Global Research Review in Business and Economics [GRRBE]
ISSN (Online) 2454-3217, ISSN (Print) 2395-4671
| Open-Access | Volume 10, Issue 05,
Pages 19-29 ||2024||

FACTORS AFFECTING EARNINGS MANAGEMENT: BOARD ETHNICITY AND FAMILY OWNERSHIP AS MODERATING

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ABSTRACT

The purpose of this research is to obtain empirical evidence regarding the factors that influence earnings management in cyclic and non-cyclic companies listed on Indonesia Stock Exchange (IDX) during the COVID-19 period. The factors are board ethnicity, institutional ownership, tax planning, audit quality, managerial ownership, family ownership, and board ethnicity that is moderating by family ownership on earnings management. The population of this research of cyclic and non-cyclic companies that listed in Indonesia Stock Exchange (IDX) with a period of 3 years, from 2020 to 2022. Sample in this research was selected using purposive sampling method based on certain criteria, with total of 111 data from 37 companies. This research used multiple regression and hypothesis testing to analyze the data. The result of this research implies that institutional ownership affects earnings management, while board ethnicity, tax planning, audit quality, managerial ownership, family ownership, and board ethnicity with family ownership as moderating have no effect on earnings management.

KEYWORDS - Audit quality, board ethnicity, earnings management, family ownership, managerial ownership, tax planning.

1. INTRODUCTION

Earnings management happens when management applied their creativity to prepare financial statements and managing transactions of the company, so stakeholders or shareholders can be influenced, and they can act for the survival of the company, and it repeats. The practice of earnings management can be understood by agency theory. In agency theory, there are 2 (two) main concerns that described the relations of shareholders and company managers (Sihombing, Diah PA, and Gowon 2020). But there are some differences between shareholders and company managers that encourages company managements to ensure financial statements performed good, this is important, especially when it performs on third parties or shareholders (Sihombing, Diah PA, and Gowon 2020). The aspects like family ownership, which is the moderating variable in main journal and the others variable is board ethnicity that based in Malaysia happened because family ownership company in Malaysia not only moderating the possibilities of affect earnings management but it being a focus in the case of Malaysia which is happens to be high issue. The focus of this high issue keeps interesting because there were not observations about whether independent directors chosen by their credibility or political affiliations.

The relationship between the ethnicity of board members and earnings management practices is a topic that has been studied in various contexts. However, the findings are inconclusive and can vary depending on the specific circumstances of each country or region. In some cases, government policies or regulations may influence the composition of corporate boards based on ethnicity or other ethnicity factors. For example, certain countries may have affirmative action policies that aim to promote the participation of underrepresented ethnic groups in corporate leadership positions. These policies could result in the appointment of board members based on their ethnic background rather than solely on their qualifications and skills.

In family-controlled businesses, there tends to be a smaller number of different owners compared to regular companies. This is because the families who started the business usually own a significant portion of its shares. Their personal wealth is closely connected to how well the company performs. Because of this strong link, they are highly motivated to keep a close watch on how the company is run by its managers.

Now, why is this important? Well, it helps address a common problem in companies where there are many small shareholders. In such situations, individual shareholders might not be actively involved in overseeing the company because they own only a tiny fraction of it. This lack of involvement can lead to a situation where managers have more freedom to manipulate the company's financial numbers for their own benefit.

However, in family-controlled firms, the founding families are actively engaged in monitoring the company's operations and financial health. They do this because their own financial well-being is tied to the company's success. This active involvement helps prevent managers from easily engaging in questionable financial practices. In other words, the watchful eye of the founding families helps keep the managers in check, making it harder for them to manipulate the company's earnings.

