The Independent Board of Commissioners and Institutional Ownership Structure on Earnings Management

Sandipurbayasa, Rahma Wiyanti
Department of Accounting, Universitas Pamulang
Email: sandipurbayasa12@gmail.com, dosen01403@unpam.ac.id

ABSTRACT
Financial reports are a source of information for internal and external parties regarding the condition and performance of a company. This information regarding the company's financial position, performance, and changes in the financial position of the company is beneficial for the company in making decisions. Profit is one of the essential elements in financial reports used to measure management performance. In this case, the profit and loss statement is the basis for assessing company performance, but high profits do not necessarily reflect ample cash; in this case, cash flow has more value in guaranteeing the company's performance in the future. In preparing financial reports, many frauds are committed by certain parties who only prioritize certain interests and are detrimental to stakeholders. Several studies show the possibility of intervention between management in carrying out the financial reporting process through decisions regarding company operations and estimates and accounting methods that will be used. Preparing financial reports involves management, the board of commissioners, and shareholders. Financial reports misused by management will affect the amount of profit shown. It is known as earnings management. The population in this research is all banking sector companies listed on the Indonesia Stock Exchange in 2017-2021, totaling 47 companies. Samples taken from the population must be truly representative. The sampling method used in this research used purposive sampling and descriptive statistical tests, and the research uses panel data regression analysis techniques. The results of the hypothesis research show that simultaneously, the independent board of commissioners and institutional ownership structure affect earnings management, while partially, the independent board of commissioners and institutional ownership structure hurt management in banking companies listed on the Indonesia Stock Exchange for the 2017-2021 period.

Keywords: Independent Board of Commissioners, Institutional Ownership Structure and Earnings Management

1. INTRODUCTION
Good governance practices in the banking industry are seen as starting to decline by the public, especially those who regularly use banking services. In fact, at the same time, there are widespread acts of theft of funds or fraudulent practices affecting the banking industry. This manipulation case occurred by Bank Bukopin. The Financial Services Authority has begun examining the financial reports of one of them, Bank Bukopin, which Bank Bukopin suspects of manipulating credit card data. According to information gathered by CBNC Indonesia, modifications to credit card data were carried out more than five years ago. Bank Bukopin managers also openly revised the financial reports for the last three years (Sugianto, 2018). One of the indicators of poor corporate governance can also influence the weakness of supervisory measures for management activities. It is not surprising that there have recently been many cases of embezzlement committed by banking individuals. The focus of the mechanism in this research is the independent board of commissioners. This research focuses on ownership structure mechanisms, institutional
ownership, and managerial ownership, which can influence financial performance.

Financial reports are a source of information for internal and external parties regarding the condition and performance of a company. This information regarding the company's financial position, performance, and changes in the financial position of the company is beneficial for the company in making decisions. Profit is one of the essential elements in financial reports used to measure management performance. In this case, the profit and loss report is used as the basis for assessing company performance, but high profits do not necessarily reflect ample cash; in this case, cash flow has more value to guarantee the company's performance in the future. Often, in the preparation of financial reports, there are many frauds committed by certain parties who only prioritize certain interests and are detrimental to stakeholders. Several studies show the possibility of intervention between management in carrying out the financial reporting process, not only through decisions regarding company operations but also through estimates and accounting methods that will be used.

In this research, earnings management is measured using working capital accruals, and researchers are interested in researching the banking sub-sector. According to the National Committee for Corporate Governance Policy, Indonesian Banking Good Corporate Governance Guidelines, banks are intermediary institutions that, in carrying out their business activities, depend on public funds and trust from both within and outside the country. Banks face various risks in carrying out these business activities, including credit, market, operational, and reputation risks (Indonesian Banking Good Corporate Governance Guidelines, 2004). The main thing that is thought about in this research is related to agency theory (Sudarma & Putra, 2014). Good corporate governance arises because of agency problems. The agency problem in the relationship between capital owners and managers is how difficult it is for owners to ensure that the invested funds are not taken over or invested in unprofitable projects so that they do not generate profits. Good corporate governance is one of the keys to supervising company management so that it is in line with the interests of stakeholders. Good corporate governance is important because it encourages economic and business growth globally.

