

HOW CORPORATE GOVERNANCE MODERATES THE LINK BETWEEN EARNINGS MANAGEMENT AND FIRM VALUE

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ABSTRACT

This study seeks to empirically analyze the impact of earnings management on firm value and assess the moderating role of corporate governance in this relationship among infrastructure firms listed on the Indonesia Stock Exchange. The research employs a purposive sampling technique, focusing on firms between 2019 and 2023. The data for this research is secondary, sourced from annual reports, company websites, and the Indonesia Stock Exchange. Multiple regression analysis with EVIEWS 9.0 is applied, including classical assumption tests (normality and multicollinearity), as well as model selection tests (Chow, Hausman, and Lagrange Multiplier). Hypothesis testing employs Moderated Regression Analysis and the coefficient of determination test. Findings indicate that earnings management does not significantly influence firm value. Additionally, independent commissioners and institutional ownership fail to moderate this relationship, whereas auditor classification and managerial ownership successfully act as moderators.

Keywords: *Earnings Management, Institutional Ownership, Independent Commissioners, Auditor Classification, Firm Value*

1. INTRODUCTION

In the modern business world, company value is one of the main indicators that reflects the sustainability and competitiveness of an entity in the industry (Jensen & Meckling, 1976). Company value is not only a concern for shareholders, but also investors, creditors, and various other stakeholders. The factors that influence company value are quite diverse, where the enforcement of corporate governance is one of them (Hernawati et al., 2021). Earnings management is an action taken by company management in arranging financial reports to reflect more stable and profitable financial performance, both for the purpose of increasing stock prices and meeting market expectations (PPM (PPM SoM, 2024). Bui & Le (2021) said that "Earnings management is the use of accounting techniques to produce financial statements that present an overly positive view of a company's business activities and financial position". From this statement, it can be concluded that earnings management is a behavioral practice carried out by managers to camouflage reported earnings, but does not affect the company's long-term profitabilities. However, these practice can have negative consequences if carried out unethically, such as manipulation of financial reports that can mislead investors and other stakeholders (Roychowdhury, 2006), (Apriadi et al., 2022).

To reduce the negative impact of earnings management on company values, corporate governance mechanisms apply as a control tool that can limit opportunistic managerial actions (Shleifer Andrei and Vishny, 1997). "Corporate governance is a system that regulates, controls, and ensures that companies are run with the principles of transparency, accountability, responsibility, independence, and fairness" (OECD, 2024). It is assumed that strong corporate governance can play a role in moderating the link between earnings management and company

values, by ensuring that financial policies implemented by management are within ethical corridors and in accordance with applicable accounting standards (Ogoun & Perelayefa, 2019).

In this study, corporate governance is measured using several main indicators, namely the portion of Independent Commissioners, managerial shareholding share, the fraction of a company's shares that are owned by institutional investors, and auditor classification. The portion of Independent Commissioners on the board is considered important because independent commissioners have a more objective supervisory function in controlling management policies, including earnings management practices (Triyuwono, 2018). Managerial share ownership is also an important factor because management interests in the company can affect the level of aggressiveness in carrying out earnings management (Warfield et al., 1995). Meanwhile, institutional share ownership has the potential to increase the effectiveness of corporate governance because institutional investors generally have the resources and expertise to oversee managerial practices (Bushee, 1998). Finally, auditor classification is used as an indicator because companies audited by large Public Accounting Firms or those included in the Big 12 group tend to have more reliable and transparent financial reports.

