

Influence of Profitability, Audit Quality, and Corporate Governance on Earnings Management

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ABSTRACT

This study investigates the impact of profitability, audit quality, the composition of independent board commissioners, managerial ownership, and institutional ownership on earnings management. The population for this research comprises all manufacturing companies listed on the Indonesia Stock Exchange (BEI) between 2019 and 2021. It adopts a correlational research design with a quantitative approach. Data collection involves secondary data obtained through purposive sampling. The sample size consists of 32 companies, resulting in 96 observations. The study employs various analytical techniques, including classic assumption tests such as normality, heteroscedasticity, multicollinearity, and autocorrelation tests. Hypothesis testing is conducted using multiple regression analysis with SPSS version 26. Findings reveal that managerial ownership negatively influences earnings management, exhibiting a significant result of 0.036. Conversely, profitability, audit quality, the composition of the independent board of commissioners, and institutional ownership do not significantly affect earnings management, as their significance results exceed 0.05.

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1. INTRODUCTION

In 2020, the Central Statistics Agency (BPS) showed data that 2020 the economy in Indonesia experienced a decline of 2.07 percent compared to the previous year, namely 2019. The cause of this was the COVID-19 pandemic, which hit the entire world, including Indonesia. Data obtained from BPS states that in April 2020, the manufacturing industry in Indonesia experienced a pretty drastic decline, namely 6.1% compared to the same period in the previous year. One indicator of the manufacturing sector is the Manufacturing Purchasing Manager's Index (PMI). Manufacturing PMI is an indicator that shows the performance of the manufacturing industry in a period of Decline, and increases in manufacturing PMI figures indicate that manufacturing companies are experiencing a lot of upheaval. Manufacturing companies tend to implement profit management strategies during the pandemic to make the company's performance look suitable to investors even though the manufacturing industry as a whole is experiencing a decline. Company managers can apply several methods to implement earnings management for the company.

Earnings management refers to actions carried out by company management to manage company profit reporting by applicable financial accounting rules [1]. According to Belkaoui and Riahi (2011) in [2],

earnings management is making decisions and choosing available options to achieve the expected profit level by manipulating. So earnings management can be concluded as an activity by managers to manage company profits to look good by exploiting loopholes in financial accounting regulations that can be used for earnings management[22].

Natural and accrual earnings management are the two main categories of earnings management. Natural earnings management, according to Roychowdhury (2006) in [3], is the term for management practices that go against business implementation, which is typically applied to operational activities to hit profit targets[23]. In the meantime, the company's managers manage the accrual account posts to implement accrual earnings management. Businesses can defer revenue recognition to later periods to present a positive picture of their revenues to readers of their financial statements[14]. In conjunction with the discretionary accruals approach, the modified Jones model will be used to measure earnings management in this study[25].

Users of financial reports can assess a company's economic success by looking at its profitability. Return on Asset, or ROA, will determine profitability in this study. ROA demonstrates how a company's asset resources are used to achieve financial performance or profits.

DeAngelo (1981) states in [4] that evaluating the public accounting firm that performs the audit of a corporation is one way to assess the caliber of the audit. In light of the theory above, the research will use dummy data to compare the audit quality of four major public accounting firms with non-big four firms.

As delineated by Agoes and Ardana (2013) in [5], the independent board of commissioners plays a pivotal role as the representative entity for independent shareholders. This board is meticulously selected based on criteria such as expertise, experience, and professionalism, devoid of any affiliations to external parties, to ensure impartiality in the company's supervisory duties. By contrasting the composition and responsibilities of the independent board of commissioners with those of the entire board, this study aims to discern and evaluate the efficacy of the former in upholding corporate governance standards and safeguarding shareholder interests.

Managerial ownership, as conceptualized by Manossoh (2016) in [5], denotes the ownership of company shares by the management team, effectively aligning their interests with those of shareholders. This study will scrutinize managerial ownership by juxtaposing the number of shares held by managers against the company's total outstanding shares. Such analysis provides valuable insights into the degree of organizational commitment to the company's performance and long-term viability, shedding light on their vested interest in driving sustainable growth and shareholder value.