This research represents a modified extension of a previous study by Wan Mohammad and Wasiuzzaman (2020) titled "Effect of audit committee independence, board ethnicity, and family ownership on earnings management in Malaysia." The current study introduces tax planning, audit quality, and managerial ownership from “Determinant of Earnings Management Practices in Indonesia’s Consumer Goods Companies” by Ardillah and Vesakhadevi (2021) research as independent variables to examine their impact on earnings management. Additionally, it incorporates reference journals from Yanthi, Pratomo, and Kurnia (2021) titled “Audit Quality, Audit Committee, Institutional Ownership and Independent Director on Earnings Management”, and introduces the variable of institutional ownership. The objective of this study is to obtain empirical evidence on the influence of these variables on earnings management. The research period spans from 2020 to 2022 during the COVID-19 period, focusing on non-financial companies in the consumer non-cyclicals and consumer cyclicals sectors listed on the Indonesia Stock Exchange as the research subjects.

2. THEORETICAL FRAMEWORK

2.1 Grand Theory

2.1.1 Agency Theory

Agency theory is a collection of ideas used to describe and solve difficulties in the interactions between business owners and their agents. Agency theory helps us to understand how business owners and their workers interact and solve problems together (Mitnick 2006). Usually, owners and company officers act on behalf of the owners. The owners own the business, but they are not usually involved in running it. Instead, managers make decisions and manage of everything in the business. This arrangement is supposed to work well, but sometimes there can be conflicts of interest between the owners and managers. To ensure that everyone is on the same page, they create a contract that explains what managers should do, how much they will get paid, and what results are expected from them. However, some risks are involved. Both owners and managers might forget about the main goals they share and focus too much on their own interests. This can affect the quality of products or services offered by businesses (Bosse and Phillips 2016).

2.1.2 Earnings Management

Based on Palacios-Manzano, Gras-Gil, and Santos-Jaen (2021), the way companies report their earnings can sometimes be flexible, which means that managers have some freedom to estimate and present numbers in a way that may not show the true financial health of the company. This type of behavior, in which managers manipulate earnings, is called earnings management. This occurs when managers use their judgment to change financial reports to either deceive some people or obtain certain benefits from contracts.

One-way managers might try to make things look better or worse than they really are by manipulating a company's financial records. This is known as earnings management. They might do this to meet financial targets or make profits that seem less risky (Cantor 1996). Managers might think that by doing this, they help owners. Overall, conflicts can occur between owners and managers because they want different things. Based by Adams (1994) managers might try to change their financial records to benefit themselves and the owners, but it is important to ensure everything is done honestly and for the long-term success of the company.

2.2 Hypothesis

2.2.1 Board Ethnicity and Earnings Management

Board ethnicity refers to the different races and cultures represented on a company's board of directors. The board of directors is a group of people responsible for making important decisions that affect the company's present and future (Carter et al. 2010). Having a board ethnicity, with members from different races and backgrounds, can be helpful for companies (Enofe et al. 2017). It brings in new ideas, experiences, and perspectives when making decisions.

There has been minimal study on the connection between board ethnicity and earnings management, with mixed findings. However, there is some data to indicate that board ethnicity and earnings management may have a beneficial connection. Other studies, however, have indicated that having a more board ethnicity of directors may contribute to conflicts and problems in decision-making, resulting in greater levels of earnings management. Wang et al. (2020) used a group of Chinese companies to investigate the link between board ethnicity and earnings management. According to the research, firms with greater levels of board ethnic ethnicity had higher levels of earnings management.

H1: Board ethnicity influences earnings management.

2.2.2 Institutional Ownership and Earnings Management

Institutional ownership refers to the percentage of a company's stock owned by big organizations at the end of the year. These organizations are called institutional investors, and they are believed to have a good system for keeping an eye on the decisions made by company managers (Yanthi, Pratomo, and Kurnia 2021). Institutional investors have lots of knowledge and resources to carefully look at how well a company is doing financially, how the managers are running things, and what the company wants to achieve in the long term.

Institutional ownership is a significant indicator of the long-term viability and financial stability of a corporation. Investors frequently regard a high degree of institutional ownership favorably because it shows that the firm is supported by knowledgeable and experienced investors who can offer helpful counsel and supervision. Institutional ownership was found to be negatively affecting income management in earlier studies by Utari and Sari (2016) and Alzoubi (2016).

H2: Institutional Ownership influences earnings management.