This study focuses on the infrastructure subsector in Indonesia, considering that this industry has a key position in the progress of the country's economic growth, and often receives attention from the government, investors, and the wider community (Afriyana et al., 2023). In addition, companies in the infrastructure sector generally have long-term projects that require high financial transparency to attract investment and build market trust (Girsang & Utami, 2022). Therefore, comprehending the way corporate governance moderates the connection between earnings management and firm value within the infrastructure subsector is a very relevant and important study. Extensive research has investigated the intricate correlation between earnings management, governance structures, and the overall value of a company (Tanadi & Widjaja, 2019) analyzed Indonesian manufacturing firms and concluded that earnings management significantly influences firm value, with the audit committee acting as a moderating factor, whereas the proportion of independent commissioners does not exhibit a moderating role. (Apridasari, 2019) further examined this dynamic and found that institutional ownership, independent boards, and audit committees may play a role in moderating the relationship between earnings quality and firm value, whereas the ownership held by company managers fails to serve as a moderating variable in this context. In contrast, (Suarmita, 2017) focused on state-owned enterprises and provided evidence that earnings management and debt exert a detrimental effect on the overall value of the company, although corporate governance mechanisms mitigate these adverse effects. Meanwhile, (Suriawinata & Correia, 2018) conducted a study on Indonesian non-financial firms and reported that corporate-governance structures, notably the proportion of independent members on the board, significantly and negatively moderates the association between earnings management and firm value. Their findings suggest that independent directors expose the opportunistic tendencies of earnings management, leading to punitive capital market responses and diminished firm valuations. (Afrizal et al., 2021) provided empirical evidence which earnings management exerts influence on firm value positively when controlled by corporate governance, underscoring the pivotal role of governance mechanisms in curbing opportunistic financial practices and fostering firm performance. Conversely, (Ulfa, 2023) revealed that earnings management significantly and negatively affects firm value, whereas robust corporate governance contributes positively to firm valuation. (Juliani et al., 2023) examined this relationship and found no significant association between earnings management and firm value, with neither independent commissioners nor audit committees effectively moderating this interaction. Similarly, (Fahmi

& Prayoga, 2018) concluded that earnings management can not influence company values, indicating that managerial earnings manipulation does not alter market perceptions. Furthermore, Yaponi & Khomsatun, (2018) established that earnings management in manufacturing firms is inversely correlated with investment efficiency, suggesting that earnings manipulation impairs optimal investment decisions. Finally, (Latifah & Novitasari, 2021) demonstrated that independent boards of commissioners and audit committees can function as moderating variables in the relationship between earnings management and firm value, reinforcing the importance of governance structures in financial oversight.

The distinctiveness of this study manifests in several key aspects. Firstly, it centers on the infrastructure subsector, diverging from the majority of prior research, which has predominantly addressed the interaction between earnings management, corporate governance, and firm value inside manufacturing or industries sectors. The infrastructure industry in Indonesia possesses unique attributes, including extended project durations, substantial government involvement, and stringent transparency requirements. Secondly, this study employs four corporate governance variables— board of independent commissioners, managerial equity stake, institutional shareholder ownership, and auditor classification—as moderating factors in the connection between earnings manipulation and company values. This multidimensional approach offers a nuanced understanding of governance mechanisms and their role in regulating earnings management. Thirdly, the inclusion of auditor classification as a corporate governance proxy distinguishes this research, as prior studies have primarily investigated auditors' impact on financial reporting quality rather than their moderating influence in the infrastructure sector. Lastly, this study aims to inform corporate governance policies by furnishing regulators, corporate entities, and investors with empirical evidence on the significance of governance structures in mitigating earnings management and enhancing firm value. Consequently, the study give a meaningful ante to the ongoing discourse on corporate governance reform in Indonesia.

Assessing the Connection Between Earnings Mangement and Firm Value

Company management has full authority over operational decisions and possesses greater insight into internal information and future business prospects than shareholders. This discrepancy creates an environment of information asymmetry, enabling managers to manipulate earnings in ways that temporarily boost the company's perceived value, potentially leading to misinterpretations by shareholders regarding its actual financial health. Sloan (in Herawati, 2008) investigated whether stock prices reflect the informational content of accruals and cash flow components. The study demonstrated that earnings generated from accrual-based earnings management exhibit lower persistence compared to cash flow-based earnings, indicating a less stable financial performance. Based on this premise, the hypothesis under consideration is:

H₁: Earnings management behavior provide negatively impact on company value.

The Involvement of Independent Commissioners in Moderating the Effects.

Klein (2002) in his research proved that the amount of discretionary accrual is higher for companies that have a public accountant classification consisting of few independent commissioners compared to companies that have a public accountant classification consisting of many independent commissioners.

Dechow *et al* (1996) suggest that companies with boards primarily composed of management members, especially when the CEO also serves as the board chairman, are more prone to earnings manipulation. In contrast, the presence of external board members can mitigate such practices. When the independence of the board is weak, there is an increased risk of moral

hazard, as executives may exploit accrual-based estimates for personal benefit. This aligns with Wedari (2004), who found that independent commissioners significantly reduce discretionary accruals.

