

## THE GOOD CORPORATE GOVERNANCE AS A MEASURE TO CONTROL COMPANY EARNINGS MANAGEMENT

### GOOD CORPORATE GOVERNANCE SEBAGAI TINDAKAN PENGENDALIAN PENGELOLAAN LABA PERUSAHAAN

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#### **Abstract**

*Capital Providers (Investors and Creditors) use past information to help assess the performance and prospects of a company. This performance information is contained in the financial reports presented by the company which will then influence the capital allocation carried out by the capital provider. Thus, although investment and credit decisions reflect the expectations of investors and creditors regarding the company's future performance, these expectations are generally based at least in part on evaluations of the company's past performance. Management is very aware of the trend seen by owners and external parties, namely management performance through profit proxies, thereby encouraging the emergence of earnings management. This earnings management tendency is closely related to agency theory and information asymmetry between management and owners. Various research results show that the implementation of Good Corporate Governance is a solution for many companies to overcome agency problems so that earnings management carried out by management can be controlled well. Corporate governance is one of the key elements in increasing economic efficiency, which includes a series of relationships between company management, board of directors, shareholders and other stakeholders. Corporate governance also provides a structure that facilitates determining the targets of a company, and as a means of determining performance monitoring techniques.*

**Keywords** : good corporate governance, control, earnings management, company

### Abstrak

*Capital Providers (Investor dan Kreditor) menggunakan informasi masa lalu untuk membantu menilai kinerja dan prospek dari sebuah perusahaan. Informasi kinerja ini tertuang dalam laporan keuangan yang disajikan oleh perusahaan yang kemudian akan mempengaruhi capital allocation yang dilakukan oleh penyedia modal. Jadi, meskipun keputusan investasi dan kredit mencerminkan ekspektasi dari para investor dan kreditor mengenai kinerja perusahaan di masa depan, ekspektasi-ekspektasi tersebut umumnya didasarkan pada paling sedikit sebagian dari evaluasi kinerja perusahaan di masa lalu. Manajemen sangat menyadari kecenderungan yang dilihat oleh pemilik dan pihak eksternal adalah kinerja manajemen melalui proxy laba, sehingga mendorong timbulnya earnings management. Kecenderungan manajemen laba ini sangat terkait dengan teori keagenan dan asimetri informasi antara manajemen dan pemilik. Berbagai hasil penelitian menunjukkan bahwa penerapan Good Corporate Governance merupakan sebuah solusi bagi banyak perusahaan untuk mengatasi masalah keagenan sehingga manajemen laba yang dilakukan oleh manajemen dapat dikendalikan dengan baik. Corporate governance merupakan salah satu elemen kunci dalam meningkatkan efisiensi ekonomis, yang meliputi serangkaian hubungan antara manajemen perusahaan, dewan direksi, para pemegang saham dan stakeholders lainnya. Corporate governance juga memberikan suatu struktur yang memfasilitasi penentuan sasaran-sasaran dari suatu perusahaan, dan sebagai sarana untuk menentukan teknik monitoring kinerja.*

**Kata kunci:** tata kelola perusahaan, pengendalian, manajemen laba, perusahaan

#### A. Introduction

Financial reports are prepared based on accrual accounting. The advantage of accrual accounting is that information on company profits and the measurement of its components provides a better indication of the company's economic performance than information resulting from aspects of recent cash receipts and disbursements. Indeed, accrual accounting has weaknesses. Wild et al (2003) in Ahmad et al (2007) criticize that accrual accounting is an imperfect rule and obscures financial reports which aim to provide information on cash flows and the company's capabilities in generating cash.

Financial reports relate to the process of recording transactions related to all forms of financial activities that occur in a business during the financial year concerned in a concise and clear (Kieso, Weygandt, & Warfield, 2018). Financial reports can also provide information related to financial position, financial performance, entity flows which are used by all information users, especially investors as a basis for decision making (IAI, 2018). Investors and creditors often use past information to help assess the prospects of a company. Seeing the importance of performance evaluation, it can be understood that the main focus of financial reporting is information about company

performance obtained through measuring income and its components. Profit is an important parameter used in measuring management performance.