Earnings management practices have eroded investor confidence in the quality of financial reporting and hampered the smooth flow of capital in financial markets. Therefore, there is a need for a control mechanism to harmonize differences in interests between management and principals, namely good corporate governance, one of which is to prevent excessive earnings management actions. This research will explain manager behavior that originates from conflicts of interest through good corporate governance consisting of an independent board of commissioners and institutional ownership structures. Monitoring by an independent board of commissioners and institutional ownership structure of earnings management is believed to have an essential role in company management and is expected to minimize earnings management. The board of commissioners has a negative influence on earnings management. It shows that an effective board of commissioners can reduce conflicts of interest between shareholders and company managers. (Lestari & Murtanto, 2017). This is contrary to research (Hidayanti et al., R. W. D, 2014), which found that the size of the independent board of commissioners and institutional ownership structure did not affect earnings management. Earnings management occurs when management uses certain decisions in financial reports and transactions to change financial reports as a basis for company performance with the aim of misleading owners or shareholders (Richardson, 1998; Kusumawati et al., 2013).

Based on the theft of funds, conditions, or fraudulent practices affecting the banking industry. There are also various cases of embezzlement by various individuals, which are the focus of this research. In addition, several previous research results had different results. So, this research will test that with different periods, the independent board of commissioners and institutional ownership structure can influence earnings management.
2. LITERATURE REVIEW

Agency theory is contracted below; there are differences in interests between principals and agents that result in agency conflicts, the emergence of agency conflicts resulting in activities carried out by agents that are contrary to what is requested by the principal, causing information asymmetry or unbalanced information. Agents have more information compared to principals. There are differences in the information held between agents, and the principal may provide opportunities for the agent to cover or hide some information from the principal because it has a purpose. Certain things include manipulating financial reports to increase profits (N. et al., 2019).

There needs to be more interest between the holders shared as owners and party management, which creates a conflict of interest (Wardani, 2018). Rahmawati et al. (2013) stated that information asymmetry is when one party has information that the other party does not know. Information asymmetry occurs because managers are superior in controlling information than other parties (owners or shareholders). Assuming that individual-individuals act to maximize their interests, hence with information. Its asymmetry will encourage agents to hide information that the principal does not know the owner. So, the asymmetry between management (agent) and the owner (principal) provides opportunities for managers to carry out earnings management to improve its utility. Management's flexibility in managing profits can be reduced by providing higher-quality information to external parties. The quality of financial reports will reflect the level of earnings management. The moral danger is that the activity manager has No entirely known holder share or creditor, so they can do an action that violates the contract.

Stewardship theory has roots in psychology and sociology. To explain a situation in which a manager is a steward and acts in the interest of the owner. This theory is based on related considerations with motivation managers. An executive manager, in theory, Is considered Not an opportunistic party, which in essence, only works well for becoming a good manager for all assets owned by the company (Reni, AA 2022).

Conflicts of interest continue to increase because the principal cannot monitor the agent's daily activities to ensure the agent works according to the shareholders' wishes. On the other hand, agents have much important information about their capacity, work environment, and the company as a whole. It triggers an imbalance of information between the principal and the agent. This condition is called information asymmetry. According to Scott (2011), there are two types of information asymmetry, namely:

1. Adverse selection means that managers and other insiders usually know more about the company's condition and prospects than outsiders. Moreover, there may be facts that should have been conveyed to the principal.
2. A moral hazard is that the activities carried out by a manager are not fully known by investors, so the manager can take actions outside the knowledge of shareholders that violate the contract and, in fact, ethically or normatively, may not be feasible.

With asymmetric conditions, agents can influence the accounting numbers presented in financial reports by managing earnings (Utari & Sari, 2016). Earnings management is one of the factors that can reduce the credibility of financial reports and increase bias (consistent errors in estimating values) in financial reports and can interfere with users of financial reports in trusting the numbers in these financial reports.