A properly structured corporate governance system is expected to curb earnings management driven by opportunism. Companies with higher classifications of public accountants, a greater proportion of independent commissioners, and higher managerial ownership tend to exhibit lower tendencies toward earnings manipulation. This suggests that corporate governance plays a moderating role, potentially weakening the effect of earnings management on company values.

H₂: Independent commissioners moderate the interaction between earnings management and company values by weakening its impact.

Managerial Ownership as a Moderating Factor

Jensen dan Meckling (1976) asserted that managerial ownership constitutes a fundamental procedure for alleviating agency conflicts by harmonizing the objectives of managers and shareholders. Their findings suggest that as managerial ownership increases, managers become less inclined to engage in earnings manipulation, as their personal financial interests are more closely aligned with the firm's overall performance. Conversely, lower levels of managerial ownership heighten the risk of opportunistic behavior (Shleifer dan Vishny 1986).

Empirical studies reinforce this theoretical foundation. Watts et al (1995) demonstrated an opposite relationship between managerial ownership and discretionary accruals, supporting the notion that managerial ownership serves as a constraint on earnings management. Similarly, Madiastuty dan Machfoedz (2003) identified managerial ownership as a mechanism that curtails managerial opportunism, though Wedari (2004) acknowledged that managerial ownership may also be driven by other underlying incentives.

Building upon these insights, this study subscribes to the theoretical premise that managerial ownership operates as a corporate governance mechanism that mitigates earnings management. Consequently, managerial ownership is expected to attenuate the relation among earnings management and company value.

H₃: The managerial ownership weakens the effect of earnings management on company value.

Institutional Ownership's Involvement as a Moderating Factor

Institutional investors, often classified as sophisticated stakeholders, are presumed to possess superior analytical capabilities that enable them to interpret financial disclosures more accurately than non-institutional investors. Balsam et al., (2002) identified an opposite association between unexpected discretionary accounting adjustments and returns on stock surrounding earnings announcements. This relationship suggests that institutional investors, benefiting from privileged access to timely and relevant data, can more effectively detect and respond to earnings management activities than individual investors.

Empirical evidence from Jambavo et al (1996) further supports this notion, revealing a negative correlation among the absolute magnitude of discretionary accruals and institutional ownership. These findings imply that institutional ownership acts as a moderating factor, curbing the extent of earnings management activities.

However, the contribution of institutional ownership in earnings management is context-dependent. If earnings management is conducted in an efficient manner, high institutional

ownership may reinforce such activities. Conversely, when earnings management is opportunistic, a strong institutional investor presence acts as a constraint, reducing managerial discretion in financial reporting.

H4: Institutional ownership mitigates the influence of earnings management on company value.

The Role of Auditor Classification as a Moderator Variable

Teoh dan Wong (1993) argued that the classification of public accountants has a positive impact on earnings quality, as reflected in the Earnings Response Coefficient (ERC). In the study of auditor classification, referring to the letter of the Ministry of BUMN numbered S-199/MBU/DKU/08/2021, the names of Public Accounting Firm included in the Big 12 Auditor are as follows: “1) Amir Abadi Jusuf, Aryanto, Mawar & Rekan (RSM Int.). 2). Djoko Sidik & Indra (ANTEA-Alliance of Independent Firms), 3) Gani Sigiyo & Handayani (Grant Thornton). 4) Heliantono & Partner (Parker Randall International). 5). Hendrawinata Hanny Erwin & Sumargo (Kreston Int.). 6) Hertanto Grace Karunawan (TIAG), 7). Imelda & Rekan (Deloitte). 8) Kanaka Puradiredja, Suhartono (Nexia Int.). 9) Kosasih, Nurdyaman, Mulyadi, Tjahjo & Partner (Crowe Horwath). 10). Paul Hadiwinata, Hidajat, Arsono, Retno, Palilingan & Partner (PKF Int.). 11). Purwantono, Sungkoro & Surja (Ernst & Young), and 12) Tanudiredja, Wibisana, Rintis & Partner (Pricewaterhouse Coopers)”. Based on the determination of the Big 12, the performance of these public accounting firms is recognized as more qualified to detect earnings management in a company. Drawing from the above description, the hypothesis is proposed:

H5: The classification of public accountants moderates how earnings management affects company value.