2.2.3 Tax Planning and Earnings Management

Tax planning is the capacity of a taxpayer to organize money actions. To acquire the lowest possible tax expenditure (Fitriany, Nasir, and Ilham 2016). The distinction between business and national objectives create to tax planning. The disparity in interest rates is due to businesses attempting to save money (Aryanti, Kristanti, and Hendratno 2017). According to Shania Gayatri and Wirasedana (2021), tax planning has a detrimental impact on earnings management. "We find that firms that engage in higher levels of tax planning are less likely to engage in earnings management," Our findings indicate that tax planning and earnings management are complementary tactics used by companies to control earnings." (p. 74). Erawati and Lestari (2019) and Nurfadila and Muslim (2021), stated that tax planning has a beneficial impact on earnings management.

H3: Tax Planning influences earnings management.

2.2.4 Audit Quality and Earnings Management

Audit quality means how good and trustworthy an audit is. An audit is like a careful check to ensure a company's financial accounts are accurate and follow the rules. Independent accountants do the audit, and they look at the company's financial records and internal processes to find any mistakes or problems. The audit is done to give reasonable confidence that the company's financial accounts are correct and show the true picture of its money, assets, and how well It is doing. The quality of an audit depends on how skilled, fair, and professional the auditor is. Their experience, training, and how carefully they do the audit can make a difference. A good quality audit makes investors, lenders, and regulators trust the company's financial accounts. But a bad quality audit can make people doubt the accuracy of the records and lose faith in the company.

According to several studies, better audit quality is linked with reduced levels of earnings management. Junaidu and Ahmed 2020, have empirically proven the impact of audit quality on earnings management of listed non-financial companies in Nigeria. Also, Nwoye et.al 2021, has found that audit quality had a significant effect on earnings management in insurance companies in Nigeria, and concluded that longer stay of auditors in financial institutions increases accrual and performance manipulation. However, Shahwan Y 2021 who had researched to investigate empirically how the audit quality impact the management of earnings for industrial firms listed on the Amman Stock Exchange between 2017 and 2019 with 39 firms being analyzed, has found that audit quality will not be capable to minimize earnings management activities. The findings indicated that the accounting discretionary activities taken out by directors of Jordanian medium and small companies are not reduced by the Big Four auditing institutions. The Large Audit Offices, on the other hand, seem very careful regarding these accounting discretionary activities.

H4: Audit Quality influences earnings management.

2.2.5 Managerial Ownership and Earnings Management

When someone from board of commissioners or board of directors in a company owns some of its stock, it is called managerial ownership. It means they have a part of the company and can make important decisions for it (Alfinur 2016). When managers own stock, they care about the company doing well because it affects their own money too. Having managers own some stock can be a good thing because it shows they have a strong commitment to the company.

Tran and Nguyen (2019) discovered a favorable link between managerial ownership and earnings management in Vietnamese publicly traded companies. The research looked at data from 215 companies and discovered that greater levels of managerial control are related to higher levels of earnings management. According to the authors, this favorable association could be attributed to managers' wish to safeguard their personal fortune by manipulating earnings. Nguyen et.al 2021 discovered a negative affect between managerial ownership and earnings management in Vietnam listed companies in their research.

H5: Managerial Ownership influences earnings management.

2.2.6 Family Ownership and Earnings Management

The definition of a family-owned business utilized in this research aligns with the framework of a family firm as outlined in the works of Anderson and Reeb (2003) and Villalonga and Amit (2011) which is company is considered a family enterprise when either the founders or their relatives, through blood ties or marriage, serve as directors on the management and/or supervisory board. This means that they have a big say in how the company is runs and makes important decisions. In simple terms, the statement is saying that when we look at various studies on how companies are owned, we find that many of them are owned by families. This is especially true for smaller companies. If we were to also include privately-owned companies in our analysis, the percentage of family-owned businesses would likely be even higher.

Family-owned businesses are motivated to generate better earnings by employing less aggressive tactics in managing their earnings (Wang, 2006). They do this to prevent any harm to the family's reputation and to enhance the long-term performance of the company. When a business is owned by a family, the people in that family are driven to make sure the company's profits are of good quality. This means they want their earnings to be reliable and not achieved through tricky or aggressive methods.

H6: Family Ownership influences earnings management.

