

THE EFFECT OF OWNERSHIP STRUCTURE ON EARNINGS MANAGEMENT : MODERATION AND MEDIATION MODELS

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ABSTRACT

This study examines the influence of ownership structures on earnings management practices among manufacturing firms listed on the Indonesia Stock Exchange (IDX) during 2021–2024. It further investigates whether board composition heterogeneity moderates this relationship and whether firm performance mediates it. A quantitative design was employed, utilizing audited financial statements and annual corporate reports as secondary data. From purposive sampling, 100 firm-level observations were analysed using Partial Least Squares–Structural Equation Modelling (PLS-SEM) with SmartPLS. The findings indicate that concentrated ownership, managerial shareholding, foreign equity participation, and institutional investment do not significantly affect earnings management behaviour. Likewise, diversity in board membership does not alter the ownership–earnings management nexus. In contrast, firm performance shows a significant positive association with earnings management, though it does not operate as a mediating mechanism. Interpreted through agency theory, the results suggest that prevailing ownership configurations and board oversight remain insufficient to mitigate opportunistic managerial conduct, particularly under performance pressures. These insights contribute to ongoing debates on corporate governance and reporting credibility, offering implications for investors, regulators, and decision-makers. However, the conclusions are constrained by the study’s sectoral focus and limited temporal scope, which restricts broader generalization.

Keywords : Ownership Structure; Earnings Management; Financial Performance; Board Diversity

ABSTRAK

Studi ini meneliti pengaruh struktur kepemilikan terhadap praktik manajemen laba di antara perusahaan manufaktur yang terdaftar di Bursa Efek Indonesia (IDX) selama tahun 2021–2024. Studi ini juga menyelidiki apakah heterogenitas komposisi dewan direksi memoderasi hubungan ini dan apakah kinerja perusahaan memediasinya. Desain kuantitatif digunakan, dengan memanfaatkan laporan keuangan yang diaudit dan laporan tahunan perusahaan sebagai data sekunder. Dari pengambilan sampel bertujuan, 100 observasi tingkat perusahaan dianalisis menggunakan Partial Least Squares–Structural Equation Modelling (PLS-SEM) dengan SmartPLS. Temuan menunjukkan bahwa kepemilikan terkonsentrasi, kepemilikan saham manajerial, partisipasi ekuitas asing, dan investasi institusional tidak secara signifikan memengaruhi perilaku manajemen laba. Demikian pula, keragaman keanggotaan dewan direksi tidak mengubah hubungan kepemilikan–manajemen laba. Sebaliknya, kinerja perusahaan menunjukkan hubungan positif yang signifikan dengan manajemen laba, meskipun tidak berfungsi sebagai mekanisme mediasi. Diinterpretasikan melalui teori keagenan, hasil menunjukkan bahwa konfigurasi kepemilikan dan pengawasan dewan direksi yang berlaku masih belum cukup untuk mengurangi perilaku manajerial oportunistik, terutama di bawah tekanan kinerja. Wawasan ini berkontribusi pada perdebatan yang sedang berlangsung tentang tata kelola perusahaan dan kredibilitas pelaporan, menawarkan implikasi bagi investor, regulator, dan pengambil keputusan. Namun, kesimpulan dibatasi oleh fokus sektoral studi dan cakupan temporal yang terbatas, yang membatasi generalisasi yang lebih luas.

Kata Kunci : Struktur Kepemilikan; Manajemen Laba; Kinerja Keuangan; Keragaman Dewan Direksi

INTRODUCTION

Earnings management can be understood as the intentional manipulation of accounting choices by corporate executives, undertaken to modify the presentation of financial statements. Through such discretionary practices, managers are able to construct profit figures that deviate from the firm's underlying economic reality. This process, in turn, distorts the quality of the information communicated to stakeholders, embedding systematic bias within reported outcomes (Geraldina et al., 2015). Such practices compromise the reliability of financial reporting and diminish the credibility of profit disclosures, ultimately impairing investors' ability to make sound judgments (Akter, Aklima, et al., 2024). Once manipulation occurs, confidence in governance structures deteriorates, leading market participants to perceive greater risk and, in many instances, to postpone or withdraw investment commitments. This erosion of trust often materialises in financial losses, particularly when market valuations adjust downward in response to revelations that reported figures misrepresent the firm's true condition (Akter, Rahman, et al., 2024; Kim & Sohn, 2013). Indonesia provides several notable examples of these dynamics. In 2017, allegations emerged that PT Tiga Pilar Sejahtera Food Tbk (AISA) had overstated both its asset base and accounts receivable by an estimated Rp4 trillion. The revelation severely undermined market trust, leading to a dramatic erosion of investor confidence. When trading in the company's shares recommenced in 2020, the stock price had plummeted from around Rp2,200 to only Rp168, reflecting the magnitude of the reputational and financial fallout. Similarly, PT Garuda Indonesia Tbk (GIAA) came under investigation in 2019 for recognising revenue prematurely in contravention of PSAK standards, an action that eroded firm value and drove its stock price down from Rp438 to around Rp222. Prior empirical work further indicates that such practices are often rooted in managerial opportunism, whether to safeguard positions, maximise bonus payouts, or cultivate an image appealing to prospective investors (Purnama & Utama, 2018; Wardani & Kusuma, 2012)