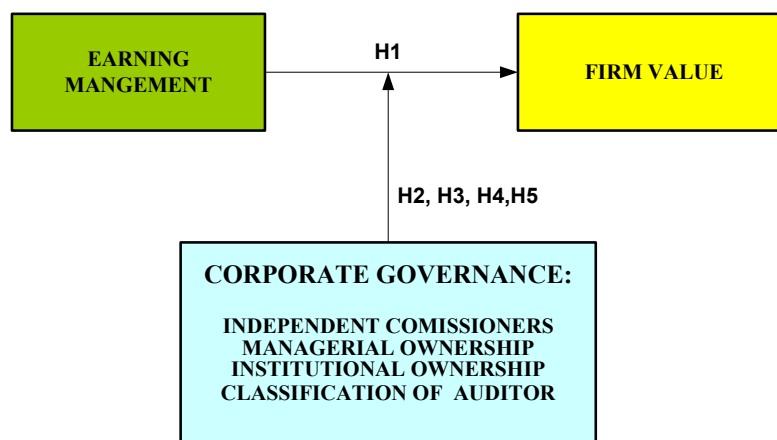


Figure 1. Research Model

Building on the aforementioned theory and explanation, the research model is presented as follows:

H1: The practice of earnings management has an adverse effect on company value.

H2: The presence of independent commissioners moderates and diminishes the relationship between earnings management and company value.

H3: Managerial ownership serves as a moderating factor, weakening the influence of earnings management on company value.

H4: Institutional ownership acts as a constraint, reducing the negative impact of earnings management on company value.

H5: The classification of auditor functions as a moderating variable that diminishes the effect of earnings management on company value.

2. RESEARCH METHOD

This study focuses on corporations in the infrastructure subsectors officially recorded on the IDX (Indonesia Stock Exchange) period 2019 to 2023. Panel data compiled from secondary sources, notably annual financial reports, was analyzed using the E-Views 9 software. The research employed a purposive sampling technique according to the specified criteria, namely: corporations operating in the infrastructure subsector, recorded on the IDX throughout the 2019–2023 period, having published annual financial reports, and providing all necessary data for the study.

Operationalization of Variables

The variables examined in this study consist of earnings management as the independent variable and company value as the dependent variable. Additionally, corporate governance is introduced as the moderating variable which is proxied by independent commissioners, managerial ownership, institutional ownership, and public accountant classification. The details regarding the measurement of these variables are provided in the table below.

Table 1. Operationalization of Variables

Variable	Proxy	Measurement	Scale
Dependent	Firm Value	Tobin's Q	Ratio
Independent	Earning Management	Discretionary Accrual Model Modified Jones (1991)	Ratio
Moderator	Independent Board of Commissioners	Independent Board of Commissioner = $\frac{\text{Number of independent commissioners}}{\text{total commissioners}}$	Ratio
	Managerial Ownership	Managerial Ownership = $\frac{\text{Number of shares owned by management}}{\text{Total shares outstanding}}$	Ratio
	Institutional Ownership	Institutional Ownership = $\frac{\text{Number of shares owned by institution}}{\text{Total shares outstanding}}$	Ratio
	Auditor Classification (*)	Using dummy variables. Value 1 if auditor included in the Big 12 category. Value 0 if the auditor is not included in the Big 12	Ratio

3. RESULTS AND DISCUSSIONS

Multicollinearity Test Results

Multicollinearity tests are applied to identify the presence of linear correlations among the independent variables. A well-structured regression model should exhibit no signs of multicollinearity, ensuring that each independent variable remains uncorrelated with others. In this study, the independent variables subjected to multicollinearity testing include earnings management and corporate governance, which serves as the moderating variable and are measured by Independent Commissioners, Institutional shareholding, managerial shareholding, and Public Accountant Classification. The table below provides the test assessment results.