Institutional ownership is defined by [5] as the ownership of firm shares by organizations other than the corporation. The entities under consideration comprise governmental, private, and foreign establishments. Organizations that possess stock in a corporation can exercise oversight over the company's management. Because institutions have more money to support business operations, institutional ownership in a company also contributes to its stability. The amount of shares held by institutional parties and the total number of shares outstanding will be compared in this study's calculations to determine institutional ownership.

It is evident from the background and quantity of studies that have been conducted thus far that there are variations in the research's actual findings and the variables employed. The investigator seeks to ascertain and evaluate the following:

1. profitability's impact on earnings management,
2. audit quality's effect on earnings management,
3. the independent board of commissioners' composition's effect on earnings management,
4. corporate ownership's impact on earnings management, and
5. the effect of institutional ownership on earnings management.

2. THE COMPREHENSIVE THEORETICAL BASIS

1. Agency Theory

The conditions under which a business has two parties, the principal and the agent, are explained by agency theory. The agent is tasked with making choices and managing the company by the principal, the funding source. The investors and stockholders that provide money to the business are the principal, and the management team that oversees it is the agent. Agency theory is the creation of a theory that investigates a type of contract where the agent works or serves under the principal's orders; therefore, when the goals of the agent and principal are different, it can lead to conflict (Scott, 2009, p. 6). According to agency theory, there is a circumstance in which the principal. Agency theory is the creation of a

theory that investigates a type of contract where the agent works or serves under the principal's orders; therefore, when the goals of the agent and principal are different, it can lead to conflict (Scott, 2009, p. 6). According to agency theory, there is a scenario in which the principal lacks sufficient knowledge of the agent's financial performance, making it impossible for the principal to assess how much the agent's efforts contributed to the actual company results [7].

2. Earnings Management

The term "earnings management" describes the activities the firm's management undertakes to control the reporting of the company's profits in compliance with relevant financial accounting regulations [1]. According to [8], earnings management is an intervention done by management in preparing financial reports to be released for usage by interested parties with specific objectives or purposes. The credibility of a company's financial reporting can be undermined by earnings management since it's possible that the reports need to represent the company's actual state accurately. Therefore, people who use financial reports may need more accurate information to make better decisions.

3. Profitability

Users of financial reports consider profitability as one of the benchmarks to evaluate an organization's capabilities [6]. Among the indicators that investors use to guide their decisions is profitability. Profitability and earnings management techniques are linked since a strong profitability ratio for the business may pique investors' interest in lending money to it. As a result, a company's management with a low profitability ratio would employ various strategies to raise it and make it higher. Earnings management is one tool that managers can utilize.

4. Audit Quality

DeAngelo (1981) states in [4] that evaluating the public accounting firm that performs the audit of a corporation is one way to assess the caliber of the audit. Auditing a company's financial records is one way to monitor earnings management methods within the organization, as stated in [9]. The greater a company's audit quality, the less likely its management will engage in earnings management techniques. Fraud resulting from earnings manipulation may be discovered during an audit, affecting the public's perception of the business.

5. Independent Board of Commissioners

Statement from Agoes and Ardana (2013) in [5], the independent board of commissioners is the entity selected to represent independent shareholders. This chosen party does not need to present any party; instead, they are appointed solely based on their expertise, experience, and professionalism in carrying out supervisory responsibilities for the company's benefit. It is envisaged that more independent boards of commissioners will prohibit corporations from carrying out profit management activities.

6. Managerial Ownership

As stated [10], managers possessing a substantial portion of the company's shares will behave like the proprietors of the enterprise. Managerial ownership aims to avoid goals-related disputes between agents and principals. If the managerial party already has stock in the company, they would typically work hard to maximize earnings from the business. The concept of managerial ownership affords managers the chance to own shares in the company, putting them in a position equivalent to that of shareholders and perhaps enhancing their performance [11].