Managerial inclination toward manipulating reported earnings is often interpreted through the lens of agency theory, which highlights the structural divide between those who own the firm and those entrusted with its control. This misalignment of interests creates opportunities for executives to exercise discretion in ways that serve their own objectives, even when such actions compromise the integrity of financial reporting (Jensen & W. H. Meckling., 1976). Within this framework, managers act as agents while shareholders assume the role of principals, and the divergence of their objectives often generates conflict. Because managers possess superior knowledge of the firm's internal conditions, an imbalance of information arises,

creating opportunities for opportunistic behaviour such as profit manipulation for personal advantage (Eisenhardt, 1989; Scott, 2015). To mitigate these asymmetries, firms are encouraged to strengthen governance arrangements enhancing the transparency of financial disclosures, reinforcing internal monitoring systems, and expanding managerial shareholdings so that decision-making is more closely aligned with shareholder interests (Choi, 2019; Neupane, 2024; Tran & Dang, 2021). Moreover, concentrated ownership structures can serve as an additional safeguard, as larger shareholders typically exercise more rigorous oversight, thereby constraining managerial discretion in manipulating reported earnings (Alves, 2012; Hashim & Devi, 2008; Jelinek, 2007). When managers themselves hold equity stakes, they not only share in the risks associated with poor decisions but also benefit directly from value-enhancing strategies, which reduces incentives for opportunistic reporting (Haliza & Suwarno, 2022).

Recent empirical scholarship increasingly highlights ownership structures as a central element of corporate governance in curbing earnings manipulation (Akter, Aklima, et al., 2024; Nguyen et al., 2021; Tran & Dang, 2021). Earlier investigations suggest that concentrated shareholdings and managerial equity participation can enhance the congruence of interests between managers and investors, thereby limiting opportunistic behaviour and reinforcing monitoring effectiveness particularly when supported by well-functioning boards and comprehensive governance frameworks. Evidence presented by (AL-Duais et al., 2022) further underscores the significance of ownership composition, revealing that family, institutional, and foreign shareholders exert a more pronounced constraining effect on real earnings management. This influence is largely attributable to their longer investment horizons and heightened scrutiny of managerial decision-making. Building on this perspective, (Le & Nguyen, 2023) contend that governance outcomes are shaped not only by ownership concentration but also by board characteristics, with firms exhibiting larger boards and a higher proportion of independent directors demonstrating lower tendencies to manipulate financial statements. Such findings highlight the disciplining capacity of independent oversight and the importance of board autonomy. Nonetheless, gaps remain in the literature, as prior investigations have failed to establish significant moderating effects between board diversity and either institutional or foreign ownership, pointing to the need for further empirical inquiry (Akter, Aklima, et al., 2024). Moreover, managerial shareholding has repeatedly been shown to exert minimal influence, suggesting that executive equity stakes alone are insufficient to deter opportunistic behaviour. Taken together, these insights reinforce the broader conclusion that diversified and well-structured ownership arrangements contribute to greater transparency in financial reporting and strengthen investor confidence (AL-Duais et al., 2022).

Prior research has yet to reach consensus on how ownership structures shape earnings management, with findings differing considerably across institutional contexts. (Akter, Aklima, et al., 2024), note that the capacity of ownership arrangements to constrain managerial opportunism is not uniform but rather depends on the broader governance architecture, particularly the composition of the board and the robustness of internal monitoring mechanisms. To address these divergent results, the present study advances a more comprehensive analytical model by integrating board diversity as a moderating variable and financial performance as a mediating construct. This approach is intended to provide a deeper understanding of the pathways through which ownership patterns interact with governance dynamics to influence managerial reporting behaviour.

