurance (Suriyani et al., 2015). Aygun et al. (2014) explained that institutional investors have more efficient capacity and resources in monitoring managerial activities than individual investors, including having a more sophisticated accounting system than other companies. The study also showed that institutional ownership is negatively and significantly related to earnings management practices. It

means that if a company's level of institutional ownership is high, the possibility of earnings management practices will decrease and vice versa. This is because institutions usually have financial analysts who can monitor management performance more effectively.

Research results that are contrary to the findings of Sari et al. (2014) explain that institutional ownership has a positive impact on earnings management practices, although not significant. It means that the possibility of earnings management practices in the company is also high if institutional ownership is high and vice versa. Since institutions have a large portion of share ownership, they push management to achieve profit targets and adopt earnings management practices because institutions focus more on current profits. As a result, significant share ownership by institutions gives them the power to regulate business operations and control the financial reporting process. Therefore, management is often forced to engage in earnings management practices to meet investor expectations.

$$Institutional\ Ownership = \frac{Number\ of\ shares\ owned\ by\ institutional}{Total\ shares\ outstanding}$$

Composition of The Board of Independent Commissioners

The presence of independent commissioners can reduce the potential for conflicts of interest because they tend to act objectively in making decisions. They can also provide advice or input if there is a problem in managing the company, thus helping the board of commissioners as a balancer in decision-making (Effendi 2016).

Agustia and Suryani (2018) found that the percentage of the presence of independent commissioners did not affect earnings management practices. This finding aligns with the results of research conducted by Marpaung and Latrini (2014) and Suriyani (2015), which concluded that the proportion of independent commissioner members did not significantly impact earnings management. Most shareholders generally select independent commissioners through the GMS, which indicates that they can be replaced at any time if their actions are not in line with the shareholders' wishes. In this context, the actual independence of independent commissioners in carrying out their duties can be questioned.

In contrast to the study conducted by Sari et al. (2014) and Putri (2012), the findings of this study explain that the proportion of independent board members has a positive effect on earnings management practices. It means that if the proportion of independent board members in a company is large, then the possibility of earnings management practices in that company is also significant, and vice versa. It is caused by the dominance of the company's founders and strong majority ownership of shares, which results in the board of commissioners losing its independence and its supervisory performance becoming ineffective. In addition, the high proportion of independent board members can also result in a lack of coordination between them, which in turn can lead to a decline in the performance of the independent board of commissioners.

$$CBIC = \frac{Number\ of\ independent\ board\ of\ commissioners}{Total\ members\ of\ the\ board\ of\ commissioners}$$

Leverage

Leverage includes a company's competence to use funds or assets that have a fixed burden to achieve the goal of maximizing the value of the company's owner's wealth. As part of a strategy to increase company profits, leverage can be used as an indicator to assess manager behavior related to earnings management practices (Nirmalasari et al., 2022). Companies that experience high financial leverage because the proportion of their debt is large compared to the assets they own are suspected of being involved in earnings management practices. It is because the company is at risk of default, namely the inability to pay debts according to the predetermined schedule. As

a result, there is a greater possibility of experiencing losses if the leverage the company uses is high. This evidence is supported by the research results by Agustia & Suryani (2018), which state that leverage has a positive and significant effect on Earnings Management.

$$Leverage = \frac{Total\ Debt}{Total\ Equity}$$

Firm Size

This situation is known as managerial ownership when the company's management owns shares. According to Fitri & Badaruddin (2019), managers will directly feel the influence of the decisions taken and bear the risk of a loss due to the wrong decision. Thus, managerial share ownership can align the interests of fellow shareholders and managers, hoping that greater managerial ownership will improve internal supervision in the company. Findings from research related to managerial ownership by Pramesti & Budiasih (2017) explain that managerial ownership impacts earnings management practices. However, a different view is expressed by Agustia & Suryani (2018), which shows that managerial ownership does not impact earnings management practices in a company.