7. Institutional Ownership

Institutional ownership is crucial for evaluating managers' effectiveness in business management. It can act as a deterrent against managers resorting to earnings management practices [12]. Institutional investors exert influence over managerial decisions by holding significant stakes in a company, encouraging transparency and accountability in financial reporting processes. This oversight by institutional owners helps to safeguard shareholders' interests and maintain the integrity of financial information, thereby fostering confidence in the company's performance and management practices.

2.1. Hypotheses

1. **Effect of Profitability to Earnings Management** Profitability, a critical indicator of a company's viability and efficiency, prompts businesses committed to maintaining their financial health to adopt various

earnings management strategies. These techniques play a pivotal role in enhancing the attractiveness of profitable companies to potential investors. Extensive research conducted in the field has delved into the intricate relationship between profitability and earnings management. Notably, studies conducted by [6], [13], and [14] consistently assert a robust positive correlation between profitability and earnings management practices. However, contrasting findings, such as those by [9], suggest that the impact of profitability on earnings management may be less significant, hinting at the involvement of additional influential factors. Thus, the synthesis of these diverse research findings underscores the nuanced nature of the relationship between profitability and earnings management, highlighting the need for further exploration and understanding.

Ha1: Earnings management is significantly impacted by profitability.

2. Effect of Audit Quality on Earnings Management

The quality of audit practices is a critical factor influencing earnings management strategies within organizations. A high standard of audit quality compels businesses to exercise caution in managing their earnings, as any detected manipulation during audits can significantly damage the company's reputation and credibility. Research by [15] and [9] consistently underscores a negative correlation between audit quality and earnings management practices. This suggests that businesses audited by one of the Big Four Public Accounting Firms are less likely to resort to earnings management techniques. However, studies by [3] and [4] propose that audit quality variables may not directly and straightforwardly impact earnings management, indicating the involvement of various other influential factors. Therefore, while audit quality may indeed influence earnings management, its relationship appears to be complex and multifaceted, requiring further investigation for a comprehensive understanding of its implications for financial reporting integrity and transparency in organizations.

Ha2: Earnings management is significantly impacted by audit quality.

3. Effect of Independent Board of Commissioners on Earnings Management

A third party designated to oversee the firm's management and ensure its smooth operation is the independent board of commissioners. This party was not involved in the company's founding. It is anticipated that oversight by an impartial board of commissioners will guarantee the smooth operation of the business and prevent problems. The independent board of commissioners variable has a detrimental impact on earnings management, according to the findings of [15]. This implies that the Board of Commissioners' ability to oversee corporate governance will improve with increased independence. In the meantime, according to studies by [4] and [8], the independent board of commissioners variable has a favorable impact on earnings management. According to [4], an independent board of commissioners merely completes a company's official requirements and has no influence over the company's performance monitoring. The independent board of commissioners variable then does not influence earnings management, as studied by [5]. Based on the description above, the hypothesis regarding the impact of the independent board of commissioners on earnings management is stated as follows:

Ha3: The independent board of commissioners significantly affects earnings management.

4. Effect of Managerial Ownership on Earnings Management

According to agency theory, firm managers are agents chosen by the principal to oversee the organization. On the other hand, company managers occasionally manipulate earnings to receive bonuses. As a result, corporate managers are placed in a position similar to the principal's by holding most of the business's shares. Managerial ownership characteristics negatively impact earnings management, per research by [15]. This implies that a company's profit management methods will decrease as managerial ownership increases. The terms of managers' share ownership in the company will align with the interests of other shareholders. In the meantime, according to research by [8] and [11], the managerial ownership variable has a favorable impact on earnings management. This implies that the company's profit management procedures will rise due to the increased managerial ownership. The following is the hypothesis on the impact of managerial ownership on earnings management, which is based on the description given above:

Ha4: The management of earnings is significantly impacted by managerial ownership.