LITERATURE REVIEW AND HYPOTHESIS DEVELOPMENT

Agency Theory

Agency theory, originally advanced by Jensen and Meckling (1976), conceptualises the firm as a contractual nexus where ownership and managerial authority are separated. This separation generates inherent tensions, as shareholders act as principals while managers serve as agents with divergent objectives (Eisenhardt, 1989). The literature identifies two central mechanisms underpinning these conflicts: information asymmetry and managerial opportunism (Chowdhury, 2004; Panda & Leepsa, 2017). Managers typically possess privileged access to operational and financial information, which can be exploited to advance personal interests (Eisenhardt, 1989). Opportunistic behaviour further manifests in practices such as earnings manipulation, designed to enhance reported performance and secure greater compensation (Core et al., 1999; Panda & Leepsa, 2017). Together, these dynamics form the theoretical foundation of agency theory and provide a compelling rationale for the persistence of earnings management, a phenomenon that undermines investor confidence in managerial accountability (Eisenhardt, 1989; Jensen & W. H. Meckling., 1976).

The Effect of Ownership Concentration on Earnings Management

Ownership concentration denotes the extent to which corporate equity is controlled by a limited number of dominant investors, commonly identified as those holding at least five percent of outstanding shares (Le & Nguyen, 2023). Agency theory suggests that such concentrated stakes should strengthen monitoring incentives, as major shareholders are presumed to be more vigilant in safeguarding their investments, scrutinising managerial conduct, and ensuring the reliability of reported financial information. Yet, empirical evidence remains divided on whether concentrated ownership mitigates or, conversely, intensifies earnings manipulation (Jensen & W. H. Meckling., 1976) (Saona et al., 2020). For example (Akter, Aklima, et al., 2024) find a significant association between concentrated shareholdings and the

likelihood of profit manipulation, while (Nguyen et al., 2021) analysing 489 non-financial firms in Vietnam, similarly observe a positive relationship between ownership concentration and earnings management practices. Against this backdrop of theoretical reasoning and conflicting empirical outcomes, the present study formulates its first hypothesis to interrogate this linkage with greater analytical precision.

H1: Concentration of ownership has a significant effect on earnings management

The Effect of Managerial Ownership on Earnings Management

Managerial equity participation has long been regarded as a governance instrument designed to strengthen oversight and mitigate agency frictions between corporate leaders and shareholders (Haliza & Suwarno, 2022). By holding a personal stake in the firm, managers are expected to align their objectives more closely with those of investors, thereby reducing the potential for conflicting interests. Yet, empirical evidence on its influence over financial reporting practices remains divided. Certain studies reveal that managerial ownership may actually encourage earnings manipulation, suggesting that executives exploit their position to pursue private benefits (Akter, Rahman, et al., 2024; Tran & Dang, 2021). In contrast, other investigations emphasise its disciplinary effect, showing that equity stakes can serve to restrain opportunistic reporting behaviour (Akter, Aklima, et al., 2024; Piosik & Genge, 2020). Against this backdrop of theoretical reasoning and contradictory empirical outcomes, the present study formulates the following hypothesis to further examine the role of managerial shareholding in shaping earnings management.

H2: Managerial ownership has a significant effect on earnings management.

The Effect of Foreign Ownership on Earnings Management

If the interests of internal and external shareholders are aligned, the company will focus on increasing value by improving financial transparency, thereby also benefiting foreign investors (Jensen & W. H. Meckling., 1976). Empirical evidence further suggests that enterprises with substantial foreign ownership tend to exercise stricter oversight of managerial conduct, thereby diminishing the scope for earnings manipulation (AL-Duais et al., 2022). Building on these theoretical insights and prior findings, the present study advances its third hypothesis.

H3: Foreign ownership has an impact on Earnings Management.

The Effect of Institutional Ownership on Earnings Management

Institutional investors are widely recognised as pivotal actors in corporate governance, given their capacity to exert meaningful oversight over managerial behaviour and to limit self-interested decision-making within firms (Akter, Aklima, et al., 2024). By engaging in systematic and professional monitoring, these shareholders are able to restrict managerial

latitude and diminish opportunities for opportunistic manipulation of financial reports (Saona et al., 2020). Building upon this theoretical rationale and empirical evidence, the present study advances the following hypothesis.

H4: Institutional Ownership Has an Impact on Earnings Management

Diversity of the Board of Directors in Moderating the Influence of Ownership Structure on Earnings Management

Managerial choices are often shaped by personal incentives, which can prompt executives to adjust reported earnings in ways that conflict with shareholders' aim of enhancing firm value (Dang Ngoc & Tran Manh, 2020). Recent scholarship increasingly points to a link between female representation on corporate boards and a reduction in practices of earnings manipulation. The presence of women in governance roles is often interpreted as enhancing the board's ethical vigilance, thereby curbing managerial opportunism and reinforcing the integrity of financial reporting (Roy & Alfian, 2022). Within the framework of agency theory, heterogeneous boards are theorised to protect shareholder interests by reinforcing monitoring functions and constraining managerial opportunism (Ghaleb et al., 2021). Nonetheless, empirical evidence remains inconclusive. For example (Akter, Aklima, et al., 2024) report that board diversity does not significantly moderate the link between ownership structures and earnings management. Thus, while theoretical arguments point to a potential governance role for diverse boards, the empirical trajectory of this relationship is still ambiguous. In response to these unresolved findings, the present study advances its fifth hypothesis to examine the moderating effect of board diversity more rigorously.