According to Statement of Financial Accounting Concepts (SFAC) No. 1, profit information is the main concern for assessing management performance or accountability. Apart from that, profit information also helps owners or other parties in estimating the company's earnings power in the future. This tendency to pay more attention to earnings is recognized by management, especially managers whose performance is measured based on this information, thereby encouraging the emergence of earnings management.

Earnings management arises due to the motivation and information owned by management. The information contained internally, namely owned by management, is much greater than the information held by external parties or outside the company. Seeing the profit factor as very important for management performance (Scott, 2006). Management as the holder of information will try to make the best possible profit report by selecting the available accounting methods. Scott (2006) defines earnings management as follows:

*Earnings managements is the choice by a manager of accounting policies, or real actions, affecting earnings so as to achieve some spesific reported earnings objective.*

Scott (2006) states that earnings management is a choice and has certain objectives, meaning that it can be indicated that these objectives will have a positive impact on management as the holder of information. Earnings management is a deliberate action by management to obtain personal or organizational benefits in a process related to financial reporting.

Earnings management can be detrimental to external parties to the company, because it can cause external parties to make mistakes in decision making if based on information from financial reports that contain earnings management practices. (Wardani & Santi, 2018). This research will link earnings management practices and corporate governance by looking at existing studies and research results as the main reference. Therefore, the author will also explain agency theory in this discussion.

## **B. Literature Review**

### ***Agency Theory***

In understanding corporate governance and earnings management issues, it is very important to look at the perspective of agency theory which is used as a basic reference. The separation of owner (principal) and control/implementation by management (agent) in an organization or company tends to give rise to agency conflicts. Agency problems can occur as a result of behavior carried out by managers that is not in line with the interests of shareholders. Managers run the company by prioritizing personal interests who only think about their own welfare rather than the welfare of shareholders. One of the managers' actions in carrying out personal motives is through earnings management (Pradipta, 2019).

Earnings management activities aim to meet managers' own needs and there are not in line with the interests of shareholders (Wijaya & Firmansyah, 2021). We can see that management has more information about themselves in terms of capacity, work environment and the company as a whole. This is what causes information imbalance and in accounting science it is called asymmetry information.

Eisenhardt (1989) in Ujijantho and Pramuka (2007) states that agency theory uses three assumptions about human nature, namely: (1) humans are generally self-interested, (2) humans have limited thinking power regarding future perceptions (bounded rationality), and (3) humans always avoid risks (risk averse).

Jensen and Meckling (1976), Watts and Zimmerman (1986) in Herawaty (2018) state that financial reports prepared with accounting figures are expected to minimize conflicts between involved parties. With financial reports presented and reported by management as an accountability for its performance, the owner or principal can assess, measure and monitor the extent to which the agent works to improve his welfare and serve as a basis for providing compensation.

Watts and Zimmerman (1986) in Herawaty (2018) further stated that the relationship between owners and management which is often determined through accounting numbers and used as the basis for compensation makes management have a tendency to think about how these numbers are a means of maximizing their interests and one of the actions is through earnings management.

### ***Earnings Management***

Earnings management is the selection of accounting policies by managers from existing accounting standards and can naturally help to achieve their goals (Scott, 2006). Scott divides ways of understanding earnings management into two. First, see it as opportunistic behavior of managers to maximize their utility in dealing with compensation contracts, debt contracts and political costs (Opportunistic Earnings Management).

Second, by looking at earnings management from the perspective of efficient contracting (Efficient Earnings Management), where earnings management gives managers the flexibility to protect themselves and the company in anticipating unexpected cases for the benefit of the involved parties in the contract. Thus, managers can influence the market value of their company's shares through earnings management, for example by income smoothing and profit growth over time.