$$Firm\ Size = Ln(Total\ Assets)$$

Framework

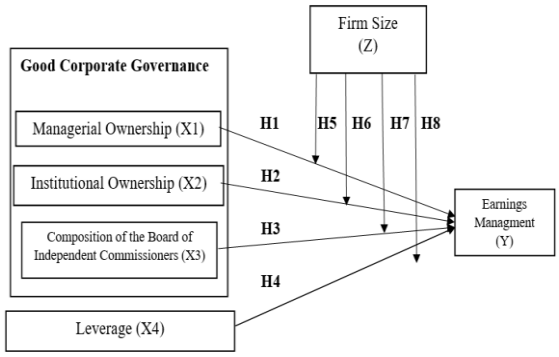

Figure 1. Conceptual Framework

H1: Managerial ownership has a positive effect on earnings management.
H2: Institutional ownership has a positive effect on earnings management.
H3: The composition of the independent board of commissioners has a positive effect on earnings management.
H4: Leverage has a positive effect on earnings management.
H5: Firm size can significantly moderate the effect of managerial ownership on earnings management.
H6: Firm size can significantly moderate the effect of institutional ownership on earnings management.
H7: Firm size can significantly moderate the effect of the composition of the independent board of commissioners on earnings management.
H8: Firm size can significantly moderate the effect of leverage on earnings management.

MATERIALS & METHODS

This quantitative study tests theories by measuring research variables using numerical data and analyzing them using statistical procedures. The sample of this study consists of property companies listed on the IDX from 2018 to 2023. Based on data from www.idx.co.id and ICMD (Indonesian Capital Market Directory), 20 property companies were identified. In determining the sample, the researcher used a purposive sampling technique. Here are some criteria for selecting samples in this study:

1) Property companies listed on the IDX during 2018-2023. The period includes the latest annual report data.
2) Companies use Rupiah currency when presenting their financial reports.
3) Property companies that continuously publish annual financial reports from 2018-2023.
4) All data related to the variables to be analyzed are comprehensively available in the company's financial statements.

The data analysis methods used in this study are panel data regression analysis and moderated regression analysis for moderating variables. The research data was processed using the Eviews12 program. Panel data regression analysis predicts how the dependent variable will behave when associated with two or more independent variables. Moderated regression analysis is used to test the moderating variable.

RESULT

A. Classical Assumption Test Results

1. Normality test

In statistics, the normality test is used to determine whether a normal distribution well models a data set and to calculate how likely the underlying random variables of the data set are normally distributed. The results of the normality test in the study are as follows:

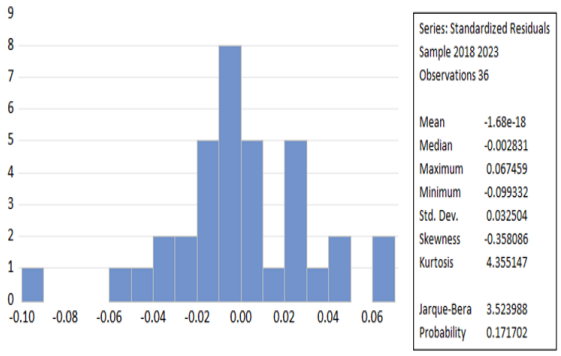

Figure 2. Normality Test Results

The figure above shows that the test probability results are 0.17 or greater than 0.05. So, it can be stated that all data are typically distributed.

2. Multicollinearity Test

The multicollinearity test is a linear relationship between independent variables in multiple regression. The multicollinearity test is intended to see the relationship or correlation between each variable. The results of the multicollinearity test in this study are as follows:

	KMNJ	KINST	DKIND	LEVRG
Coeficient Variance	1	-0.2790572...	-0.4293117...	0.45530517...
	-0.2790572...	1	0.49772311...	0.24495097...
Uncentered VIF	-0.4293117...	0.49772311...	1	-0.0722658...
Centered VIF	0.45530517...	0.24495097...	-0.0722658...	1

Figure 3. Multicollinearity Test Results

Figure 3 above shows that the VIF value of the managerial ownership variable is (0.455), the VIF value of the institutional ownership variable is (0.244), the VIF value of the independent commissioner variable is (-0.072), and the VIF value of the leverage variable is (1) which overall is less than 10. So, it can be stated that there are no symptoms of multicollinearity in all the variables used.

3. Heteroscedasticity Test

The heteroscedasticity test is conducted to test whether there is inequality in variance or residual from one observation to another. The results of the heteroscedasticity test in this study are as follows:

Sample: 2018 2023
Periods included: 6
Cross-sections included: 20
Total panel (balanced) observations: 120

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	0.049264	0.023886	2.062510	0.0419
MO	-0.000215	0.000382	-0.563094	0.5747
IO	-3.43E-05	0.000181	-0.188808	0.8506
CBIC	-0.069880	0.046709	-1.496087	0.1379
LEV	0.003281	0.007646	0.429113	0.6688

Figure 4. Heteroscedasticity Test Results

Based on the results of the panel least square test above, it can be seen that the overall probability value obtained is more significant than 0.05. So, it can be stated that no data shows any symptoms of heteroscedasticity.