H5a: Board diversity has a moderating effect on the relationship between ownership concentration and Earnings Management

H5b: Board diversity has a moderating effect on the relationship between managerial ownership and Earnings Management.

H5c: Board diversity has a moderating effect on the relationship between foreign ownership and Earnings Management.

H5d : Board Diversity has a moderating effect on the relationship between institutional ownership and earnings management

Financial Performance in Mediating the Influence of Ownership Structure on Earnings Management

Ownership structure is increasingly acknowledged as a decisive element in corporate governance, shaping the scope of managerial discretion and guiding strategic decisions that ultimately determine organisational outcomes (Kirimi et al., 2022). Empirical evidence further suggests that ownership patterns can enhance profitability, with notable effects observed in

sectors such as banking (Paolo S. & Abul K. A, 2018). Within this framework, financial performance indicators provide important insights into managerial behavior. ROA, for example, has been shown to correlate positively with earnings management practices (Tran & Dang, 2021). In contrast, the PBV ratio operates as a market-based measure of firm valuation, signalling the degree to which governance structures succeed in enhancing shareholder wealth (Fama & French, 1998; Lee, 2011). Building upon these insights, the present study considers ROA and PBV as potential mediating mechanisms linking ownership configuration to earnings management. Yet, the empirical evidence remains inconclusive regarding both the strength and direction of this mediating role, thereby motivating the development of the sixth hypothesis.

H6: Financial Performance Has a Mediating Effect on the Relationship Between Ownership Structure and Earnings Management.

RESEARCH METHOD

Method is a method of work that can be used to obtain something. While the research method can be interpreted as a work procedure in the research process, both in searching for data or disclosing existing phenomena (Zulkarnaen, W., et al., 2020).

Sample and Population

To evaluate the proposed hypotheses, the investigation adopts a quantitative methodological approach. The empirical setting is restricted to manufacturing firms publicly traded on the Indonesia Stock Exchange (IDX) during the period 2021–2024. Data pertaining to both financial performance and corporate governance structures were sourced exclusively from the IDX's official repository, ensuring reliability and consistency of the information utilized in the analysis www.idx.co.id. Sampling was conducted purposively, ensuring that only firms meeting predetermined criteria were included. The final dataset consists of publicly traded manufacturing companies (Tbk) that remained consistently active in the market during the observation period and provided complete disclosures required for the operationalisation of all study variables.

Measurement

To evaluate the degree of earnings management, this study employs the Modified Jones model, a framework that has become a standard in empirical research since its initial formulation by Jones (1991) and subsequent refinement by (Dechow et al., 1995; Jones, 1991). The model enhances measurement accuracy by controlling for fluctuations in accounts receivable, thereby isolating discretionary accruals more effectively. From an operational perspective, discretionary accruals are derived as the portion of total accruals that cannot be explained by non-discretionary components. Non-discretionary accruals themselves are typically measured by contrasting the firm's stated net income with the cash inflows arising

from core operating activities. The residual obtained from this subtraction represents the discretionary element, which is often interpreted as a proxy for managerial intervention in financial reporting. The analysis of ownership structure encompasses several dimensions namely, concentration of equity, managerial shareholding, foreign investor participation, and institutional ownership each expressed as a proportion of total shares outstanding. Board diversity is proxied by the proportion of female directors, reflecting gender inclusivity within governance arrangements. Firm performance is assessed using two complementary indicators: ROA, which captures profitability relative to asset utilisation, and PBV, a market-based metric that signals investor perceptions of firm value and growth prospects.

RESULTS AND DISCUSSION

Descriptive Statistics Research

The empirical analysis is grounded in a dataset comprising 100 manufacturing firms publicly traded on the Indonesia Stock Exchange (IDX) during the specified timeframe. This sample provides the foundation for examining the research questions, ensuring that the evidence is drawn from a representative segment of the national industrial sector. To contextualise the sample and illustrate its characteristics, descriptive statistics derived from these observations are presented in the following table.