5. Effect of Managerial Ownership on Earnings Management

Most of a company's shares are held by institutions regarding institutional ownership. Because the business is accountable to the people who

read its financial reports, this attempts to supervise management to ensure that the information provided is appropriate for the current circumstances. Research by [15] and [12] indicates that factors related to institutional ownership hurt managing earnings. A company's institutional ownership will promote closer oversight of its management. Institutions have more immediate and relevant access to potential profit management strategies that business managers use, enabling this to occur. Meanwhile, the institutional ownership variable has a favorable impact on earnings management, according to a study by [8]. Drawing from the description above, the following is the hypothesis regarding the effects of institutional ownership on earnings management:

Ha5: Earnings management is significantly impacted by institutional ownership.

3. RESEARCH METHODS

This research methodology aims to investigate the relationships between multiple variables using a causal quantitative approach. As defined by [16], quantitative research adopts a positivist philosophical approach, aiming to examine phenomena through empirically collecting and analyzing numerical data. This study uses various research instruments to gather relevant data to explore a specific group or sample. Subsequently, statistical techniques will be applied to analyze the data quantitatively. The primary aim of this study is to investigate the impacts of several factors, including profitability, audit quality, presence of an independent board of commissioners, managerial ownership, and institutional ownership, on earnings management practices within manufacturing firms.

The collected data will be analyzed using SPSS 26 software to assess the formulated hypotheses. The research subjects chosen for this study are manufacturing firms intending to be listed on the Indonesia Stock Exchange (IDX) from 2019 to 2020. The study identifies the factors influencing how manufacturing organizations manage their profitability. Secondary data from manufacturing companies listed on the Indonesia Stock Exchange (BEI) between 2019 and 2021 were used in data collection.

Purposive sampling and a non-probability sampling strategy were employed to select the sample for this study. Non-probability sampling, as explained by [16], is a method that does not give every population member an equal opportunity to be included in the sample. On the other hand, Purposive sampling involves selecting individuals or cases based on specific criteria relevant to the research objectives. It is essential to note specific considerations when employing purposive sampling techniques, as discussed by [16]. Using these sampling methods, the study aims to ensure that the selected sample adequately represents the population of interest and facilitates the rigorous and precise examination of the research hypotheses.

3.1. Operational Definition and Variable Measurement

In this research, the dependent variable employed is earnings management (y), calculated using the modified Jones method. The study incorporates several independent variables, including profitability (x_1), audit quality (x_2), presence of an independent board of commissioners (x_3), managerial ownership (x_4), and institutional ownership (x_5). Operational definitions and measurements for these variables are elucidated in the subsequent table. Utilizing the modified Jones method for assessing earnings management ensures consistency and reliability in the measurement approach. By examining these variables, the research aims to comprehensively analyze the factors influencing earnings management practices in the context of profitability, audit quality, board composition, and ownership structure. This structured approach enhances the understanding of the relationships between these variables and contributes to the broader body of knowledge in financial management and corporate governance.