B. Panel Data Regression Model Selection Analysis

In estimating panel data, the regression model with the best results will be used in the analysis, namely the Common Effect Model (CEM), Fixed Effect Model (FEM), or Random Effect Model (REM). Previously, testing will be carried out first using the Chow Test and Hausman Test (Widarjono, 2009).

1. Chow Test

Effects Test	Statistic	d.f.	Prob.
Cross-section F	1213.725455	(19,95)	0.0000
Cross-section Chi-square	659.534756	19	0.0000

Figure 5. Chow Test Results

Figure 5 above shows a value of 0.00 <0.05, and then the selected model is the Fixed Effect Model. If the Chow test results reject the null hypothesis, then the data testing continues to the Hausman test.

2. Hausman Test

Test Summary	Chi-Sq. Statistic	Chi-Sq. d.f.	Prob.
Cross-section random	7.185990	5	0.2072

Figure 6. Hausman Test Results

Figure 6 shows that the magnitude of the random cross-section probability obtained is 0.207 > 0.05, so if the p-value> 0.05, then the selected model is the Random Effect Model.

3. Lagrance Multiplier (LM) Test

Lagrange Multiplier Tests for Random Effects
Null hypotheses: No effects
Alternative hypotheses: Two-sided (Breusch-Pagan) and one-sided (all others) alternatives

	Test Hypothesis		
	Cross-section	Time	Both
Breusch-Pagan	264.0443 (0.0000)	3.004844 (0.0830)	267.0492 (0.0000)
Honda	16.24944 (0.0000)	-1.733449 (0.9585)	10.26436 (0.0000)
King-Wu	16.24944 (0.0000)	-1.733449 (0.9585)	5.874474 (0.0000)
Standardized Honda	18.11404 (0.0000)	-1.584667 (0.9435)	7.950816 (0.0000)
Standardized King-Wu	18.11404 (0.0000)	-1.584667 (0.9435)	3.494339 (0.0002)
Gourieroux, et al.	--	--	264.0443 (0.0000)

Figure 7. Lagrange Multiplier Test Results

Figure 7 above shows that the magnitude of the Breusch Pagan value obtained is 0.00 < 0.05.

C. Panel Data Regression Analysis

After analyzing the selection of panel data regression models through the Chow Test, Hausman Test, and Lagrange Multiplier Test, it can be concluded that the suitable model to use in the regression analysis in this study is the Random Effect Model (REM). The results of the panel data regression test in this study are as follows:

Dependent Variabel: EM
Method: Panel Least Squares
Date: 11/01/24 Time: 09:32
Sample: 2018 2023
Periods included: 6
Cross-sections included: 20
Total panel (balanced) observations: 120

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	0.001291	0.001750	0.738017	0.4620
MO	-1.668734	4.217349	-0.395986	0.6929
IO	0.001594	0.000763	2.088911	0.0389
CBIC	0.129696	0.083058	1.561501	0.1212
LEV	-0.000103	0.000103	-0.992932	0.3228
FS	-3.837151	5.968710	-0.642308	0.5220

R-squared	0.408365	Mean dependent var	2.66E-05
Adjusted R-squared	0.382416	S.D. dependent var	0.001028
S.E. of regression	0.000808	Akaike info criterion	-11.35497
Sum squared resid	7.45E-05	Schwarz criterion	-11.21560
Log likelihood	687.2982	Hannan-Quinn criter.	-11.29837
F-statistic	15.73725	Durbin-Watson stat	2.349324
Prob(F-statistic)	0.000000		

Figure 8. Panel Data Regression Test Results

Based on Figure 8 and the regression formula used, the regression calculation is obtained as follows:

Y = 0.001291 – 1.668734 X1 + 0.001594 X2 + 0.129696 X3 – 0.000103 X4

With the following explanations:

1) Constant value 0.001291 indicates that if there are no independent variables in the form of managerial ownership, institutional ownership, independent commissioners, and leverage, then the amount of earnings management produced is 0.001291.
2) The regression coefficient value on managerial ownership is -1.668734, which means that managerial ownership has a negative influence on earnings management, so it can be interpreted that for every 1 unit increase in the managerial ownership variable, the earnings management variable will decrease by 1.668734.
3) The regression coefficient value on institutional ownership is 0.001594, which means that institutional ownership positively influences earnings management, so it can be interpreted that

for every 1 unit increase in the institutional ownership variable, the earnings management variable will increase by 0.001594.