The descriptive statistics reported in Table 2 highlight considerable variation across the study variables. Within the ownership structure dimension, the lowest recorded values are 0.14 for equity concentration, while managerial, foreign, and institutional ownership each register minimum levels of 0.00. The extent of dispersion around the mean is reflected in standard deviations of 0.88042, 0.07970, 0.30696, and 0.38342, respectively. With respect to the moderating variable of gender diversity, the share of women serving on corporate boards exhibits considerable variation, beginning at zero and reflected in a standard deviation of 0.16781. This dispersion highlights meaningful heterogeneity in board structures across the sampled firms. In terms of the mediating measure of financial performance, ROA records a minimum value of zero and demonstrates relatively modest fluctuation, as evidenced by a standard deviation of 0.07023. By contrast, the PBV ratio begins at 0.12 but exhibits far greater dispersion, with a standard deviation of 1.90273, reflecting substantial divergence in market-based evaluations of firm worth. Finally, the dependent construct earnings management records a minimum of -0.94 and a standard deviation of 0.24672, pointing to pronounced heterogeneity in the degree of earnings manipulation across the sampled companies.

Path Analysis Results

The estimation results of the PLS-SEM structural model, as illustrated in the figure, show that the ownership structure construct is represented by four dimensions: ownership

concentration (X1) with a loading of 0.317, managerial ownership (X2) at 0.262, foreign ownership (X3) at 0.202, and institutional ownership (X4) with the highest loading of 0.703. The path coefficient linking ownership structure to financial performance is 0.325. Financial performance, measured through ROA (Z1) and PBV (Z2), contributes minimally, with loadings of 0.000 and 0.020, respectively. The estimated pathway linking financial performance to earnings management is relatively weak, with a coefficient of 0.012. By contrast, the direct influence of ownership structure on earnings manipulation is markedly stronger, reflected in a coefficient of 0.981. Despite these associations, the overall explanatory capacity of the model remains limited, as indicated by R^2 values of 0.098 for financial performance and 0.099 for earnings management. Furthermore, the analysis of board diversity as a moderating variable produces a path coefficient of 0.468, suggesting that diversity within the board does not exert a meaningful interaction effect on the ownership earnings management relationship.

Hypothesis Test Results

The evidence reported in Table 3 indicates that ownership characteristics do not exert a statistically significant influence on earnings management. The estimated parameters for concentrated shareholdings (-0.052 , $p = 0.318$), managerial equity stakes (-0.199 , $p = 0.101$), foreign ownership (-0.090 , $p = 0.374$), and institutional participation (0.039 , $p = 0.759$) all fall short of conventional thresholds of significance. Similarly, gender diversity on corporate boards does not emerge as a moderating factor in these relationships. The interaction effects yield coefficients of -0.211 ($p = 0.788$) for concentrated ownership, 0.198 ($p = 0.402$) for managerial holdings, -0.009 ($p = 0.944$) for foreign shareholding, and 0.242 ($p = 0.245$) for institutional ownership, none of which demonstrate statistical relevance. Moreover, financial performance fails to act as a mediating mechanism between ownership structures and earnings management, as reflected in a coefficient of -0.091 with a p -value of 0.356. Notably, financial performance itself shows a significant positive association with earnings management (coefficient = 0.289 , $p = 0.012$), underscoring its direct role in shaping managerial reporting behavior.

R Square

The coefficient of determination for the earnings management construct yields an R^2 value of 0.099, signifying that the structural model accounts for only 9.9% of the observed variation in earnings management practices. This outcome suggests that the remaining 90.1% of the variance is influenced by factors not captured within the current set of variables. This relatively low explanatory capacity underscores the model's limitations in capturing the broader determinants of earnings manipulation and suggests that future research should integrate additional dimensions such as governance mechanisms, market dynamics, or firm-specific characteristics to provide a more comprehensive understanding of the phenomenon.

Discussion

Concentration of Ownership Has No Significant Effect on Earnings Management

The empirical test assessing the impact of concentrated ownership on earnings management yielded a coefficient of 0.052 with a probability value of 0.318. As this level of significance lies well above the accepted 0.05 benchmark, the analysis offers no statistical confirmation of a direct association between concentrated shareholdings and the propensity for earnings manipulation. On this basis, the hypothesis asserting that ownership concentration exerts a meaningful influence on managerial engagement in earnings management cannot be substantiated and is therefore rejected.

The results obtained in this study stand in contrast to the evidence presented by (Akter, Aklima, et al., 2024) who documented a significant link between concentrated ownership and the practice of earnings management. Their evidence suggests that firms with highly concentrated shareholding structures are more susceptible to the influence of dominant investors in shaping financial reporting outcomes. In such contexts, majority shareholders often wield considerable authority in corporate decision-making, extending to choices regarding accounting treatments and profit disclosure policies.