Financial management aims to maximize company value because companies want good financial reports, so managers use accounting methods, namely earnings management. (Mulyaman, 2015). According to FCGI (Aaliyah & Herwiyanti, 2019), the Board commissioner's independence is part of corporate governance, which is tasked with ensuring the implementation of the strategy implemented by the company, supervising
management in managing the company, and requiring accountability. Including member commissioner, who is not affiliated with management, member commissioner, and holder share controller, as well as free from connection business And connection other, Which can influence his abilities in acting independently or acting simply as an exciting company (Pradito & Rahayu, 2015).

Company ownership structure can be defined as the ratio of the number of public shareholders and shareholders owned by the company (Masdupi & Erni, 2015). Research on the influence of an independent board of commissioners and institutional ownership structure on earnings management was conducted on banking companies listed on the IDX for the 2017-2021 period. Where the independent variables are the independent board of commissioners and institutional ownership structure, the dependent variable is earnings management, which is measured using working capital accruals. The board of commissioners is tasked and responsible for ensuring that the company has an effective business strategy, complies with applicable laws and regulations, and ensures that the principles and practices of good corporate governance are adhered to and implemented correctly. (Dialoke et al., 2017). The ownership structure is the separation between company owners and company managers (Utari & Sar, 2016). The company owner is the party who invests capital into the company. At the same time, the manager is the party given the authority to manage and make decisions within the company. Aprinovitadevie dan Christian, 2023. The company owner appoints professional agents to maximize company performance. 2015). In this case, there is a connection with the theory of information asymmetry, where conflicts of interest continue to increase because the principal cannot monitor activities to ensure agents work according to shareholders' wishes. According to (Lestari & Murtanto, 2017), The board of commissioners negatively influences earnings management. It shows that an effective board of commissioners can reduce conflicts of interest between principal shareholders and agent company managers. It aligns with the research (Abdullah et al., 2016). Institutional Ownership Structure influences earnings management because the structure of Institutional ownership is company shares owned by institutions or institutions such as insurance companies, investment companies, and other institutional ownership (Hardirmaningrum et al., 2021). An institution has a significant interest in the investments made, including stock investments, so institutions usually hand over responsibility to certain divisions to manage company investments. It is supported by research conducted by (Giovani, 2019), who found that the size of the board of commissioners and ownership structure significantly negatively impacted earnings management. From the discussion above, the researcher’s interesting hypothesis is as follows:

**H1: Independent board of commissioners and institutional ownership structure affect earnings management.**

An independent board of commissioners is a member of the board of commissioners who are not affiliated with management, other members of the board of commissioners, and majority shareholders and is free from business relationships and other relationships that could affect their ability to act independently or solely in the interests of the company, so the independent board of commissioners has influence negative and significant to earnings management (Abdullah et al., 2016). It is also supported by agency theory, where agents and stakeholders have a contractual relationship with different interests. If it simultaneously influences earnings management, whereas if the test is carried out partially, this shows that the independent board of commissioners negatively influences earnings management (Rahmawati, 2013). It is supported by research (Kumaat, 2013) showing that independent commissioners positively affect earnings management. In contrast, a search by (Arfiana et al., 2021) shows that an independent board of commissioners hurts earnings management. From the discussion above, the researcher draws the following hypothesis:

**H2: The independent board of commissioners affects Earnings Management**
Institutional ownership structure is the percentage of shares owned by institutions from the company's total outstanding shares (Lestari & Murtanto, 2017). The presence of institutional investors has a massive role in supervising company management and policies. These supervisory actions can encourage managers to focus more attention on company performance, thereby reducing earnings management behavior carried out by managers. Research conducted by Basuki supports this (2017), Rahmawati, HIA (2013) and Lestari, Eka. & Murtanto (2017).