Table 1. Variable Measurement

Variable	Indicator	Measurement
Earnings Management	Discretionary Accruals Modified Jones Model [6].	<p>1. Calculate total accruals (TAC) [6]</p> $TAC_{it} = NI_{it} - CFO_{it}$ <p>2. Calculate total accruals (TAC) estimated with Ordinary Least Square [1]</p> $TAC_{it} = NI_{it} - CFO_{it}$ <p>3. Calculate Nondiscretionary Accruals (NDA)[1]</p> $NDA_{it} = \alpha_1 \left(\frac{1}{A_{(it-1)}} \right) + \alpha_2 \left(\frac{\Delta REV_{it}}{A_{(it-1)}} - \frac{\Delta REC_{it}}{A_{(it-1)}} \right) + \alpha_3 \left(\frac{PPE_{it}}{A_{(it-1)}} \right)$ <p>4. Calculate Discretionary Accruals (DA) [1]</p> $DA_{it} = \frac{TAC_{it}}{A_{it-1}} - NDA_{it}$
Profitability	Return on Asset [6].	Return on assets can be calculated using [6] : Return on Asset= (Net Income)/(Total Asset)
Audit Quality	Public accounting firm that audits company financial reports [5].	Using a dummy variable, if the company is audited by the big four it will be given 1 point, whereas if the company is audited by a non-big four it will be given 0 points [5].
Independent Board of Commissioners	The number of independent commissioners of a company [5].	Independent board of commissioners can be calculated using [5] : (Number of independent board of commissioners)/(Number of entire board of commissioners)
Managerial Ownership	The amount of share ownership by managerial parties in a company [5].	Managerial ownership can be calculated using [5] : (Number of shares owned by the managerial)/(Number of entire of shares outstanding)
Institutional Ownership	The amount of share ownership by institutional parties in a company [5].	Institutional ownership can be calculated using [5] : (Number of shares owned by the institutional)/(Number of entire of shares outstanding)

3.2. Research Approach

1. Descriptive Statistics

An overview or description of profit management, profitability, audit quality, independent commissioner composition, managerial ownership, and institutional ownership is provided by descriptive descriptive statistics. The outcomes of the descriptive statistical tests are as follows:

Table 2. Descriptive Statistics

	N	Range	Minimum	Maximum	Mean	Std. Deviation
ABSDA	96	.280607	.000358	.280965	.061741	.049703
ROA	96	.363213	.000406	.363619	.074194	.063842
Audit Quality	96	1	0	1	.26	.441
Independent Commissioner	96	.20	.30	.50	.409734	.075793
Managerial Ownership	96	.4844536	.0001571	.4846108	.1143518	.1439911
Institutional Ownership	96	.7596113	.1401900	.8998013	.62682793	.1861611
Valid N (listwise)	96					

2. Classic Assumption Test

1) Normality Test

Table 3. One-Sample Kolmogorov-Smirnov Test

		Unstandardized Residual	Minimum	Maximum	Mean	Std. Deviation
N		96	.000358	.280965	.061741	.049703
Normal Parameters ^{a,b}	Mean	.0000000	.000406	.363619	.074194	.063842
	Std. Deviation	.09158486	0	1	.26	.441
Most Extreme Differences	Absolute	.065	.30	.50	.409734	.075793
	Positive	.065	.0001571	.4846108	.1143518	.1439911
	Negative	-.040	.1401900	.8998013	.62682793	.1861611
Test Statistic		.065				
Asymp. Sig. (2-tailed)		.200 ^{c,d}				
a. Test distribution is Normal.						
b. Calculated from data.						
c. Lilliefors Significance Correction.						
d. This is a lower bound of the true significance.						

The table above indicates that the residual significance value is 0.200, and the Kolmogorov-Smirnov value is 0.065. Given that the test's significance value is more than 0.05, it is possible to conclude that all variables are regularly distributed from the results.

2) Heteroscedasticity Test

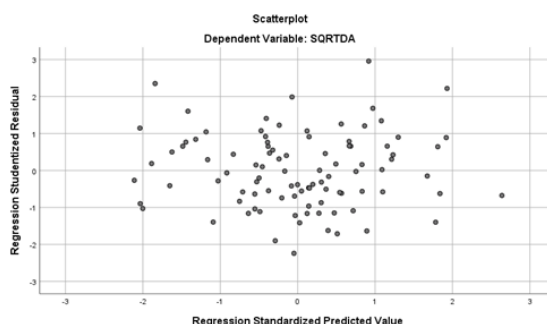


Figure 1. Enter Caption

According to the scatterplot graph in Figure 1, the dots are dispersed erratically above and below the number 0 on the Y axis and do not routinely form waves or a pattern of spreading and then narrowing. Consequently, it may be said that the regression model does not exhibit heteroscedasticity.