In contrast, the study by (Nguyen et al., 2021), revealed that concentrated ownership does not exert a statistically significant influence on earnings management within Vietnamese firms. Their results suggest that the proportion of equity held by dominant shareholders is not, in itself, a decisive factor shaping managerial engagement in earnings manipulation. Hence, even in contexts where ownership is heavily concentrated, this structural condition does not automatically translate into higher or lower levels of earnings management. Instead, its potential impact appears contingent upon broader governance arrangements and institutional characteristics that may either constrain or enable managerial discretion in financial reporting.

Managerial Ownership Has No Significant Effect on Earnings Management

The evaluation of managerial equity participation in connection with earnings manipulation generated a coefficient of -0.199 with a probability value of 0.101. Since this figure lies above the accepted 0.05 significance benchmark, the results fail to demonstrate a statistically reliable direct association between managerial ownership and earnings management behavior. Accordingly, the proposition that managers' shareholdings exert a substantive influence on the degree of earnings manipulation cannot be empirically substantiated and is therefore dismissed.

The results of this investigation contrast with the evidence presented by (Tran & Dang, 2021), who documented a statistically significant relationship between managerial equity ownership and the propensity for earnings management. Their evidence suggested that as

managers' equity stakes increase, so too does their influence over corporate reporting choices. In such circumstances, managerial ownership may serve as a catalyst for earnings manipulation, either as a means of aligning managerial interests with firm performance or as a strategy to pursue personal incentive-driven objectives.

(Agustin, 2022) Reports that managerial equity participation does not exhibit a statistically significant relationship with earnings manipulation. The evidence suggests that the extent of shares owned by managers is not a determining factor in shaping their inclination to adjust reported financial results. Within this framework, managerial ownership should not be considered a principal driver of earnings management, as its influence may be constrained by other governance arrangements particularly the monitoring function of audit committees and the wider institutional structures of corporate governance in which firms are embedded.

Foreign Ownership Has No Significant Effect on Earnings Management

The empirical test examining the role of foreign equity participation in shaping earnings manipulation produced a coefficient of -0.090 with a probability value of 0.374 . As this figure substantially exceeds the conventional 0.05 benchmark, the analysis offers no statistical confirmation of a direct association between foreign ownership and earnings management behavior. On this basis, the hypothesis suggesting that foreign investors exert a decisive influence on managerial discretion in manipulating reported earnings cannot be substantiated and is therefore rejected.

Echoing the results documented by (Akter, Aklima, et al., 2024), the current investigation demonstrates that foreign equity participation shows no statistically significant effect on the extent of real earnings management. The results suggest that the mere inclusion of foreign investors within a firm's ownership structure does not automatically shape managerial choices related to earnings manipulation. In other words, the proportion of foreign ownership cannot be regarded as a decisive factor in determining the extent of earnings management. This outcome further implies that such influence may be contingent upon broader governance arrangements, including board diversity, which in this study was examined as a potential moderating mechanism.

Institutional Ownership Has No Significant Effect on Earnings Management

The statistical assessment of institutional shareholding in relation to earnings manipulation yielded a coefficient of 0.039 with a probability value of 0.759 . Given that this figure lies far above the conventional 0.05 significance benchmark, the analysis offers no empirical basis to affirm a meaningful association between institutional ownership and earnings management. Consequently, the hypothesis positing that institutional investors play a decisive

role in shaping the extent of managerial earnings manipulation cannot be corroborated and is therefore rejected.

In line with the observations of (Akter, Aklima, et al., 2024), the present study finds no statistical evidence that institutional shareholding is directly associated with real earnings management. The data suggest that the proportion of equity held by institutional investors does not, on its own, translate into systematic managerial behavior aimed at manipulating reported earnings. Accordingly, institutional ownership cannot be regarded as a decisive driver of reporting discretion. Rather, the findings imply that any potential impact of institutional investors may be contingent upon their interaction with complementary governance mechanisms such as board diversity which in this analysis was examined as a possible moderating element.

Diversity of the Board of Directors Has No Significant Effect in Moderating Ownership Structure on Earnings Management

The results of the statistical evaluation indicate that board diversity does not operate as a significant moderating factor in the nexus between ownership structures and earnings management. Tests of the interaction effects yield non-significant coefficients, with p-values of 0.788 for concentrated ownership, 0.402 for managerial shareholding, 0.944 for foreign equity participation, and 0.245 for institutional investment all considerably higher than the conventional 0.05 threshold. Collectively, these outcomes point to the conclusion that female representation on boards, as employed in this study as a proxy for diversity, fails to function as a substantive mechanism through which ownership configurations alter managerial discretion in financial reporting.