4) The regression coefficient value on independent commissioners is 0.129696, which means that independent commissioners positively influence earnings management, so it can be interpreted that for every 1 unit increase in the independent commissioner variable, the earnings management variable will increase by 0.129696.
5) The regression coefficient value on leverage is -0.000103, which means that leverage negatively influences earnings management, so it can be interpreted that for every 1 unit increase in the leverage variable, the earnings management variable will decrease by 0.000103.

D. Hypothesis Testing

1. Partial Test (T-Test)

Partial Test tests how each independent variable individually affects the dependent variable. In this study, the T table obtained was 1.980. The results of the partial test in this study are as follows. Based on Figure 8, it can be stated that:

1) The managerial ownership coefficient has a negative value of -1.668734, which shows that managerial ownership has a negative effect on earnings management. With a t-statistic value <t-table, namely -0.3959 <1.980, and a probability value of 0.6929> 0.05. So, it can be interpreted that the managerial ownership variable partially has a negative but insignificant effect on the earnings management variable. (Hypothesis 1 is rejected)
2) The institutional ownership coefficient has a positive value of 0.001594, which shows that institutional ownership positively affects earnings management. With a t-statistic value > t-table, namely 2.088 > 1.980, and a probability value of 0.0389 < 0.05. So, it can be interpreted that the institutional ownership variable partially has a positive and significant effect on the earnings management variable. (Hypothesis 2 is accepted)
3) The independent commissioner coefficient has a positive value of 0.129696, which shows that independent commissioners positively affect earnings management. With a t-statistic value < t-table, 1.5615 < 1.980, and a probability value of 0.1212 > 0.05. So, it can be interpreted that the independent commissioner variable partially has a positive but insignificant effect on the earnings management variable. (Hypothesis 3 is accepted).
4) The leverage coefficient has a negative value of -0.000103, which shows that leverage has a negative effect on earnings management. With a t-statistic value < t-table, namely -0.9929 < 1.980, and a probability value of 0.3228 > 0.05. It means that the leverage variable partially has a negative but insignificant effect on the earnings management variable. (Hypothesis 4 is rejected) The average standard error value for each independent variable in this study is 0.032567, or it can be said to be only 3.25% so that the independent variable can be relied on.

2. Simultaneous Test (F Test)

Simultaneous test is used to test how the influence of independent variables simultaneously affects the rise and fall of the dependent variable. The F-table value in this study is 2.293911. Figure 8 shows that the calculated F value > F table is 15.73725> 2.293911, with a significance value of 0.00 <0.05. So, it can be concluded that simultaneously, the independent variables have a positive and significant effect on the dependent variable.

3. Determination Coefficient Test (R2)

The determination coefficient test determines how much variable X can simultaneously explain variable Y. Based on Figure 8. The R square value is 0.382416. It can be said that the magnitude of the influence of the independent variable on the dependent variable is 38.24%, and the

remaining 61.76% is influenced by other variables that are not in this study, such as bonus motivation, audit quality, free cash flow, and others. The R square results in this study are pretty good when viewed from previous research conducted by Marpaung (2017), with an R square result of 0.333 or 33%.

R Square in this study is still relatively low. It can happen because the research period is in 2018-2023, where the end of 2019 to 2021, the whole world was hit by the COVID-19 pandemic, including Indonesia itself, so it had an impact on property and real estate companies in Indonesia, which experienced a decline in company performance including asset reduction, decreased operational activities and increased allocation of unpredictable social risk costs. Based on data from PPKOM Bank Indonesia (BI) (2020), it was reported that the property price index (IHPR) experienced a slowdown in medium and large-type houses. It can be seen from the sales growth in the first quarter of 2020, where there was a contraction of -43.19% (yoy), compared to the fourth quarter of 2019, which experienced growth of 1.19% (yoy). The decline occurred in all types of houses. Large-type houses experienced a decrease of -13.99% (yoy), medium-type houses experienced a drop of -50.63% (yoy), and small-type houses experienced a decline of -42.74% (yoy).