Table 2. Multicollinearity Test Results

Variable	X EM	M IND	M INST	M KLSF AUD	M MAN OWN
X_EM	1.000	-0.219	0.061	0.363	-0.123
M_IND	-0.219	1.000	0.255	-0.452	0.075
M_INST	0.061	0.255	1.000	0.129	-0.684
M_KLSF_AUD	0.363	-0.452	0.129	1.000	-0.487

M_MAN_OWN	-0.123	0.075	-0.684	-0.487	1.000
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Where:

X_EM : Earning Management (independent variable)
 M_IND : Number of Independent Commissioners (moderation variable)
 M_INST : Percentage of Institutional Ownership (moderation variable)
 M_MAN_OWN : Percentage of Managerial Ownership (moderation variable)
 M_KLSF_AUD : Classification of Auditor (moderation variable)

The multicollinearity test outcomes, as displayed in the above table, reveal that the correlation between the variables in this study is below 80%. This implies that the variables do not exhibit a significant linear relationship, affirming that multicollinearity is not a concern in this research.

Normality Assessment Findings

The findings from the normality assessment are illustrated in the following figure.

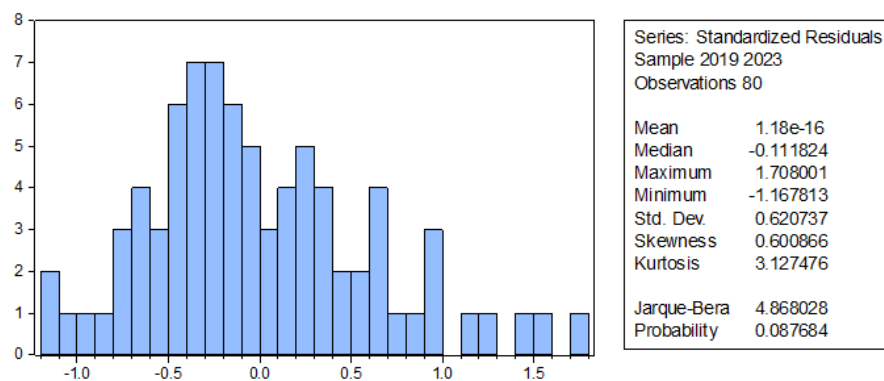


Figure 2. Findings from the Normality Test (Researcher-processed data)

The normality test outcomes reveal a probability value of 0.087684, exceeding the threshold of 0.05. This suggests that the data follows a normal distribution.

Data Analysis Results

This study conducted a series of analytical tests, including the selection of an appropriate regression model through the “Chow test, Hausman test, Lagrange Multiplier (LM) test, MRA test, and the coefficient of determination test”.

Regression Model Selection

When conducting panel data analysis, it is essential to consider three estimation models to determine the best fit for the dataset. The selection process involves statistical testing using the Chow, Hausman, and LM test.

Hausman Test

The Hausman Test is employed to assess which one of the Fixed Effect Model (FEM) or the Random Effect Model (REM) is more suitable for the regression analysis.

Based on the Correlated Random Effects obtained from Hausman Test output, the Prob Value obtained is 0.6281. (Source: data processing by researchers)

Interpretation of the Hausman Test Results.

- 1) Null Hypothesis (H_0): the better suitable model is REM.
- 2) Alternative Hypothesis (H_1): the proper estimation model is FEM.

Since the Prob. (0.6281) > 0.05, we fail to reject H_0 , indicating that the REM is more suitable to applied.

Lagrange Multiplier (LM) Test

The LM Test is conducted to assess the most appropriate regression estimation between the REM and the “Common Effect Model (CEM)”. The hypotheses for this test are as below:

- 1) H_0 : The regression model is best represented by the CEM.
- 2) H_1 : The regression model is best represented by the REM.

The Breusch-Pagan test statistic result is 20.6851, give a value of probability as 0.0000. Since a probability value below 0.05, the null hypothesis (H_0) is refuted, and the alternative hypothesis (H_1) is upheld. Therefore, the REM (Random Effect Model) is the proper model for this study. Additionally, based on both the Hausman and the LM test outcome, both of them consistently suggest that the REM approach is the the most feasible approach. As a result, conducting a Chow test is unnecessary, and it is determined that the “Random Effect Model” is the panel data regression model adopted in this study.

Moderated Regression Analysis

This fact finding employs Moderated Regression Analysis (MRA) involving the “Random Effect Model” to test hypotheses. The study examines how independent variables affect dependent variables and whether corporate governance moderates this relationship. This study explores the link between earnings management and firm value, considering corporate governance as a moderating factor. The results of the multiple linear regression analysis, including moderation effects, are displayed in table below.