The findings of this study align with those reported by (Akter, Aklima, et al., 2024) who similarly concluded that differences in board composition particularly with respect to diversity do not materially alter the relationship between ownership structures and real earnings management. The present evidence suggests that neither gender representation nor heterogeneity in professional expertise within the board has demonstrated effectiveness as a moderating mechanism capable of influencing how ownership configurations shape managerial choices in earnings reporting.

Financial Performance Cannot Mediate the Effect of Ownership Structure on Earnings Management

Testing financial performance as a potential mediator between ownership structure and earnings management produced a coefficient of -0.091 with a probability value of 0.356. This outcome, situated far above the conventional 0.05 threshold, demonstrates that the mediating effect is statistically unsupported. In light of this evidence, the proposition that managerial

equity holdings influence financial outcomes which, in turn, channel firms toward earnings manipulation cannot be empirically validated and must therefore be dismissed.

The evidence obtained in this study diverges from the conclusions of (Handayani et al., 2020) who argued that financial performance mediates the linkage between governance mechanisms particularly ownership configuration and earnings management. In contrast, the present analysis reveals no empirical support for such an intermediary role. The data suggest that variations in ownership structure do not exert their influence on earnings management through enhanced financial outcomes, thereby indicating that the indirect pathway involving financial performance is not statistically validated.

Consistent with the evidence reported by (Muslichah et al., 2022) the present analysis demonstrates that financial performance does not operate as a mediating construct in the nexus between ownership arrangements and earnings management. The mediation assessment further reveals that managerial equity holdings exert no indirect influence on earnings manipulation via enhanced financial outcomes, since the path through financial performance lacks statistical significance. Taken together, these results suggest that, within the examined setting, financial performance cannot be considered a dependable explanatory channel for understanding how ownership configurations influence managerial choices regarding earnings reporting.

Financial performance has a significant impact on Earnings Management.

The empirical analysis demonstrates that the relationship between corporate financial performance and earnings management is statistically significant, with the estimated coefficient recorded at 0.289 and the associated probability value at 0.012. Since this level of significance is well below the conventional 0.05 benchmark, the evidence substantiates a positive and meaningful connection between the two variables. On this basis, the hypothesis under examination is supported, indicating that fluctuations in firms' financial outcomes exert a notable influence on the degree to which managers employ discretionary practices in financial reporting.

Unlike the conclusions reached by (Gajdosikova et al., 2022), the present study does not furnish empirical confirmation that fluctuations in financial performance decisively shape managerial engagement in earnings manipulation. The evidence suggests that the magnitude of a firm's financial outcomes cannot be treated as a reliable indicator of executives' inclination to adjust reported figures. Stated differently, differences in financial conditions do not consistently correspond with systematic variations in the extent of earnings management practices adopted by corporate managers.

The empirical evidence generated in this investigation aligns closely with patterns reported in prior scholarship, reinforcing the broader body of literature on the subject reported

by (Rizani et al., 2022), who highlight the significant impact of financial performance on managerial engagement in earnings management. Their analysis emphasizes that the financial standing of a firm plays a critical role in guiding managerial discretion, indicating that variations in performance may encourage executives to modify reporting practices in pursuit of organizational goals or personal interests.

CONCLUSION

The investigation assesses how differing ownership configurations influence earnings management practices within manufacturing firms listed on the Indonesia Stock Exchange between 2021 and 2024. The analysis foregrounds two governance-related aspects: first, whether diversity at the board level captured through gender representation conditions the relationship between ownership and earnings manipulation; and second, whether firms' financial performance mediates this linkage. The findings indicate that concentrated shareholding, managerial equity stakes, foreign ownership, and institutional participation fail to produce significant direct impacts on earnings management. Similarly, gender heterogeneity on boards, proxied by the appointment of female directors, does not emerge as a meaningful moderating factor. In contrast, financial outcomes exhibit a robust positive association with earnings management, yet they do not operate as a mediating pathway through which ownership structures shape managerial discretion in financial reporting.

Despite offering valuable insights, the investigation is subject to several constraints. The empirical scope is limited to manufacturing firms and covers only a brief time horizon, thereby restricting the generalizability of the findings to wider industrial contexts. Furthermore, the measurement of earnings management relies exclusively on the Modified Jones Model, while board diversity is assessed solely in terms of gender composition. Although these methodological decisions are defensible, they capture only a partial view of the complex interplay between governance arrangements and reporting practices. The relatively modest explanatory power of the model also indicates that other influential factors remain unexamined. Future research could strengthen this line of inquiry by broadening the temporal frame, incorporating firms across diverse sectors, and employing alternative proxies alongside complementary indicators, thereby yielding a more nuanced and comprehensive understanding of the mechanisms underpinning earnings management.

