

THE EFFECT OF FINANCIAL DISTRESS AND INSTITUTIONAL OWNERSHIP ON EARNINGS MANAGEMENT WITH THE INDEPENDENT BOARD OF COMMISSIONERS AS A MODERATING VARIABLE

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Abstrak

Penelitian ini bertujuan untuk menganalisis pengaruh *financial distress* dan kepemilikan institusional terhadap manajemen laba, serta menguji peran dewan komisaris independent sebagai variabel moderasi. Fokus penelitian dilakukan pada perusahaan subsektor makanan dan minuman (*food and beverage*) yang terdaftar di Bursa Efek Indonesia (BEI) selama periode 2020–2024, yang mencerminkan kondisi ekonomi pasca-pandemi. Menggunakan pendekatan kuantitatif, sampel penelitian dipilih melalui teknik *purposive sampling* yang menghasilkan 59 perusahaan dengan total 295 pengamatan. Data sekunder diperoleh dari laporan tahunan resmi melalui situs BEI. Teknik analisis data meliputi *independe deskriptif*, uji asumsi klasik, regresi linear berganda, dan *Moderated Regression Analysis* (MRA). Hasil penelitian menunjukkan bahwa *financial distress* dan kepemilikan institusional berpengaruh negatif dan signifikan terhadap manajemen laba. Sementara itu, hasil analisis moderasi menunjukkan bahwa dewan komisaris independent tidak mampu memoderasi pengaruh *financial distress* maupun kepemilikan institusional terhadap manajemen laba dalam model penelitian ini.

Kata Kunci: *Financial Distress*, Kepemilikan Institusional, Manajemen Laba, Dewan Komisaris Independen.

Abstract

This study aims to analyze the impact of financial distress and institutional ownership on earnings management, as well as to examine the role of the independent board of commissioners as a moderating variable. The research focuses on food and beverage sub-sector companies listed on the Indonesia Stock Exchange (IDX) during the 2020–2024 period, reflecting post-pandemic economic conditions. Employing a quantitative approach, the sample was selected using purposive sampling, resulting in 59 companies and a total of 295 observations. Secondary data were obtained from official annual reports via the IDX website. Data analysis techniques included

descriptive statistics, classical assumption tests, multiple linear regression, and Moderated Regression Analysis (MRA). The results indicate that financial distress and institutional ownership have a significant negative effect on earnings management. Meanwhile, the moderation analysis reveals that the independent board of commissioners does not moderate the influence of either financial distress or institutional ownership on earnings management within this research model.
Keywords: Financial Distress, Institutional Ownership, Earnings Management, Independent Board of Commissioners.

A. INTRODUCTION

Earnings management is defined as management's efforts to manipulate or modify financial reporting to achieve specific objectives, while remaining within the boundaries of applicable accounting standards. Perspectives on earnings management vary; some view it as an act of fraud that should not be committed, whereas others do not consider it fraudulent, provided the procedures employed adhere to Financial Accounting Standards (SAK) (Kurnia & Mulyati, 2023). One company in the food and beverage sub-sector that felt the impact of these conditions is PT Indofood CBP Sukses Makmur Tbk (ICBP). Throughout the pandemic and post-pandemic periods, the company's performance faced various pressures primarily driven by rising raw material costs (such as wheat and vegetable oil) and increasing distribution and operational expenses. This situation indicates that even major companies like ICBP are not entirely immune to the risk of financial distress; such pressure can ultimately prompt management to take specific measures including earnings management practices to maintain investor confidence and corporate stability.

Agency Theory

Agency theory, as proposed by Jensen and Meckling (1976), describes the contractual relationship between company owners (principals) and management (agents). Company owners generally seek to increase firm value and ensure transparent financial reporting, whereas management tends to pursue personal interests—such as obtaining bonuses, retaining their positions, or demonstrating strong performance (Tanjung et al., 2025). Under conditions of financial distress, conflicts between management and shareholders tend to intensify as the company faces financial pressures that can impact investor and creditor confidence. Such conditions may drive management to

engage in earnings management to maintain a positive image and the appearance of good performance. Agency theory is employed in this study because it effectively explains the relationships among financial distress, institutional ownership, independent boards of commissioners, and earnings management.