Earnings management behavior can be explained through Positive Accounting Theory (PAT) and Agency Theory. Those three PAT hypotheses that can be used as a basis for understanding earnings management actions who formulated by Watts and Zimmerman (1986) in Ramadan (2017) as follows:

#### ***1. The Bonus Plan Hypothesis***

Management will choose an accounting method that maximizes utility, namely high bonuses. In companies that have bonus plans, company managers will prefer accounting methods that can shift profits from the future to the present so that they can increase current profits. This is because managers prefer to provide higher wages in the present. In the bonus contract there are two terms, namely bogey (the lowest level of profit to get a bonus) and cap (the highest level of profit).

If the profit is below the bogey, the manager will not get a bonus, whereas if the profit is above the cap, the manager will not get an additional bonus. If net profit is below bogey, managers tend to reduce profits in the hope of getting a larger bonus in the next period, likewise if profits are above the cap. So only if net profit is between bogey and cap, managers will try to increase the company's net profit.

## 2. The Debt to Equity Hypothesis (Debt Covenant Hypothesis)

In companies that have a high debt to equity ratio, company managers tend to use accounting methods that can increase revenue or profits. Companies with a high debt to equity ratio will experience difficulty in obtaining additional funds from creditors and the company may even be threatened with violating debt agreements. Additionally, Sweeney (1994) in Rahmawati, et al (2007) revealed that company managers who violate credit agreements tend to choose accounting methods that have the impact of increasing profits.

## 3. The Political Cost Hypothesis (Size Hypothesis)

In large companies that have high political costs, managers will prefer accounting methods that defer reported profits from the current period to future periods so as to reduce reported profits. Political costs arise because high company profitability can attract the attention of the media and consumers. The larger the company, the greater the possibility of the company choosing accounting methods that reduce profits. This is because with high profits the government will immediately take action, for example: imposing antitrust regulations, increasing corporate income taxes,

Scott (2006) suggests several motivations for earnings management, including:

### 1. Bonus Purposes

Managers who have information about the company's net profit will act opportunistically to carry out earnings management by maximizing current profits.

### 2. Political Motivations

Earnings management is used to reduce reported profits in public companies. Companies tend to reduce reported profits due to public pressure which can be impacted to the government stricter regulations.

### 3. Taxation Motivations

The motivation to save taxes is the most obvious motivation for earnings management. Various accounting methods are used with the aim of saving income tax.

### 4. CEO Change

The CEOs who are closer to retirement age will tend to increase earnings to increase their bonuses. And if the company's performance is poor, they will maximize revenue to avoid being laid off.

## 5. Initial Public Offering (IPO)

Companies that will go public do not yet have market value, and this causes managers of companies that will go public to carry out earnings management in their prospectus in the hope of increasing the company's share price.

## 6. The Importance of Providing Information to Investors

Information regarding the company's performance must be conveyed to investors so that profit reporting needs to be presented so that investors continue to assess that the company is performing well. The informative purpose (signaling) is likely to have a good impact on users of financial reports. Managers try to inform about opportunities that can be achieved by the company in the future. For example, because managers are closely related to decisions related to investment activities and company operations, managers automatically have better information about the company's future prospects. Therefore, managers can properly estimate future profits and inform investors or other users of financial reports. Managers can use the best discretionary accruals to reflect company performance (Butar-Butar, 2014).

Kaplan (1985) in Butar-Butar (2014) said that managers can manipulate accounting reports opportunistically by influencing accrual items. Opportunistic objectives may be detrimental to users of financial reports because the information submitted by management is inaccurate and does not reflect the company's fundamental values. This opportunistic attitude is considered a fraudulent attitude of company management which is implied in its financial reports when facing intertemporal choice (a condition that forces the executive to use certain decisions in reporting performance that is profitable for himself when facing certain situations). Fraudulent behavior is defined as one or more actions that are intentional and designed to deceive others, thereby causing loss of wealth.

According to Ayers (1994) in Suyono et al (2022), earnings management techniques can be carried out using three techniques, as follows :

### 1. Accrual management

Accrual management is usually associated with activities that can affect cash flow and also personal profits, which is the authority of managers (managers' discretion).