2.2.7 Board Ethnicity and Earnings Management with Family Ownership as Moderating

Family ownership is an essential mitigating element in the link between board ethnicity and earnings management in businesses. Family ownership refers to any company that has dominant shareholders from the same (Wijayani 2016). From what Pukthuanthong, Walker, and Thiengtham (2013) stated, revealed that family-owned companies can be identified based on two aspects. First, the founders and/or family members must hold at least 20% of the company's shares and be the largest shareholders. Second, one family member must serve as the CEO or hold the position of chairman on the board of directors. A company can still be categorized as family-owned even if it meets only one of these aspects.

In the study conducted by Puchniak and Lan (2017), they proposed that appointed directors on a company's board could serve as mediators in resolving family conflicts and act as trustees for the firm. In this context, when there is family ownership, these appointed directors may play a significant role in mitigating the extent of earnings management practices. Essentially, the presence of family ownership is suggested to moderate the impact of board ethnicity on earnings management, with the involvement of appointed directors helping to reduce such practices within the company.

H7: Family ownership moderates the effect of board ethnicity on earnings management.

3. RESEARCH METHOD

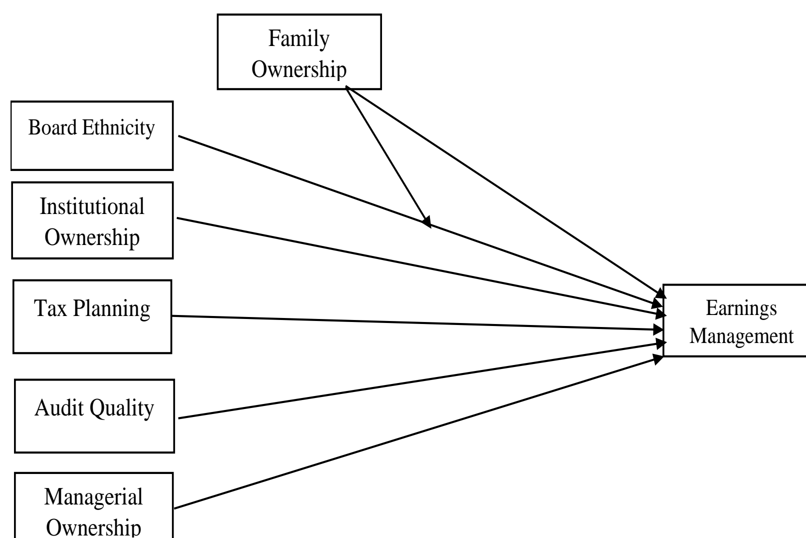

Fig. Research Model

This research will use population of manufacturing companies listed in the Indonesia Stock Exchange (IDX) in the three years' period from 2020-2022 during COVID-19 period. This research will use purposive sampling. Purposive sampling is a study method that uses non-probability sampling to pick a sample of people or cases based on a particular goal or criterion. It entails selecting participants who fulfill certain criteria or have specific encounters pertinent to the study topic. The result indicates a final total of 37 companies in the sample, with a cumulative dataset of 111 data points.

Table 1 Sample Selection Procedures

	Criteria Description	Total Companies	Total Data
1.	Consumer cyclical dan non-cyclical companies listed in Indonesia Stock Exchange From 2019 to 2022	185	555
2.	Consumer cyclical and non-cyclical company that not regularly release audited financial report and annual reports spanning the period from 2019 to 2022.	-23	-69
3.	Consumer cyclical and non-cyclical companies that do not use December 31st as the ending period in the audited financial statements from 2019 to 2022.	0	0
4.	Consumer cyclical and non-cyclical companies that do not use IDR as currency in the audited financial statements from 2019 to 2022.	-9	-27
5.	Consumer cyclical and non-cyclical companies which not consistently generate positive earnings from 2020 to 2022.	-91	-273
6.	Consumer cyclical and non-cyclical companies that do not have Institutional Ownership and Managerial Ownership in their composition of ownership of share Capital from 2020 to 2022.	-25	-75
	Sample obtained	37	111