Earnings Management

Earnings management refers to actions taken by management during the financial statement preparation process to influence the reported earnings figure—either by increasing or decreasing it—to serve specific interests. In this context, earnings management is understood as a form of managerial intervention in external financial reporting, deliberately carried out to alter earnings information so that it aligns with desired targets. Furthermore, earnings management can be defined as a series of planned actions conducted within the boundaries of generally accepted accounting principles—aimed at achieving a specific level of earnings. Thus, earnings management is a complex phenomenon; it involves not only technical accounting aspects but is also influenced by management's interests and the company's circumstances.

Financial Distress

Financial distress is a condition reflecting a company's declining financial performance and is often viewed as an early indicator of impending bankruptcy. Consequently, a company facing financial difficulties where its assets are insufficient to cover all its obligations can be said to be showing early signs of bankruptcy; this situation arises from a deterioration in financial health caused by poor operational performance, leaving the company unable to meet its payment obligations because its total assets cannot cover its total liabilities (Kurnia & Mulyati, 2023). If such conditions are not effectively managed, the company typically takes measures such as altering its managerial structure. This practice is carried out by boosting revenue or minimizing losses through the use of specific accounting policies and techniques (Manik et al., 2026).

Institutional Ownership

Institutional ownership is a component of a company's ownership structure representing the percentage of shares held by institutions such as insurance companies, pension funds, banks, and other investment entities. It refers to shareholdings by third-party institutions that invest their funds in companies deemed capable of managing those investments professionally. These institutions may include banks, financial firms, or non-financial entities. Generally, this type of ownership reflects the level of confidence institutional investors have in a company's performance and prospects, while also serving to enhance oversight of management activities (William & Widjaja, 2024). Consequently, the greater the institutional ownership, the higher the level of control over the quality of the company's financial statements (Hidayat et al., 2025).

Independent Board of Commissioners

An independent commissioner is a member of the board of commissioners who has no financial, managerial, shareholding, or other affiliate relationships with management or controlling shareholders, thereby enabling them to perform supervisory functions objectively and independently. The presence of independent commissioners who lack direct ties to management or controlling shareholders facilitates objective and professional oversight. Consequently, the independent board of commissioners contributes to enhanced transparency and accountability, thereby mitigating the potential for earnings manipulation by management (Khafidaturofi'ah & Setiyono, 2026).

B. METHOD

This study employs quantitative data analysis techniques using SPSS (Statistical Package for the Social Sciences) software to examine the impact of financial distress and institutional ownership on earnings management, with the independent board of commissioners serving as a moderating variable. Table 1. Sample of Food and Beverage Companies

No	Criteria	Amount
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1.	Food and beverage companies listed on the Indonesia Stock Exchange during the 2020–2024 study period.	84
2.	Food and beverage companies that did not present complete financial statements during the 2020–2024 study period.	25
	Total Research Sample	59
	Total Observations in 2020-2024 (59x5)	295

C. RESULTS AND DISCUSSIONS

Descriptive Statistics

By using the SPSS data processing program, the results of the descriptive statistical tests are presented in the following table:

Tabel 2. Result of Descriptive Statistical Tests

Descriptive Statistics					
	N	Minimum	Maximum	Mean	Std. Deviation
Financial Distress	295	-5.06	10.31	2.7307	3.12350
Institutional Ownership	295	.00	1.02	.6845	.27637
Earnings Management	295	-.07	.03	-.0031	.01581

Based on the descriptive statistics, the financial distress variable has a minimum value of -5.06 and a maximum value of 10.31. The mean value is 2.7307, while the standard deviation is 3.12350. The institutional ownership variable has a minimum value of 0.00 and a maximum value of 1.02. The mean value is 0.6845, with a standard deviation of 0.27637. The earnings management variable has a minimum value of -0.07 and a maximum value of 0.03. The mean value is -0.0031, while the standard deviation is 0.01581. The independent board of commissioners variable has a

minimum value of 0.11 and a maximum value of 0.80, with a mean value of 0.4006 and a standard deviation of 0.10059.

Pearson Correlation Test

The Pearson correlation test is used to measure the linearity of the relationship between two variables that follow a normal distribution.