2. Adaption of Mandatory Accounting Changes

The accounting policies must be implemented by the company, management has the choice to implement the accounting policies early or postpone it until the policy must be applied. Company management will usually choose to implement a new accounting policy early, if the implementation can affect the company's cash flow and profits.

3. Voluntary Accounting Changes

The existence of accounting methods that undergo voluntary changes is usually related to management efforts to change accounting methods, including methods that are in accordance with Generally Accepted Accounting Principles (PABU). Managers cannot change accounting methods frequently, but can make different forms of accounting changes over several periods.

The earnings management pattern according to Scott (2006) can be done by:

1. *Taking a Bath*

This pattern occurred during a reorganization including the appointment of a new CEO while reporting large losses. This action is expected to increase profits in the future.

2. *Income Minimization*

This is done when the company experiences a high level of profitability so that if profits in the next period are expected to fall drastically, it can be overcome by taking the previous period's profits.

3. *Income Maximization*

This is done when profits decrease. The action of income maximization aims to report high net income for the purpose of larger bonuses. This pattern is carried out by companies that violate debt agreements.

4. *Income Smoothing*

This is done by companies by smoothing reported profits so as to reduce excessively large profit fluctuations because investors generally prefer on stable profits.

Earnings management practices that are often carried out by companies according to Abdelghany (2005) in Ustman, et al (2016) are consists of :

1. Big Bath, which means recognition of costs made through a one-time restructuring charge. Where this will result in the company experiencing massive costs this year, and the impact in the following year the company will experience large profits.
2. Abuse of Materiality, which manipulating earnings through the application of the materiality principle, where there is no specific range regarding whether a transaction is material or not.
3. Cookie Jar, sometimes called rainy jar or contingency reserves, where in periods of good financial conditions the company can reduce earnings by making more reserves, charging larger costs and using one-time write offs. If financial condition is getting worse, the opposite will be done.
4. Round Tripping, back to back and Swap, where this is done by selling an asset/business unit to another company with an agreement to buy it back at a certain price, where this will have an impact on increasing the company's income.
5. Voluntary accounting changes, this is done by changing the accounting policies used by the company.
6. Conservative Accounting, this is done by choosing the most conservative accounting methods such as LIFO and charging R&D costs rather than capitalizing them.
7. Using the Derivative, where managers can manipulate earnings through purchasing hedging instruments.

Earnings management can function positively for shareholders if earnings management practices are carried out to inform matters that are not yet contained in the company's financial reports. Several studies support this statement and call it beneficial earnings management (Subramanyam, 1996) in Murhadi (2009).

Research conducted by Arya et al. (2003) in Murhadi (2009) shows that currently there is a condition of organizational decentralization which causes information to become increasingly dispersed where each person has different information and no one has complete information. In conditions like this, companies that carry out earnings management can provide more complete information than companies that do not carry out earnings management. Wasril and Puspitasari (2024) state that earnings management practices involve the use of estimates, judgments and the use of accruals in financial

reporting, which provides the opportunity to manage earnings by influencing the accrual component. This practice often involves adjustments to the accrual components of the financial statements, which can be adjusted to suit the needs or objectives of the individual responsible for preparing the financial statements. The use of earnings management that benefits one party by causing losses to another party.

### **C. Research Methods**

The research method used in this research is normative juridical research, namely a literature approach that is guided by regulations, books or literature and materials that are related to the problems and discussions in writing this article. Abubakar (2021) states that one type of research according to explanation is descriptive research. Descriptive research is research conducted on independent variables without making comparisons or connecting them with other variables, means that the variables studied are independent. So it can be concluded that according to the type of data, this research is qualitative research where the data is in the form of words, sentences, and not in the form of numbers.

Material collection was carried out by conducting a literature study to get a general picture of matters related to the problem being studied as well as obtaining other data in accordance with the topic discussed in this research. Fadli (2021) states that literature study is a method of collecting data by understanding and studying theories from various literature related to research. Next, the data obtained from library research will then be analyzed and described qualitatively.