Based on the research results conducted by Arlita et al. (2019), it is proven that institutional ownership has a positive effect and is significant, which means the higher the institutional ownership, the higher the level of earnings management, and the lower the institutional ownership, the lower the level of profit management. Namely, with a high level of meaningful institutional ownership, institutional investors have the power to intervene in preparing financial reports the manager carries out. As a result, the manager feels bound to meet the profit targets of the manager's investors and to be able to present satisfactory reports so that managers will continue to tend to engage in acts of earnings manipulation. Agency theory is the supervision and control of company managers in overcoming the agency problem between principals and agents (Putra et al., 2019). This theory is related to institutional ownership, which has duties and responsibilities in controlling and supervising company performance to obtain more optimal management performance results.

**H3: Structure ownership institutional effect on Earnings Management.**

### 3. RESEARCH METHODS

#### 3.1. Research methodology

In this research, the type of research used is quantitative research using an associative approach. Quantitative research methods are as follows: "Quantitative research methods can be interpreted as research methods that are based on the philosophy of positivism, used to research certain populations or samples, collecting data using research instruments, quantitative or statistical data analysis, to test hypotheses that have been determined" (Sugiyono, 2017, p. 8).

#### 3.2. Data collection technique

Data collection in this research used quantitative techniques and the data used was secondary data. The secondary data used in this research was obtained from:

1) Annual banking financial reports downloaded from the BEI website www.idx.co.id and each banking website for 2017-2021.

2) Literature study from various sources and other literature related to good corporate governance and ownership structure.

#### 3.3 Operational Definition of Variables

<table>
<thead>
<tr>
<th>Table 1: Variable Measurement</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Variabel</strong></td>
</tr>
<tr>
<td><strong>Dependent Variable:</strong></td>
</tr>
<tr>
<td>Earnings Management (Utami, 2005)</td>
</tr>
<tr>
<td>Independent Variable</td>
</tr>
<tr>
<td>Independent Commissioner (X1)</td>
</tr>
<tr>
<td>(Haryati &amp; Cahyati, 2015)</td>
</tr>
</tbody>
</table>

*Corresponding author’s e-mail: sandipurbayasa12@gmail.com
http://openjournal.unpam.ac.id/index.php/EAJ
### Variabel, Definition, Measurement

<table>
<thead>
<tr>
<th>Variabel</th>
<th>Definition</th>
<th>Measurement</th>
</tr>
</thead>
<tbody>
<tr>
<td>Institutional Ownership (X2)</td>
<td>the board of directors or board of commissioners.</td>
<td>Total Institutional Ownership x 100</td>
</tr>
<tr>
<td>(Lestari, Eka &amp; Murtanto, 2017)</td>
<td>Institutional ownership is defined as the percentage of shares owned by institutions out of the company's total outstanding shares</td>
<td>Total Outstanding Shares</td>
</tr>
</tbody>
</table>

*Source: (Data Processed by Researchers, 2023)*

#### 3.3. Sample Collection Techniques

The sample collection technique uses purposive sampling where research is carried out according to certain criteria. The total population is 47, but 43 of them meet the criteria with data up to 5 years of observation. The period in the sample company, with data obtained was 215 sample sizes. Study there is various sampling technique used The criteria used researcher in study.

#### 3.4. Data analysis technique

These multiple regression analysis methods were carried out on the model proposed by research using EViews Software version 10 to predict the relationship between the independent and dependent variables. The multiple regression analysis equations are:

\[ Y = \alpha + \beta_1X_1 + \beta_2X_2 + e \]

Where:

- \( Y \) = Earnings Management
- \( \alpha \) = Constant
- \( \beta_1 \) = Coefficient
- \( X_1 \) = Board Commissioner
- \( \beta_2 \) = Instutional ownership
- \( e \) = error