3) Multicollinearity Test

Table 4. Coefficients (Multicollinearity Test)

Collinearity Statistics		
Model		
Audit Quality	.709	1.411
	.846	1.183
SQRTDKI	.806	1.241
	.539	1.857
SQRTKI	.497	2.010

The multicollinearity test results in the table above indicate no multicollinearity within the regression model. This is evident as all independent variables—profitability (ROA), audit quality, the composition of the independent board of commissioners, managerial ownership, and institutional ownership—have tolerance values exceeding 0.1 and variance inflation factor (VIF) values below 10.

4) Autocorrelation Test

Table 5. Model Summary (Autocorrelation Test)

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Durbin-Watson
1	.308a	.095	.045	.09409	1.853
a. Predictors: (Constant), SQRTKI, SQRTROA, SQRTDKI, Kualitas Audit, SQRTKM					
b. Dependent Variable: SQRTDA					

Based on the autocorrelation test results displayed in Table 4.7, the Durbin-Watson value is 1.853. This value is lower than the 4-du value of 2.2215 while being more significant than the du value. As a result, it is established that confounding errors in period t and confounding errors in period t-1 (before) do not correlate in the linear regression model.

3. Multiple Linear Regression Test

Table 6. Multiple Linear Regression Test

Model	Unstandardized Coefficients		Standardized Coefficients
	B	Std. Error	Beta
(Constant)	.151	.113	
Audit Quality	-.034	.026	-.158
SQRTROA	.135	.091	.162
SQRTDKI	.129	.182	.079
SQRTKM	-.139	.065	-.291
SQRTKI	.021	.073	.041

With a regression coefficient value of 0.162 for the profitability variable (ROA), an increase in ROA of 1% results in a 16.2% rise in profits management. With a regression coefficient value of -0.158 for the audit quality variable, earnings management will decline by 15.8% for every 1% rise in audit quality. With a regression coefficient value of 0.079 for the independent commissioner board composition variable, an increase in profits management of 7.9% will result from every 1% increase in the composition of the independent board of commissioners. With a regression coefficient value of -0.291 for the managerial ownership variable, there will be a 29.1% drop in earnings management for every 1% rise in managerial ownership. With a regression coefficient value of 0.041 for the institutional ownership variable, there will be a 4.1% drop in earnings management for every 1% rise in institutional ownership.

4. Coefficient of Determination Test

Table 7. Model Summary (Coefficient of Determination Test)

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.308a	.095	.045	.09409
a. Predictors: (Constant), SQRTKI, SQRTROA, SQRTDKI, Audit Quality, SQRTKM				
b. Dependent Variable: SQRTDA				

The correlation coefficient (R) value reported in this study is 0.308, equivalent to 30.8%, as shown in the table above. With a correlation coefficient value (R) exceeding 0.05, this signifies a robust positive correlation between the independent variables—profitability (ROA), audit quality, the composition of the board of independent commissioners, managerial ownership, and institutional ownership—and the dependent variable, earnings management (DA).

The dependent variable, earnings management (DA), explains 4.5% of the variance attributed to the independent variables: profitability (ROA), audit quality, composition of the independent board of commissioners, managerial ownership, and institutional ownership, while the remaining 95.5% is accounted for by variables not examined in this study. This is evident from the Adjusted R Square value of 0.045. The regression model of the research would be more precise in predicting the dependent variable, Earnings Management (DA), with a reduction in the Standard Error of the Estimate (SEE) value. In this study, the SEE value stands at 0.09409.