Table 3. Results of Hypothesis Testing on Company Value (Tobins'Q)
 Source: data processing by researchers

Notation	Variable		Coefficient	Prob.
	Proxy	Type		
X_EM	Earning Management	Independent	1.4062	0.4772
X_EM * M_IND	Independent Commissioner	Moderator	-0.9332	0.8406
X_EM * M_INST	Institutional Ownership	Moderator	1.2664	0.7317
X_EM * M_KLSF_AUD	Auditor Classification	Moderator	-1.7252	0.0226
X_EM * M_MAN_OWN	Managerial Ownership	Moderator	-3.7267	0.0000
C	Constants	Constant	4.5842	0.0028

Regression analysis is conducted at a 5% level of significance ($\alpha = 0.05$). The evaluation is executed by assessing whether the Prob (p-value) is above or below the α threshold of 0.05. The formulated hypotheses are as follows:

- 1) H_0 : Independent variables do not have a significant impact into dependent variables.
- 2) H_1 : Independent variables have a significant impact to dependent variables.

The decision criteria are as follows:

- 1) If $\text{Prob} \leq \alpha$ (0.05), then H_0 is refused. It is the indication that the explanatory variables play a crucial role in determining the predicted variables.
- 2) If $\text{Prob} \geq \alpha$ (0.05), then H_0 is accepted, indicating no significant influence of the explanatory variables on the predicted variables.

The coefficient column also represents how strongly and in what direction the explanatory variable affects the target variable.

The hypothesis test results shown in Table 3 reveal the following insights:

- 1) Earnings management (X_EM) exhibits a positive impact to firm_value, reflected in a coefficient of 1.4062; however, this effect is not statistically significant as the Prob value is $0.4772 > 0.05$.
- 2) The Independent Commissioner moderation variable ($X_EM * M_IND$) weakens the effect of earnings management on firm value, as indicated by a negative coefficient of -0.933183, but the effect is not statistically significant (Prob = $0.8406 > 0.05$).
- 3) The Institutional Ownership moderation variable ($X_EM * M_INST$) enhances the effect of earnings management on firm value in a positive manner, with a coefficient of 1.266481.; nonetheless, the effect remains insignificant as the Prob value is $0.7317 > 0.05$.
- 4) The Auditor Classification moderation variable ($X_EM * M_KLSF_AUD$) strengthens the impact of earnings management on firm value, where the coefficient is 1.266481, and this effect is statistically significant as the Prob value is $0.0226 < 0.05$.
- 5) As a moderating factor, Managerial Ownership ($X_EM * M_MAN_OWN$) exerts a negative influence on the relationship between earnings management and firm value, with a coefficient of 1.266481, and this effect is statistically significant (Prob = $0.000 < 0.05$).

Determination Coefficient Test Output

The goal of the determination coefficient assessment is to measure the explanatory power of independent variables on the dependent variable. The results reveal an R-square value of 18.64%, exhibit that earnings management and GCG variables account for 18.64% of the explanation in corporate value, whereas the remaining 81.36% is attributed to other variables outside the scope of this study.

The Relationship of Earning Management and the Infrastructures Sector Companies Value

The results of statistical tests show that Earning Management has a positive but insignificant effect on Company value.

Earning management or profit management can increase the effect on the value of infrastructure sector companies in Indonesia for several reasons related to market perception and managerial strategy. In the context of the infrastructure sector, which generally requires large funding from investors or financial institutions, the stability of financial performance is an crucial element. Earning management allows companies to adjust financial reports to show consistent profit stability or growth. This has the potential to strengthen investor faith in the company's capability to manage infrastructure projects that are often long-term and high-risk. In addition, the infrastructure sector in Indonesia is often the target of government and foreign investors, so that financial reports that are "well-managed" can reflect the impression that the company has reliable management and controlled risks. This perception may contribute to a higher stock price and an improved market value for the company, and facilitate access to funding sources. However, it should be noted that this positive effect is temporary if earning management is carried out unethically, because the risk of reputational loss can arise if the practice is revealed. Therefore, earnings management that is carried out wisely and within the limits of accounting rules is often considered a strategic tool to increase the attractiveness of a company, especially in strategic sectors such as Infrastructure. However, although this earnings management practice can create a small improvement in the perceived value of the company, the impact is often insignificant because experienced investors tend to focus more on fundamental analysis such as cash flow and project prospects, rather than just looking at reported profits. The findings of this study is not confirm to the findings of (Tanadi & Widjaja, 2019), (Suarmita, 2017), (Fahmi & Prayoga, 2018), and (Juliani et al., 2023) who studied

manufacturing companies in Indonesia and found that earnings management had an impact on corporate value and the implementation of GCG pull down the negative impact of earnings management.