### 4. RESULTS AND DISCUSSION

#### 4.1. Results

**Table 2: Descriptive Statistics**

<table>
<thead>
<tr>
<th>Variable</th>
<th>N</th>
<th>Means</th>
<th>median</th>
<th>SD</th>
<th>Minimal</th>
<th>Max</th>
</tr>
</thead>
<tbody>
<tr>
<td>Variable dependent:</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Earnings Management (Y)</td>
<td>215</td>
<td>3,700,350</td>
<td>-0.007545</td>
<td>1,825,900</td>
<td>-1,554,845</td>
<td>1,438,935</td>
</tr>
<tr>
<td>Variable Independent:</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Board of Commissioners Independent (X1)</td>
<td>215</td>
<td>0.591663</td>
<td>0.600000</td>
<td>0.128547</td>
<td>0.333333</td>
<td>1,000,000</td>
</tr>
<tr>
<td>Instutional Ownership (X2)</td>
<td>215</td>
<td>0.745909</td>
<td>0.597704</td>
<td>0.785719</td>
<td>0.000653</td>
<td>4,860,159</td>
</tr>
</tbody>
</table>

*Source: Continued By E-views 10, 2023*

Earnings management variables have a negative minimum value of -15.54845; this minimum value is at PT. Nationalnobu Tbk (NOBU). The maximum value is 143.8935, which is for the company PT. Banten Regional Development Bank Tbk (BEKS). The average value (mean) is 3.700350, while the standard deviation is 18.25900. The average (mean) value is smaller than the standard deviation value in the earnings management variable. It shows that the data on earnings management remains good and heterogeneous.

The independent board of commissioners’ variable has a minimum value of 0.333333 in the company PT. Bank Danamon Tbk (BDMN). The maximum value is 1.000000. The average value (mean) is 0.591663, while the standard deviation is 0.128547. The average
value (mean) is greater than the standard deviation value for the independent board of commissioners’ variable. It shows that the data on the independent board of commissioners is homogeneous.

The institutional ownership variable has a minimum value of 0.000653 at PT. Bank Neo, Tbk (BBKP). The maximum value is 4.860159, while the average value is 0.745909, the standard deviation value is 0.785719. The average value (mean) is smaller than the standard deviation value for the institutional ownership variable. It shows that the data on institutional ownership is heterogeneous.

The normality test requires passing by looking at the Jarque-Bera Probability value. The normality test is a Jarque-Bera Probability value of less than 0.05. Based on the results of the normality test above, it is known that the Jarque-Bera probability value of 0.00000 is smaller than 0.05, so the data value is not normally distributed. A variable is normally distributed if its significance value is more than or equal to 0.05. Badriyah et al. (2022:127) say that if the sample data is in a large study where the data is more than 30 samples, the normality test can be ignored. The normality test is not a requirement for BLUE (Best Linear Unbiased Estimator). In panel data regression, the FEM and CEM models use the OLS approach. The normality test is not mandatory in the OLS approach because in panel data regression, not all classical assumption tests in the OLS method are used, and this research uses the OLS approach, namely FEM. Hence, the normality test is not mandatory in this research.

The multicollinearity test in this study has a passing requirement by looking at the correlation value. If the correlation value is less than 0.80, there is no multicollinearity problem. Based on the table above, all correlation values in this research data are less than 0.80, so the research data does not experience multicollinearity problems. The multicollinearity regression model is said to be good because there is no correlation between the independent variables in the regression model.

*Corresponding author’s e-mail: sandipurbayasa12@gmail.com
http://openjournal.unpam.ac.id/index.php/EAJ
The panel data regression analysis above was carried out using a sample of 43 companies with 5 years of observation, thus obtaining sample data of 215 samples. In panel data regression analysis, the following multiple regression equation is obtained:

$$C = 9.323349 - 11.53609DKI - 1.612107KI + e$$

The following is a description of the results of the panel data regression analysis calculations that have been processed as follows:

1. The equation in the panel data regression analysis above shows that the constant is 9.323349, meaning that if all the independent variables, namely the independent board of commissioners and institutional ownership structure and the dependent variable, namely earnings management, are equal to zero, then the company value will be 9.323349.

2. The Independent Commissioners variable has a negative regression coefficient value of -11.53609 with a probability value of 0.3365. The coefficient value of -11.53609 means that for every additional 1 independent board of commissioners, earnings management will decrease by 11.53609.