Tabel 3. Result of Descriptive Statistical Tests

Correlations					
		Financial Distress	Institutional Ownership	Earnings Management	Independent Board of Commissioners
Financial Distress	Pearson Correlation	1	.030	-.229**	.055
	Sig. (2-tailed)		.602	.000	.346
	N	295	295	295	295
Institutional Ownership	Pearson Correlation	.030	1	-.211**	-.117*
	Sig. (2-tailed)	.602		.000	.045
	N	295	295	295	295
Earnings Management	Pearson Correlation	-.229**	-.211**	1	.042
	Sig. (2-tailed)	.000	.000		.474
	N	295	295	295	295
Independent Board of Commissioners	Pearson Correlation	.055	-.117*	.042	1
	Sig. (2-tailed)	.346	.045	.474	
	N	295	295	295	295
**. Correlation is significant at the 0.01 level (2-tailed).					
*. Correlation is significant at the 0.05 level (2-tailed).					

Financial Distress and Earnings Management: The Pearson Correlation value is -0.229 with a significance value of $0.000 < 0.05$. This indicates a significant negative relationship between financial distress and earnings management. Institutional Ownership and Earnings Management: The Pearson Correlation value is -0.211 with a significance value of $0.000 < 0.05$. This indicates a significant negative relationship between institutional ownership and earnings management. Financial Distress and Institutional Ownership: The Pearson Correlation value is 0.030 with a significance value of $0.602 > 0.05$. This indicates a very weak, non-significant positive relationship between financial distress and institutional ownership. Financial Distress and Independent Board of Commissioners: The Pearson Correlation value is 0.055 with a significance value of $0.346 > 0.05$. This indicates a very weak, non-significant positive relationship between financial distress and the independent board of commissioners. Institutional Ownership and Independent Board of Commissioners: The Pearson Correlation value is -0.117 with a significance value of $0.045 < 0.05$. This indicates a significant negative relationship between institutional ownership and the independent board of commissioners. The value of -0.117 indicates a very weak level of relationship. Earnings Management and Independent Board of Commissioners: The Pearson Correlation value is 0.042 with a significance value of $0.474 > 0.05$. This indicates a very weak, non-significant positive relationship between earnings management and the independent board of commissioners.

Classical Assumption Test Results

Table 4 shows that the normality test using the One-Sample Kolmogorov-Smirnov method yielded an Asymp. Sig. (2-tailed) value of 0.200. This value exceeds the significance level of 0.05 ($0.200 > 0.05$); therefore, it can be concluded that the residual data in this study are normally distributed.

Table 4. Normality Test Results

One-Sample Kolmogorov-Smirnov Test		
		Unstandardized Residual
N		295
Normal Parameters ^{a,b}	Mean	.0000000
	Std. Deviation	.01504211
Most Extreme Differences	Absolute	.036
	Positive	.028
	Negative	-.036
Test Statistic		.036
Asymp. Sig. (2-tailed)		.200 ^{c,d}
a. Test distribution is Normal.		
b. Calculated from data.		
c. Lilliefors Significance Correction.		
d. This is a lower bound of the true significance.		

Table 5. Multicollinearity Test Result

Coefficients ^a								
Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.	Collinearity Statistics	
		B	Std. Error	Beta			Tolerance	VIF
1	(Constant)	.006	.004		1.319	.188		
	Financial Distress	-.001	.000	-.225	-4.025	.000	.996	1.004
	Institutional Ownership	-.011	.003	-.201	-3.575	.000	.985	1.015
	Independent Board of Commissioners	.005	.009	.031	.546	.586	.983	1.017
a. Dependent Variable: Earnings Management								

Based on the multicollinearity test results in Table 5, the Financial Distress variable has a Tolerance value of 0.996 and a VIF of 1.004; the Institutional Ownership variable has a Tolerance

value of 0.985 and a VIF of 1.015; and the Independent Board of Commissioners variable has a Tolerance value of 0.983 and a VIF of 1.017. All variables exhibit Tolerance values greater than 0.10 and VIF values less than 10. Thus, it can be concluded that the regression model does not suffer from multicollinearity. This means there is no high correlation among the independent variables in the research model, making the regression model suitable for further testing.