Assessing the Role of Independent Board Members in Shaping the Influence of Earnings Management on Organizational Value

The results of statistical tests show that independent commissioners moderate the impact of earnings_management negatively and insignificantly on the organizational value of infrastructure companies in Indonesia.

commissioners, as part of corporate governance tasked with supervising management, are able to play a role in moderating the negative, although not significantly, on the value of infrastructure companies in Indonesia due to their limited role and effectiveness in the operational context. Independent commissioners are expected to be able to provide objective supervision and ensure that profit management practices are not carried out manipulatively or contrary to the principles of good governance. However, in practice, the effectiveness of independent commissioners is often influenced by internal factors such as a lack of in-depth understanding of the complexity of the infrastructure sector business, time constraints, or dependence on information from management reports.

In addition, infrastructure companies in Indonesia often have a concentrated ownership structure, where strategic decisions are still heavily influenced by controlling shareholders. In this situation, independent commissioners may have a limited scope of supervision or lack independence in influencing managerial decisions, including earnings management practices. Despite offering a positive indication of a company's governance practices, independent commissioners often fail to significantly curb earnings management's effect on firm value due to barriers in implementation and restricted influence. As a result, independent commissioners are more likely to function as a symbolic element in corporate governance without providing substantial influence on the association between managed earnings strategies and company value. This research empirical evidence support the result finding of (Tanadi & Widjaja, 2019) and (Juliani et al., 2023) where the presence of independent commissioners does not alter this effect. Contrary to the findings of (Apridasari, 2019) and (Latifah & Novitasari, 2021) this research did not confirm the moderating role of independent commissioners on the relationship between earnings quality and firm value.

The Contribution of Institutional Ownership in Mitigating the Impact of Earnings Management toward Firm Valuation

Statistical testing shows that while institutional ownership positively moderates the influence of earnings management on the value of infrastructure companies in Indonesia, the effect is not statistically significant.

Institutional ownership, namely share ownership by institutions such as banks, pension funds, or investment managers, are able to moderate the impact of earnings_management positively but insignificantly on the company value of the infrastructure sector in Indonesia because the role of institutions is more passive and oriented towards general portfolio supervision. Institutions that own shares in a company usually act as large investors who possess the capacity to oversee the company's performance. However, in many cases, institutions are not always actively involved in operations or managerial decision-making. As a result, their influence in controlling earnings management practices is often limited, especially if

institutions focus more on diversifying their portfolios than on intensive supervision of individual companies.

In the context of the infrastructure sector, earning management may be viewed by institutions as a reasonable strategy to maintain the perception of stability and attractiveness of the company, especially since this sector requires significant long-term financing. However, less active institutional control often causes the effect of control on earnings management to be less significant. This is because institutions may not prioritize detecting or preventing earnings management as long as the company's financial performance still looks good overall. As a result, although institutional ownership can moderate earnings management by providing more confidence to the market, this effect is likely to be insignificant on firm value due to the more passive nature of monitoring and the focus of institutions on a broader portfolio, rather than on direct monitoring of earnings management practices. The conclusions drawn in this study do not support the findings of (Apridasari, 2019), who argued that institutional ownership moderates the link between earnings quality and company value.

Examining the Contribution of Auditor Classification in Shaping the Effect of Earnings Management on Corporate Valuation.