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FIGURE AND TABLE

Table 1. Measurement of Variables in the Study

Variable	Measurement
Earnings Management	Modification of the Jones Model
Concentration of Ownership	The measure reflects the share of a company's equity controlled by investors who individually own no less than five percent of the total issued stock.
Managerial ownership	For the purposes of this study, managerial ownership is operationalised as the percentage of outstanding equity directly held by the executive director, calculated against the firm's total issued shares.
Foreign Ownership	Within the scope of this research, foreign ownership is defined by the share of a company's equity controlled by investors from outside the domestic market. This measure is expressed as the ratio of non-local holdings to the overall number of shares in circulation, thereby capturing the extent of international participation in the firm's capital structure.
Institutional Ownership	For the purposes of this research, institutional ownership is conceptualized as the share of a firm's equity controlled by institutional investors. It is measured by comparing the aggregate holdings of such investors against the total volume of shares issued, thereby reflecting the extent of institutional participation in the company's ownership structure.
Diversity of the Board	Assessed through the share of board seats occupied by women within the company's directorate.
ROA	In this study, ROA is employed as a performance measure, derived by dividing net income by the firm's total asset base. This ratio captures the extent to which corporate resources are utilised effectively to produce earnings, thereby serving as an indicator of managerial efficiency in generating profitability from available assets.
PBV	In this study, the PBV ratio is utilised as a market-based indicator, obtained by dividing the prevailing share price by the book value per share. This measure reflects how investors evaluate a firm's market worth in relation to its accounting valuation, thereby offering insights into perceived growth potential and overall investor confidence.

Table 2. Descriptive Statistical Test Results

	Minimum	Std. Deviation
Concentration of ownership	0,14	0,88042
Managerial Ownership	0,00	0,07970
Foreign Ownership	0,00	0,30696
Institutional Ownership	0,00	0,38342
Diversity of the Board	0,00	0,16781
ROA	0,00	0,07023
PBV	0,12	1,90273
Earnings Management	-0,94	0,24672

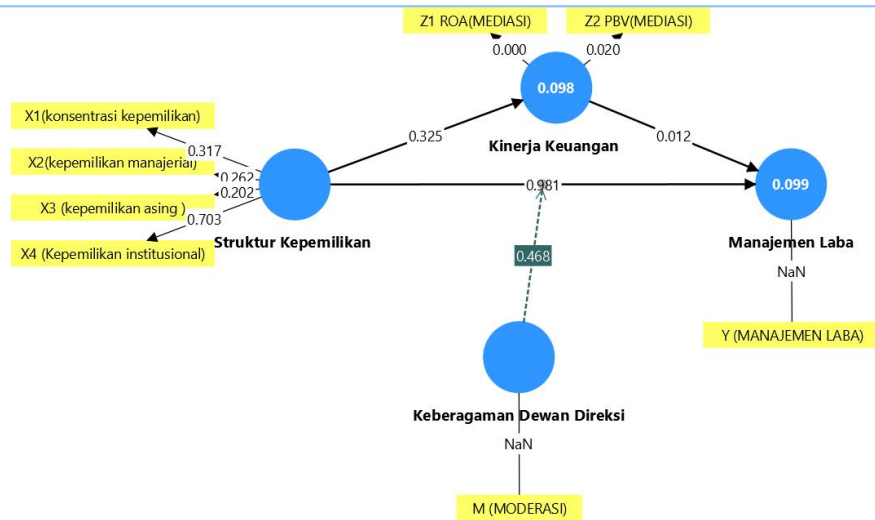


Figure 2 Path Analysis Results
 Data Source: Processed 2025

Table 3. Hypothesis Test Results

	Original Sample (o)	T Statistic	P values	Conclusion
Concentration of ownership -> Earnings Management	-0,052	0,681	0,318	Not Significant
Managerial Ownership -> Earnings Management	-0,199	0,430	0,101	Not Significant
Foreign Ownership -> Earnings Management	-0,090	1,555	0,374	Not Significant
Institutional Ownership -> Earnings Management	0,039	1,052	0,759	Not Significant
Concentration of Ownership -> Diversity of the Board-> Earnings Management	-0,211	0,599	0,788	Not Significant
Managerial Ownership -> Diversity of the Board-> Earnings Management	0,198	0,834	0,402	Not Significant
Foreign Ownership -> Diversity of the Board-> Earnings Management	-0,009	0,077	0,944	Not Significant
Institutional Ownership -> Diversity of the Board-> Earnings Management	0,242	0,962	0,245	Not Significant
Ownership Structure -> Financial Performance -> Earnings Management	-0,091	0,228	0,356	Not Significant
Financial Performance -> Earnings Management	0,289	2,748	0,012	Significantly Positive

Table 4. R-Square

	R Square
Y	0,099