### **D. Research Result and Discussion**

Corporate governance is one of the key elements in increasing economic efficiency, which includes a series of relationships between company management, board of directors, shareholders and other stakeholders. Corporate governance also provides a structure that facilitates determining the goals of a company, and as a means of determining performance monitoring techniques to limit opportunistic behavior. Because it is a system that regulates and controls the company which is expected to increase the trust of shareholders and stakeholders.

Implementing good corporate governance is believed to be able to increase company value. The three mechanisms of corporate governance, namely Independent

Commissioners, Institutional Ownership and Managerial Ownership, are expected to suppress earnings management in financial reporting prepared by management which leads to losses to owners and stakeholders.

Information imbalance between agents and principals is the basis for the presence of agency conflicts ( Yuiandini & Masripah, 2023). The concept of corporate governance emerged because of the limitations of agency theory in dealing with agency problems and can be seen as a continuation of agency theory. The term corporate governance was first introduced by the Cadbury committee in 1992 in its report known as the Cadbury Report (Himie , 2022). Corporate governance is a system for directing and controlling a company/corporation.

Corporate governance began to become a hotly discussed issue since the occurrence of various business scandals which indicated weak corporate governance in British companies around the 1950s and continued until it caused a recession in the 1980s. The formation of the Cadbury Committee in 1991 which was tasked with creating a Code of Best Practice was a form of response to various business scandals in the UK (Davies, 1999) in Darmawati (2006). In line with the development of corporate governance issues in the UK, in various other developed countries, such as America, Germany, France, Japan, Russia, Italy and Australia, it is also starting to be widely discussed. As is the experience in England, the issue of corporate governance is widely discussed in connection with various kinds of business scandals in these countries.

Recently, most countries (including Indonesia) have departments/agencies/institutions tasked with establishing corporate governance principles that are adapted to the conditions of the business environment in the country concerned. The world bank and the Organization for Economic Co-operation and Development (OECD) have made important contributions to the development of corporate governance principles in various countries (including Indonesia).

In various countries, rankings of corporate governance implementation at the company level have even been carried out. Credit Lyonnais Securities Asia (CLSA) has published a report on the corporate governance practices of 494 companies in 24 countries in March 2001. The Korea Stock Exchange (KSE) has conducted a survey in 2001 on the corporate governance practices of 540 companies listed on the KSE. By limiting it to one component of corporate governance, namely disclosure (corporate disclosure practices), Standard and Poors in 2000 conducted a survey of 573 companies

in 16 countries with developing capital markets and 3 developed countries. In Indonesia, ranking of the implementation of corporate governance by companies listed on the Jakarta Stock Exchange (BEJ) has been carried out by The Indonesian Institute for Corporate Governance (IICG) continuously every year since 2001 (Darmawati, 2006).

By looking at several examples of cases of accounting reporting scandals that have occurred, it is very relevant to draw a common thread from a corporate governance perspective. Corporate governance is one of the key elements in increasing economic efficiency, which includes a series of relationships between company management, board of directors, shareholders and other stakeholders. Corporate governance also provides a structure that facilitates determining the targets of a company, and as a means of determining performance monitoring techniques. One method used to monitor contract problems and limit management's opportunistic behavior is corporate governance.

Since agency problems have many variations between companies, the net costs and benefits of various alternative corporate governance structures used to control agency problems also have many variations. Variations in the costs and benefits of implementing corporate governance are largely determined by the company's environmental situation, industry and regulations. In an agency perspective, agents who avoid risk and tend to be self-interested will allocate the owner's resources to investments that do not increase the value of the company. This agency problem will indicate that the value of the company will increase if the company owner can control management behavior so as not to waste company resources, either in the form of inappropriate investments or in the form of shirking.