4. Moderated Regression Analysis (Interaction Test)

Dependent Variabel: EM
Method: Panel Least Squares
Date: 11/01/24 Time: 09:51
Sample: 2018 2023
Periods included: 6
Cross-sections included: 20
Total panel (balanced) observations: 120

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	3.247083	1.512437	2.146921	0.0339
MO*FS	-9.987484	4.444157	-0.224733	0.8226
IO*FS	7.535172	7.300484	10.32147	0.0000
CBIC*FS	-2.291010	1.489700	-1.537900	0.1268
LEV*FS	1.029631	2.018011	0.510221	0.6109

R-squared	0.492266	Mean dependent var	-6.59E-07
Adjusted R-squared	0.474605	S.D. dependent var	5.37E-05
S.E. of regression	3.89E-05	Akaike info criterion	-17.42844
Sum squared resid	1.74E-07	Schwarz criterion	-17.31229
Log likelihood	1050.706	Hannan-Quinn criter.	-17.38127
F-statistic	27.87410	Durbin-Watson stat	2.211396
Prob(F-statistic)	0.000000		

Figure 9. Results of Moderated Regression Test

Based on the results of the Moderated Regression Analysis (Interaction Test) and the equation used, the following moderation regression model is obtained:

Y = 0.001291 – 1.668734 X1 + 0.001594 X2 + 0.129696 X3 – 0.000103 X4 - 3.837151 X5 – 9.987484 X1.X5 + 7.535172 X2.X5 - 2.291010 X3.X5 + 1.029631 X4.X5

Based on the test results in Figure 5.12, it can be seen that:

1) The t-statistic value of the interaction of company size with managerial ownership is -0.224733, with a probability value of 0.8226 > 0.05. So, it can be interpreted that the company size variable cannot significantly moderate the relationship between managerial ownership and earnings management (Hypothesis 5 is rejected).
2) The t-statistic value of the interaction of company size and institutional ownership is 10.32147, with a probability value of 0.0000 <0.05. So, it can be interpreted that the company size variable can significantly moderate the relationship between institutional ownership and earnings management. (Hypothesis 6 is accepted).
3) The t-statistic value of the interaction of company size and the composition of the independent board of commissioners is -1.537900, with a probability value of 0.1268 > 0.05. So, it can be interpreted that the company size variable cannot significantly moderate the relationship between the composition of the independent board of commissioners and earnings management. (Hypothesis 7 is rejected).
4) The t-statistic value of the company size and leverage interaction is negative at 0.510221 with a probability value of 0.6109 > 0.05. So, it can be interpreted that the company size variable cannot significantly moderate the relationship between leverage and earnings management. (Hypothesis 8 is rejected).

CONCLUSION

Based on the test results and discussion in the previous chapter, the following conclusions are obtained:

1) Hypothesis 1 is rejected: Managerial ownership is not proven to affect earnings management positively.
2) Hypothesis 2 is accepted: Institutional ownership is proven to have a positive and significant effect on earnings management.
3) Hypothesis 3 is accepted: The composition of the independent board of commissioners is proven to have a positive effect on earnings management.
4) Hypothesis 4 is rejected: Leverage is not proven to affect earnings management positively.
5) Hypothesis 5 is rejected: Company size is not proven to be able to moderate the effect of managerial ownership on earnings management significantly.
6) Hypothesis 6 is accepted: Company size is proven to be able to moderate the effect of institutional ownership on earnings management significantly.
7) Hypothesis 7 is rejected: Company size is not proven to be able to significantly moderate the effect of independent commissioner ownership on earnings management.
8) Hypothesis 8 is rejected: Company size is not proven to be able to moderate the effect of independent leverage on earnings management significantly.

RESEARCH IMPLICATIONS

1. Practical Implications

This research provides practical contributions to external parties, especially creditors, investors, and other users of financial reports. This study is expected to be an essential reference in analyzing financial reports issued by companies and various other factors that influence investment decision-making.

Furthermore, for companies that publish financial reports (issuers), this study is expected to provide an understanding of the importance of presenting clear and complete financial information in their financial reports to benefit stakeholders.

2. Theoretical Implications

This research has proven to be able to play a role in providing theoretical implications for academics. This study is expected to develop knowledge and theories related to earnings management in accounting by providing empirical evidence on the impact of leverage, company size, and Good corporate governance on earnings management practices. For other parties, this study is expected to provide additional knowledge and become a reference, especially in a more in-depth analysis.

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