5. Partial and Simultaneous Hypothesis Test Results

Table 8. Partial Hypothesis Test Results

Model	Unstandardized Coefficients		Standardized Coefficients	t	Sig.
	B	Std. Error	Beta		
(Constant)					.185
Audit Quality					.189
SQRTROA	.135	.091	.162	1.487	.140
SQRTDKI	.129	.182	.079	.708	.481
SQRTKM	-.139	.065	-.291	-2.128	.036
SQRTKI	.021	.073	.041	.285	.776

Table 9. Simultaneous Hypothesis Test Results

Model	Sum of Squares	df	Mean Square	F	Sig.
Regression	.084	5	.017	1.888	.104b
Residual	.797	90	.009		
Total	.880	95			
a. Dependent Variable: SQRTDA					
b. Predictors: (Constant), SQRTKI, SQRTROA, SQRTDKI, Audit Quality, SQRTKM					

4. DISCUSSION

1. Effect of Profitability to Earnings Management

A t-value of 1.487 was obtained with a significance level greater than 0.05, precisely 0.140, based on the profitability (ROA) results of the t-statistical test. With the rejection of H_{a1} , it can be concluded that profitability (ROA) does not influence earnings management. This finding is consistent with a study by [9], which found no relationship between profitability and earnings management. The results of the t-statistical test utilized in this study indicate that profitability does not affect earnings management. This is attributed to the need for more efficient utilization of earnings management among businesses with low profitability.

2. Effect of Audit Quality to Earnings Management

Based on the audit quality t statistical test results, a t value of -1.325 with a significance level higher

than 0.05, or 0.189, was found. Considering the rejection of Ha2, it can be said that audit quality has little bearing on earnings management. The findings of this study, however, are consistent with those of studies by [5] and [12], which found no relationship between audit quality and earnings management. Because all Indonesian financial report audits comply with relevant audit standards, audit quality has no bearing on earnings management. Therefore, there will be no difference in the examination outcomes between Big 4 and Non-Big 4 public accounting companies based on their respective quality.

3. Effect of Independent Board of Commissioners to Earnings Management

The statistical test conducted on the independent board of commissioners found a significance level of 0.481, higher than the acceptable level of 0.05. The achieved t-value for the test is 0.708, which led to the rejection of the null hypothesis (Ha3). This means that the composition of the independent board of commissioners has minimal influence on earnings management practices. It also suggests that the board needs to be more effective in monitoring and mitigating profit management activities within the company. It is important to note that an independent commissioner in Indonesia should make up at least 30% of the board composition. Otherwise, the independent board may only serve as a formal compliance requirement rather than an effective oversight mechanism.

4. Effect of Managerial Ownership to Earnings Management

Based on the institutional ownership t statistical test findings, a t value of 0.285 with a significance level higher than 0.05, or 0.776, was achieved. In light of this, Ha5 is rejected, indicating that institutional ownership has little influence on earnings management. The findings of this study are consistent with that of [17], which found no relationship between institutional ownership and earnings management[20]. One element in the implementation of sound corporate governance is managerial ownership. A "managerial ownership" situation occurs when the company's management owns shares. This is meant to bind the managerial party to refrain from actions that can harm the business, as the managerial party, being a share owner, will also bear the repercussions if the business suffers a loss[21]. For companies with managerial solid ownership to limit their chances of engaging in earnings management techniques[18].

5. Effect of Institutional Ownership to Earnings Management

According to the institutional ownership t-statistical test results, a t-value of 0.285 was obtained with a significance level higher than 0.05, precisely 0.776. As a result, Ha5 is rejected, indicating that institutional ownership has little impact on earnings management. These findings align with those of [17], who also discovered no correlation between institutional ownership and earnings management [19]. This suggests that the company's institutional ownership should more effectively influence its decision to reduce earnings management tactics. Most of the company's institutional ownership comes from subsidiaries or associated holding companies.

5. CONCLUSION

Based on the results of the research that has been carried out, several main conclusions can be drawn:

1. Since the significance result is more significant than 0.05, the research findings show that the profitability variable has no discernible impact.
2. Comparable outcomes were also observed for the audit quality measure, which was not significantly impacted because the significance level was more significant than 0.05.
3. The independent board of commissioners variable did not significantly affect the research findings, as indicated by a value of 0.481 >0.05.

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