The findings from the statistical test reveal show that the classification of Auditor negatively and significantly moderates the relationship between earnings management and firm valuation of infrastructure institutions in Indonesia

The classification of Public Accounting Firms as an Auditor especially the difference between Auditor Big 12 and Auditor outside of it, can negatively moderate the impact of earning management on the value of infrastructure companies in Indonesia due to different audit quality. Big 12 Auditor, such as Deloitte, PwC, EY, KPMG, and BDO (in some contexts), have a very strong global reputation, greater resources, and stricter and more independent audit methods than other Auditors. In the context of infrastructure companies that often require high trust from investors and creditors, audits from Big 12 Auditor can provide credibility assurance for the company's financial statements. When companies use Big 12 Auditor, the potential for excessive or manipulative earning management practices can be detected and minimized more quickly, so that the impact on company value becomes smaller or even negative. Conversely, if the company undergoes an audit by an auditor outside the Big 12 firms, which may have more limited resources or less stringent audit standards than the Big 12 Auditor, there is more room for management to involve in earnings_management. This can create the illusion of high company value in the short term. However, it poses a risk of diminishing the credibility of the financial statements over time if the practice becomes known. Therefore, the role of accounting firms as moderators is significant; Big 12 accounting firms effectively limit the influence of earnings_management by ensuring the accuracy and trustworthiness of the financial statements, while accounting_firms outside the Big 12 tend to provide more room for earnings_management, which may adversely affect the firm's value when the market realizes that there is suboptimal earnings management. This moderation is especially relevant in Indonesia's infrastructure sector, where transparency and accountability are key to the sustainability of large projects and investor confidence. This research finding is inline to the researchs by (Tanadi & Widjaja, 2019), (Apridasari, 2019), and (Latifah & Novitasari, 2021) who found that the audit committee moderates the consequences of earnings_management for company valuation

The Role of Managerial Ownership in Moderating the Relationship of Earnings Management on Company Value

The results of statistical tests show that Managerial Ownership moderates the effect of Earnings Management negatively and significantly on the company valuation of infrastructure companies in Indonesia.

Managerial ownership, namely share ownership by company management, has the potential to reduce the influence of earnings management on the valuation of the infrastructure sector companies in Indonesia due to different incentives in decision making. For firms with considerable ownership concentration in the hands of managers, management has a direct interest in the company's long-term performance, as the firm's growth and profitability directly enhance the value of their personal investments in shares. This condition creates an incentive for management to act more carefully in carrying out earning management. Conversely, if earning management is carried out aggressively, which can create the perception of high profits in the short term but risks harming the firm's future standing and reliability, then the value of shares owned by management can also be negatively affected. Therefore, managerial ownership tends to limit manipulative or excessive earning management practices, so that its effect on company value becomes more controlled or even negative.

In relation to the condition of the infrastructure subsector in Indonesia, which often requires high trust from investors and financial institutions as the long-range and risky characteristic of its projects, managerial ownership can serve as a strong internal monitoring mechanism. With the direct involvement of management as shareholders, there is an incentive to maintain transparent and credible financial reports in order to maintain the firm's valuation in the long-term. This is different from companies without significant managerial ownership, where management may be more focused on achieving short-term profit targets, often to meet certain incentives, without considering to reduce impacts on the company's value in the future time. As a result, managerial ownership becomes a moderating factor that suppresses the negatives influence of earnings management on company values, especially in highly strategic sectors such as infrastructure. This study reinforces the results of (Luckyt et al., 2024) indicating that managerial ownership has a moderating effect on the association between earnings management and firm value.

4. CONCLUSIONS AND SUGGESTIONS

The regression analysis involvint the panel data revealed the below outcomes: (1) Earnings management shows a positive contribution to the value of infrastructure firms, but it is not statistically significant. (2)The presence of independent commissioners does not succeed in moderating the relationship between earnings management and company value. (3) Institutional investors do not appear to moderate the connection between earnings management and company performance. (4) Unlike other variables, auditor classification has an adverse moderating impact on the association between earnings management and firm value. (5) Finally, the results indicate that managerial_ownership acts as a negative moderator in the association between earnings management and company value.

Based on the findings from the data analysis, the following suggestions are made for infrastructure companies, focusing on the role of corporate governance in moderating the relationship between earnings management and company value:

- 1) Strengthen Managerial Ownership.

Offering share ownership as an incentive to management can create better alignment between management and shareholders. With ownership, management is more likely to prioritize long-term performance over short-term earnings adjustments, which can contribute to the stability of the company's value.

2) Engage Auditors from Reputable Public Accounting Firms

Engaging auditors from renowned public accounting firms with global recognition (such as the Big 12) can may contribute to greater credibility in the firm's financial reporting practices and reduce the potential for earnings manipulation. These highly reputable auditors apply rigorous audit standards, which minimizes the risk of earnings management and helps preserve the company's value while maintaining investor trust.

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