According to Himie (2022), corporate governance not only concerns and prioritizes the interests of shareholders, but also regulates and maintains balance among other stakeholders such as lenders, employees, customers, suppliers, authorities, the general public and the company's environmental community. Mudashiru, Bakare and Ishmael (2014) in Thalita (2021) stated that optimal implementation of good corporate governance can have an impact on company performance and also protect all stakeholders, including consumers (customers) as external stakeholders. Good corporate governance is built to create balance between stakeholders in the company. Thus, the implementation of good corporate governance is believed to increase company value

Corporate governance, which is a concept based on agency theory, is expected to function as a tool and medium for management to provide confidence and added value to stakeholders, especially investors, that they will receive results or returns on the resources they invest in the company. According to Shleifer and Vishny (1997) in Diyani, et al (2016). The basis for corporate governance is related to giving investors confidence that management will work as well as possible in managing the resources they provide, confidence that managers will provide benefits for investors, confidence that managers will not steal/embezzle or invest in projects. The disadvantages are related to the funds/capital invested by investors and related to how investors control managers.

Research conducted by Black, et al in Siallagan and Machfoedz (2006) argued that, first, companies that are better managed will be more profitable and thus receive higher dividends. Second, this is because outside investors can value the same earnings or dividends higher for companies that implement better corporate governance. The results show that there is no evidence that companies with good corporate governance are more profitable or pay higher dividends, but there is evidence that investors value earnings or the same dividend flow higher for companies that implement better corporate governance.

According to Murhadi (2009), corporate governance is a mechanism developed in order to improve company performance and management behavior. Several good corporate governance mechanisms include the existence of independent commissioners, the existence of an audit committee, the absence of CEO duality, the absence of top shares (controlling shareholders) and the existence of other shareholder coalitions in order to deal with controlling shareholders. In order to ensure that management actions are in line with the interests of investors or owners, a lot of research has been carried out on corporate governance. According to Barnhart & Rosentein (1998) in Herawaty (2018), corporate governance mechanisms are divided into two groups. First, internal mechanisms such as the composition of the board of directors/commissioners, managerial ownership and executive compensation. Second, external mechanisms such as market control and debt financing levels.

According to Hartutik (2020) there are four basic principles of good company management. These four principles are:

1. Fairness, which includes: (a) Protection for all shareholder rights (b) Equal treatment for shareholders.
2. Transparency, which includes (a) Disclosure of important information (b) Information must be prepared, audited and disclosed in line with quality bookkeeping (c) Dissemination of information must be fair, timely and efficient.
3. Accountability, includes the understanding that (a) members of the board of directors must act to represent the interests of the company and shareholders (b) independent assessment regardless of management (c) access to accurate, relevant and timely information.
4. Responsibility, includes (a) ensuring that all rights of interested parties are respected (b) interested parties must have the opportunity to obtain effective compensation for violations of their rights (c) opening a mechanism for developing achievements for the participation of interested parties interested parties (d) If necessary, interested parties must have access to relevant information.

Implemented corporate governance principles can provide benefits such as :

1. Minimize agency costs by controlling conflicts of interest that may occur between the principal and the agent;
2. Minimize the cost of capital by creating a positive signal to capital providers;
3. Improve the company's image;
4. Increase company value which can be seen from the low cost of capital;
5. Improved financial performance and stakeholder perceptions of a better company future.

From the several mechanisms described above and the literature review that has been carried out, the article concludes with three mechanisms of corporate governance that are the best to explain how a company carries out good corporate governance. These mechanisms are Independent Commissioners, Institutional Ownership and Managerial Ownership.

## 1. Independent Commissioners

Klein (2002) in Pertiwi and Laksito (2019) found that a board of directors from independent parties can be more effective in carrying out supervision. Liu and Lu (2007) in Hadi, et al (2016) state that the board structure not only acts as a control mechanism in the process of preparing financial reports, but can also prevent controlling shareholders from carrying out activities that could harm the interests of other shareholders.