3. The Institutional Ownership Structure variable has a positive regression coefficient value of +1.612107 with a probability value of 0.3883. The coefficient value of +1.612107 means that for every 1 increase in company size, earnings management will decrease by 1.612107.

4.2. Discussion

Calculation of research data using the Eviews version 10 data processing application shows that the results of hypothesis testing F (simultaneous) for the independent board of commissioner’s variable and institutional ownership structure regarding earnings management, it can be seen that the Prob (F-statistic) value of 0.000000 is smaller than 0.05, so it is accepted and rejected. The condition for accepting the hypothesis is that the Prob (F-statistic) value must be less than 0.05. In testing hypothesis F (simultaneous), the variable board of commissioners is independent. The institutional ownership structure meets the requirements for accepting this hypothesis because the Prob-(F-statistic) value is smaller than 0.05, which means that the variables of the independent board of commissioners and institutional ownership structure have a joint (simultaneous) effect on earnings management.

Calculations of research data show that the results of hypothesis testing t (partial) for the independent board of commissioner’s variable show the value of Prob. If 0.3365 is more significant than 0.05, then H_1 is rejected. In hypothesis testing, the independent board of commissioner’s variable does not meet the conditions for accepting the hypothesis, where the independent board of commissioners has no influence. Whether or not there is a large board of commissioners in an entity does not influence management in carrying out earnings management. Many independent commissioners cannot reduce management to carry out earnings management actions. The lower the number of the board of commissioners, the higher earnings management. It means the fraud in financial reports to stakeholders is higher when the number of boards of commissioners is relatively tiny. It is supported by agency theory, where the contractual relationship between the agent and the owner is where there is a conflict of interest, and management hopes that the company looks good and that management gets compensation.

This research aligns with (Kiswanto, 2014), which states that an independent board of commissioners does not influence earnings management. It shows that the smaller the board of commissioners makes it possible for the organization to be dominated by management. The greater the number of board
of commissioners, the greater the fraud in reporting finance.

The results of hypothesis testing t (partial) for the institutional ownership structure variable on earnings management can be seen as Prob's value. Equal to 0.3883 is more significant than 0.05, so it is rejected. In testing the hypothesis, the institutional ownership structure variable does not meet the requirements for accepting the hypothesis because of the value of Prob. More significant than 0.05 means the institutional ownership structure variable is insignificant to earnings management. There is no influence of institutional ownership structure on earnings management due to the practice of institutional ownership structure. It is indeed implemented in companies, but it still needs to be implemented well in companies with sound corporate governance principles, or other words, good corporate governance practices are carried out by companies to fulfill formalities.

This research aligns with (Aryanti et al., 2017). The results of this research are based on something other than the framework that has been formulated, so the hypothesis that institutional ownership structure has a partially negative effect on earnings management is rejected. It is because, in general, institutional ownership structure variable does not affect earnings management.

5. CONCLUSION

The conclusions obtained from the study This is the first hypothesis that simultaneously influences earnings management because the three hypotheses maximize the implementation of banking company mechanisms in carrying out their respective roles. Then the submission of the second hypothesis proves that the independent commissioner variable does not affect earnings management. Independent commissioners come from outside the company, so they do not encourage management to carry out earnings management. So, a board of commissioners will not influence management's decisions regarding accounting policies. The results of proposing the third hypothesis prove that the institutional ownership structure variable does not affect earnings management. The number of voting rights held by institutions cannot influence the level of earnings management carried out by management and cannot help monitor management activities in the company.

Researchers realize the need for a larger sample and companies operating in other fields to validate whether these variables still do not influence the dependent variable in other sectors. It is hoped that the research results will help provide information on what variables do not influence or influence actions in minimizing fraud or other adverse actions that hurt the company. So that other researchers can look for other factors that can reduce the actions above.

REFERENCE


*Corresponding author’s e-mail: sandipurbayasa12@gmail.com
http://openjournal.unpam.ac.id/index.php/EAJ

*Corresponding author’s e-mail: sandipurbayasa12@gmail.com
http://openjournal.unpam.ac.id/index.php/EAJ