3.1 Earnings Management

Earnings Management is the dependent variable in this research. The variable was measured by ratio scale. The indicator of knows that earnings management is good we can see from exceeding or meeting profit projections without resorting to bookkeeping gimmickry, using legal bookkeeping techniques to smooth out revenue fluctuations, making prudent accounting decisions. to decrease the likelihood of future financial restatements, adherence to consistent bookkeeping procedures over time and transparent communication with investors about the company's financial outcomes and accounting procedures. The formula based by research that led by Wan Mohammad & Wasiuzzaman (2020):

$$TAt / Ait\text{-}1 = \alpha 1\ (1/Ait\text{-}1) + \beta 1\ [(\Delta REVit/Ait\text{-}1)] + \beta 2\ (PPEit / Ait\text{-}1) + \varepsilon$$
$$NDAit = \alpha 1\ (1/Ait\text{-}1) + \beta 1\ [(\Delta REVit - \Delta RECit) / Ait\text{-}1] + \beta 2\ (PPEit / Ait\text{-}1)$$
$$DAit = TAit / Ait\text{-}1 - NDAit$$

Information:
TAt: Total accruals in period t
Ait-1: Total assets in period t-1
NDAit: Non-discretionary accruals on period t
ΔREVit: Change in revenue for the period t minus income in period t-1
ΔRECit: Changes in accounts receivable in period t less accounts receivable in period t-1
PPEit: Gross property, plants, and equipment in period t
α1; β1: β2: Regression coefficient
ε: Error in period t

3.2 Board Ethnicity
Board ethnicity (ETH) refers to the representation of people from different ethnic backgrounds on the board. This can be important for a variety of reasons, including ensuring diverse perspectives and experiences are considered in decision-making, improving a company's reputation, and creating a more inclusive work environment. The variable was measured by nominal scale. Board ethnicity refers to a dummy variable (Sutrisno and Mohamad 2019). 1 = There is board ethnicity in board members, 0 = There is no board ethnicity in board members.

3.3 Institutional Ownership
The fraction of a company owned by institutional investor(s) is determined by the number of shares owned by institutional investor split by total share issued the presence of institutional ownership (INSTOWN) was assumed to provide a monitoring tool for different interests within a company (Chen, Dewi, and Zhu 2005). The variable was measured by ratio scale. The institutional ownership structure was determined by dividing the proportion of stock held by the organization by the number of shares issued, or by using the following equation: INSTOWN = Institution owned share / Number of shares outstanding x 100

3.4 Tax planning
Tax planning is measured using the tax retention rate (tax retention rate), which examines the sufficiency of tax management on the organization's financial records. A high tax retention rate (TRR) suggests that you have done a lot of tax preparation. The variable was measured by ratio scale. A company's tax strategy will be more successful if the tax retention rate (TRR) is high. If the tax retention rate (TRR) is insufficient, the company's tax planning becomes less efficient. The following is the revenue holding rate formula based by Erawati & Lestari (2019): TRR = Net Income$_{i,t}$ / Pretax Income

3.5 Audit Quality
Audit quality (AQ) is a reliable indicator of whether an auditor is auditing the financial statements of a business. The quality of audits in a business can provide buyers with critical information about the trustworthiness of the company's financial accounts. The variable was measured by nominal scale. Furthermore, businesses can hire industry-specific auditors with experience in stopping earnings manipulation (Erawati and Lestari 2019). A dummy variable with values 0 and 1 can be used to determine audit grade. As a result, the business evaluated by a public accounting firm associated with the Big Four is assigned a score of 1. In comparison, a business reviewed by a public accounting firm that is not affiliated with the big four (non-big four) is assigned a value of 0 (Hapsoro and Annisa 2017). An auditor is a member of the Big Four Public Accounting Firm, there are PwC, KPMG, Deloitte, and E.Y: 1 = Audited by Public Accounting Firms Big Four, 0 = Audited by Public Accounting Firms Non-Big Four