In Indonesia, Siregar and Utama (2006) stated that the company system uses a two tier system, namely the existence of a board of commissioners and a board of directors. The task assigned to the board of commissioners is to supervise all work and implementation of activities within the company by the board of directors. Based on existing regulations, the membership of the independent board of commissioners is generally set at 30% of the total number of the company's board of commissioners and majority shareholders.

From the results of Herawaty's (2018) research, it was concluded that the number of independent commissioners has a positive effect on good corporate governance, meaning that the higher the percentage of independent commissioners, the better the corporate governance in a company, thus the creation of good corporate governance is believed to be able to minimize earnings management practices from an opportunistic perspective.

Beasley's (1996) research in Siallagan and Machfoedz (2006) examined the relationship between the proportion of the board of commissioners and fraudulent financial reporting. By comparing companies that committed fraud with companies that did not commit fraud, they found that companies that committed fraud had a significantly lower percentage of external commissioners compared to companies that did not commit fraud. It can be interpreted that the greater the proportion of independent commissioners on the board, the greater the achievement of good corporate governance in a company.

Fama and Jensen (1983) in Ujiyantho and Pramuka (2007) state that non-executive directors (independent commissioners) can act as mediators in disputes that occur between internal managers and supervise management policies and provide advice to management. Independent commissioners are in the best position to carry out monitoring functions to create a company with good corporate governance.

## 2. Institutional Ownership

Institutional investors are investors who are capable and able to use all accounting information presented and reported by the company for use in predicting future profits and performance. Compared to individual investors, several studies such as Balsam et al (2002) in Herawaty (2018) explain that institutional investors have more timely access and relevant information sources that can determine the existence of earnings management which is quicker and easier.

Jiambavo et al (1996) in Herawaty (2018) found that discretionary absolute value is negatively related to institutional ownership. The results of this research state that there is a feedback effect from institutional ownership which can reduce earnings management carried out by the company. If earnings management is efficient then high institutional ownership will increase earnings management but if the company manages earnings opportunistically then high institutional ownership will reduce earnings management.

Previous research such as McConnell and Servaes (1990), Nesbitt (1994), Smith (1996), Del Guercio and Hawkins (1999), and Hartzell and Starks (2003) in Cornet, et al (2006) found evidence about supervisory actions that carried out by a company and constitutional investors can confine the behavior of managers. This monitoring action can encourage managers to focus more attention on company performance so that it will reduce opportunistic behavior.

## 3. Managerial Ownership

Siallagan and Machfoedz (2006) state that large share ownership in terms of economic value has an incentive to monitor. Theoretically, when management ownership is low, the incentive for the possibility of manager opportunistic behavior will increase. Various studies have seen that the relationship between managerial ownership is positively related to earnings quality, as has been proven by Wahyudi and Pawestri (2006), Endraswati (2009), and Sukirni (2012) in Verawaty (2016)

Jensen and Meckling (1976) in Herawaty (2018) found that managerial ownership was successful as a mechanism for reducing agency problems for managers by aligning the interests of managers with shareholders. Their research found that the interests of these two groups could be united by increasing the proportion of share ownership in the company so that managers would not manipulate the data for their own interests.

With low share ownership, the possibility of manager opportunistic behavior will increase. Midiastuty and Machfoedz (2003) state that managerial ownership is a mechanism that can limit managers' opportunistic behavior in the form of earnings management, although Wedari (2004) in Herawaty (2018) states that managerial ownership also has other motives, namely that it can function as a corporate governance mechanism. so that it can reduce managers' actions in manipulating profits. This means that managerial ownership is negatively related to earnings management.

## **E. Conclusion**

Independent commissioners have a positive effect on good corporate governance, meaning that the higher the percentage of independent commissioners, the better the corporate governance of a company. Second, supervisory actions carried out by a company and constitutional investors can limit the behavior of managers, where the feedback effect of institutional ownership can reduce the company's earnings management. Finally, managerial ownership has succeeded in being a mechanism for reducing the agency problem of managers by aligning the interests of managers with shareholders. Through these three mechanisms, good corporate governance will be created and believed to minimize earnings management practices from an opportunistic perspective.

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