Table 6. Heteroscedasticity Test Result

Coefficients ^a						
Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	.013	.004		3.650	.000
	Financial Distress	.000	.000	.119	2.056	.041
	Institutional Ownership	-.003	.003	-.062	-1.059	.290
	Independent Board of Commissioners	-.011	.007	-.088	-1.498	.135
a. Dependent Variable: abs_res						

Based on the Glejser test results in Table 6, all independent variables exhibit significance values greater than 0.05; therefore, the regression model does not suffer from heteroscedasticity. Consequently, one of the classical regression assumptions has been met, and the regression model is suitable for further analysis.

Table 7. Autocorrelation Test Result Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Durbin-Watson
1	.507	.257	.240	125.28482	1.479

a. Predictors: (Constant), LAG_M, LAG_X2, LAG_X1

b. Dependent Variable: LAG_Y

Based on Table 7, the autocorrelation test results using the Durbin-Watson statistic show a value of 1.479, with a sample size of 295 and three independent variables. This value indicates that the regression model does not exhibit autocorrelation; thus, the model's residuals are independent. Consequently, it can be concluded that the research data is free from autocorrelation. This is evidenced by the condition: $(dU) (1.824) < (dW) (1.479) < (4 - dU) (2.176)$.

Multiple Linear Regression Analysis Test Results

Tabel 8. Result of Multiple Linear Regression Analysis Test Results

Coefficients ^a						
Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	.008	.002		3.249	.001
	Financial Distress	-.001	.000	-.223	-4.005	.000
	Institutional Ownership	-.012	.003	-.205	-3.671	.000
a. Dependent Variable: Earnings Management						

Source: Data processed by IBM Statistics 26

Overall, the constant of 0.008 indicates that when financial distress and institutional ownership are held constant or set to zero, the level of earnings management is 0.008. Financial distress has a coefficient of -0.001 with a significance level of 0.000 (< 0.05), indicating a significant negative effect on earnings management. Similarly, institutional ownership has a coefficient of -0.012 with a significance level of 0.000 (< 0.05), indicating a significant negative effect on earnings

management. Thus, increases in financial distress and institutional ownership tend to reduce earnings management by 0.001 and 0.012, respectively, assuming other variables remain constant.

Table 9. Result of the Determination Coefficient Test

Model Summary				
Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.325 ^a	.106	.090	.01509
a. Predictors: (Constant), Institutional Ownership and Independent Board of Commissioners, Financial Distress, Independent Board of Commissioners, Institutional Ownership, Financial Distress and Independent Board of Commissioners				

Based on the coefficient of determination results in the "Model Summary" table (Table 9), an R-square value of 0.106 was obtained. This indicates that Financial Distress, Institutional Ownership, Independent Board of Commissioners, and the interaction variables—Financial Distress with the Independent Board of Commissioners and Institutional Ownership with the Independent Board of Commissioners—collectively explain 10.6% of the variation in Earnings Management. Meanwhile, the remaining 89.4% is explained by variables outside the research model. Furthermore, the Adjusted R-square value of 0.090 indicates that, after adjusting for the number of variables in the model, the model's ability to explain the variation in Earnings Management is 9.0%.

Table 10. t-Test Result

Coefficients ^a

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	.008	.002		3.249	.001
	Financial Distress	-.001	.000	-.223	-4.005	.000
	Institutional Ownership	-.012	.003	-.205	-3.671	.000
a. Dependent Variable: Earnings Management						

Source: Data processed by IBM Statistics 26

Based on the t-test results in Table 10, the following conclusion can be drawn: A well-constructed and ideal regression model should not exhibit heteroscedasticity in the data. The Glejser test results indicate a significance value (Sig.) greater than 0.05. Therefore, it can be concluded that the regression model does not suffer from heteroscedasticity.

D. CONCLUSIONS

The research results indicate that financial distress and institutional ownership have a significant negative effect on earnings management; this means that higher levels of financial distress or institutional ownership correspond to a lower tendency for companies to engage in earnings management. Furthermore, the board of commissioners moderates the impact of financial distress and institutional ownership on earnings management by weakening the influence of financial distress and reinforcing the effectiveness of institutional ownership in curbing earnings management practices through more effective supervisory functions.

E. SUGGESTIONS

Future research is advised to incorporate other variables hypothesized to influence earnings management such as profitability, leverage, firm size, cash holdings, or audit quality—given that the coefficient of determination in this study remains relatively low. Additionally, future studies could expand the scope of research to other sectors or employ different analytical methods to obtain more comprehensive results

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