3.6 Managerial Ownership
The number of proposed shares held by the board of directors is referred to as managerial ownership (MO). A manager's job in a business is to supervise the work of a team or a department to ensure that it is operating successfully and efficiently. Managers will produce excellent financial records if they own a portion of the business (Achyani and Lestari 2019). The variable was measured by ratio scale. The following method can be used to calculate managerial equity-based Muiz and Ningsih (2020): MO = The Number of Shares owned by Management / Total Outstanding Shares

3.7Family Ownership

Morck and Yeung (2011) define a family ownership (FOWN) is a business that is run by heirs or by officially inheriting the business from the current families who have been running it for many years. Family businesses have specific management and transformation patterns because of their special qualities. Family businesses often have a distinct sense of ownership and steadfast dedication, which results in strong long-term visions. Since the company is run by managers who are also owners, they also frequently exhibit significant flexibility and decision-making speed. Finally, significant family firm managers frequently have a high degree of cohesion because of their devotion, closeness, and affection. relating to the organization's administration of share ownership (Azwari 2016). However, family ownership does not encompass public companies, governmental entities, financial institutions, or the public (i.e., individuals whose ownership status remains undisclosed).

The definition of family ownership in this research, as outlined by Arifin Z (2003), is inclusive of all owners, whether they are individuals or companies, with the notable exception of public companies, state-owned enterprises, and various financial institutions such as investment firms, mutual funds, insurance companies, pension funds, banks, and cooperatives. The study operates on the premise that a controlling family is likely to exert influence over the management of the entity. To operationalize this concept, based on Kumala and Siregar (2021) the researchers use a practical measurement approach, employing a dummy variable to represent family ownership. This method allows for a nuanced exploration of family control dynamics within the broader spectrum of ownership structures, shedding light on the potential impact of familial influence on management decisions. 1 = Family's ownership stake exceeds 50%, 0 = Family’s ownership at 50% or lower.

4. RESEARCH RESULT

Table 2 Descriptive Statistics

Variables	N	Minimum	Max	Mean	Std. Deviation
EM	110	-,004	0,078	0,040	0,019
ETH	110	0	1	0,610	0,490
INSTOWN	110	0,070	0,979	0,659	0,189
TP	110	-,478	1,952	0,737	0,231
AQ	110	0	1	0,480	0,502
MO	110	0,000	0,971	0,291	0,326
FOWN	110	0	1	0,220	0,415
ETHFOWN	110	0	1	0,072	0,260

Table 3 t Test Result

Variable	B	Significance	Decision	Conclusion
Constant	0,058	0,000		
ETH	-,005	0,321	Ha1 rejected	No influence.
INSTOWN	-,030	0,006	Ha2 accepted	Has influence.
TP	0,002	0,848	Ha3 rejected	No influence.
AQ	0,007	0,113	Ha4 rejected	No influence.
MO	0,002	0,759	Ha5 rejected	No influence.
FOWN	-,004	0,516	Ha6 rejected	No influence.
ETHFOWN	0,018	0,075	Ha7 rejected	No influence.

The test for the normality of residuals proves that 111 data points are normally distributed. The results of testing classical assumptions indicate no multicollinearity, but there is an issue of heteroscedasticity in the managerial ownership and board ethnicity that is moderate by family ownership variables. There is no autocorrelation. The correlation coefficient (R) is 0.390, and the adjusted determination coefficient (adjusted R2) is 0.094 or 9,4%. This means that 9,4% of the dependent variable (earnings management) can be explained by the independent variables (board ethnicity, institutional ownership, tax planning, audit quality, managerial ownership, and family ownership), along with the moderating variable (board ethnicity moderated by family ownership). The remaining 90,6% is explained by other factors not included in this study. The F-test results indicate that the research model fits well and can be used as a research model. Based on the hypothesis testing results, the regression equation applied in this study is as follow:

$$EM = 0{,}058 - 0{,}005\ ETH - 0{,}030\ INSTOWN + 0{,}002\ TP + 0{,}007\ AQ + 0{,}002\ MO - 0{,}004\ FOWN + 0{,}018\ ETHFOWN + \varepsilon$$

On this research only institutional ownership that has effect on earnings management even during COVID-19 period. Earnings management becomes more expensive for ordinary institutions because a misstatement by one portfolio firm not only diminishes the value of that firm but also diminishes the value of peer firms co-owned by the institution, whose investment strategies are influenced by the misstatement. By recognizing and internalizing this adverse impact, Chief Investment Officers (CIOs) provide institutions with heightened motivations to oversee and enforce discipline in the financial reporting of portfolio firms, leading to a reduction in earnings management. (Ramalingegowda, Utke, and Yu, 2021).

However, ethnicity board, managerial ownership, family ownership and ethnicity board that is moderated by family ownership and the other factors as tax planning and quality audit has no effect in this research. The agency theory says that there can be a relationship caused by a gap in interests between the principal and the agent, where there is information imbalance on the agent and/or principal side. This cannot be proven if board ethnicity can influence earnings management. (Dhyani 2023).

The concept of political costs in agency theory refers to the potential costs incurred by a firm due to its actions being scrutinized by external stakeholders, such as regulators, media, or public opinion (Macey 1991). In this case, the misstatement of earnings can lead to increased political costs for the institution, as it reflects poorly on its oversight and governance practices.

Furthermore, the implementation of bonus plans ties the compensation of CIOs to the performance of the portfolio firms. When misstatements in financial reporting led to diminished firm values, it can directly impact the bonuses received by CIOs (Coates and Srinivasan 2015). This aligns their interests more closely with those of the shareholders, as they have a financial incentive to ensure accurate and transparent financial reporting by the portfolio firms.

The meaning tax planning has no effect on earnings management. This has the same result as research by Hanum and Muda (2020), which is the findings of this research demonstrate that whether tax planning is high or low, there is no impact on earnings management. This suggests that there is no correlation between tax planning and earnings management, and this matter will not affect the extent of earnings management.

The meaning is audit quality has no effect on earnings management. This has same result as Herman et al. (2019) that the quality of an audit is influenced not just by the size of the public accounting firm and the reputation of the company associated with the Big Four but also by its effectiveness in uncovering any fraudulent activities perpetrated by management.

The meaning that managerial ownership has no effect on earnings management. This has same result as research by Silalahi and Warokka (2023) and Agsari (2020). Managers who have a stake in their company tend to shape earnings policies to meet investor expectations. This often involves boosting reported profits to attract more investors and drive-up share prices. However, when management holds only a small portion of the company's shares compared to outside investors, they may lack the influence needed to enhance the quality of financial reporting. Consequently, the number of shares owned by company management does not significantly impact the extent of earnings manipulation undertaken by the company.

The meaning is family ownership has no effect on earnings management. This has same result like research that led by Rezeki (2015). This means that the number of shares owned by a company's management cannot affect the extent of earnings management carried out by the company.

The meaning that board ethnicity that is moderate by family ownership has no effect on earnings management. Moreover, it is observed that the efficacy of independent non-executive directors in overseeing earnings management is diminished in companies with a more pronounced family influence. Nevertheless, there is no indication that the ethnic diversity of the board has an impact on earnings management. Additionally, there is a scarcity of findings regarding in settings characterized by both ethnic diversity and concentrated family ownership. (Wan Masliza Wan Mohammad, Shaista Wasiuzzaman (2016).

5. CLOSING

This study highlights the complex dynamics influencing earnings management in non-financial firms listed on the Indonesia Stock Exchange during COVID-19 periods. While institutional ownership demonstrates a significant negative relationship with earnings management, other factors such as board ethnicity and family ownership do not exhibit a notable impact. These findings contribute to the understanding of corporate governance and its implications for financial reporting practices in Indonesia.

Despite the insights gained, this research has several limitations, they are the study's timeframe, spanning only three years (2020-2022) during COVID-19 periods and only in Indonesia, may restrict the robustness of the findings and their applicability over longer periods and countries. For future research, I recommend enhancing the validity and applicability of findings. Firstly, expanding the research scope beyond manufacturing firms to include diverse sectors could improve the generalizability of results. Additionally, extending the study period to encompass five years or more would provide a more comprehensive view of trends in earnings management. Finally, we can explore for many countries outside Indonesia, so we can significantly offer deeper insights into the country factors influencing earnings management.

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