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Board Characteristics and Firm Value: The Role of Earnings Management and Managerial Ownership

Sanusi[1*], Lia Uzliawati[2], Tri Lestari[3] , Yeni Januarsi[4]
[1,2,3,4] Faculty of Economic and Business, Doktoral Ilmu Akuntansi Program,
University of Sultan Ageng Tirtayasa
Serang, Indonesia

Email Address:
sanusibravo@gmail.com[1]*, uzliawati@untirta.ac.id[2], tri.lestari@untirta.ac.id[3],
yeni_januarsi@untirta.ac.id[4]
*Corresponding Author

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Abstract

Purpose – This study examines the effects of board characteristics on earnings management and firm value, including the mediating roles of earnings management and managerial ownership.

Design/Methodology/Approach – Panel regression is used to analyze 162 firm-year observations from 27 Indonesian manufacturing firms listed on the Indonesia Stock Exchange during 2019–2024.

Results – Gender diversity and board independence are negatively associated with earnings management, whereas audit committee expertise and board skill are positively associated with it. Gender diversity, audit committee expertise, and board skill positively affect firm value, while board independence has a negative effect. Contrary to agency theory expectations, earnings management positively affects firm value. Earnings management mediates the relationships of gender diversity, audit committee expertise, and board skill with firm value, whereas managerial ownership does not mediate the board independence–firm value relationship.

Originality – This study integrates board characteristics and earnings management to explain firm value.

Research limitations/Implications – The study focuses on Indonesian manufacturing firms and accrual-based earnings management. Firms should strengthen substantive board effectiveness and financial reporting oversight.

Keywords: **Agency Theory, Board Characteristics, Earnings Management, Firm Value, Managerial Ownership**

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Introduction

Earnings management remains a critical issue in accounting and corporate governance because managerial discretion in financial reporting can exacerbate information asymmetry and agency conflicts. From the perspective of agency theory, effective governance is expected to constrain opportunistic behavior through monitoring and incentive alignment. Therefore, board composition, diversity, expertise, skills, independence, and ownership structure are important not only for reporting quality but also for firm value.

The role of corporate leadership mechanisms in constraining earnings management and enhancing firm value has been widely examined, but empirical findings remain inconsistent. Several studies show that board gender diversity can strengthen monitoring and improve firm outcomes, whereas others indicate that its effect depends on the competence, position, characteristics of female directors, and institutional context (Alhossini et al., 2024; Alves, 2023; Attia et al., 2024; Lawrence & Raithatha, 2023; Majumder et al., 2024). These findings suggest that the presence of women on the board does not automatically ensure effective monitoring, but may depend on the quality and competence associated with board diversity.

Similar ambiguity can be observed in audit committee expertise. Knowledge of finance and accounting theoretically improves audit committees' ability to understand accounting judgments, challenge managerial decisions, and strengthen oversight. However, Cheung & Adelopo (2022) note that financial literacy is negatively correlated with accrual-based earnings management but positively correlated with real earnings management, while Cheung & Chung (2022) show that the effect of expertise varies according to the type of expertise and form of earnings management. This indicates that expertise should be understood as a substantive monitoring capability rather than merely a formal requirement.

Board human capital and board independence provide additional mechanisms. Adams et al. (2018) show that director skill sets are multidimensional, while Alam et al. (2025) find that board expertise contributes to firm performance and that its benefits may be strengthened by board independence. Nevertheless, independence without adequate competence, information, and authority may not be sufficient to constrain managerial discretion. Evidence from Indonesia also reports mixed results regarding the relationship between board independence, earnings management, and firm value (Fitrasari, 2023; Putra & Zifi, 2022).

Managerial ownership complements monitoring through alignment of interests, but may also create entrenchment. Evidence from Indonesia shows that the effects of managerial ownership on earnings management and firm value are not always direct and may depend on other mechanisms (Indy et al., 2022, 2023; Rosyidah & Rahayu, 2024). This is consistent with Indy et al. (2023), who show that independent commissioners and audit committees are associated with firm value, that governance effects are also related to intellectual capital disclosure and that executive ownership has no direct impact on firm value but is associated with profitability, which in turn contributes to firm value.

The relationship between earnings management and firm value is also inconclusive. Some studies indicate that earnings management can reduce reporting credibility and increase information risk, whereas others show that market responses depend on the form of earnings management and the quality of corporate governance. Putra & Zifi (2022) find that the relationship between real earnings management and firm value is influenced by the independence of the executive board, while Tristianto & Ridha (2023) show that earnings management can act as an intervening variable in the relationship between corporate governance and firm value. Thus, earnings management should not only be viewed as an outcome of governance, but also as a potential transmission mechanism toward firm value.

Empirical evidence from Indonesian manufacturing firms indicates that firm value is influenced by multiple factors, while the effects of individual corporate characteristics are not always consistent. May & Susanto (2024), examining manufacturing firms listed on the Indonesia Stock Exchange during 2017–2019, found that profitability was positively associated with firm value, whereas liquidity was negatively associated. Leverage, firm size, and corporate social responsibility disclosure were not statistically significant. Similarly, Putri et al. (2025) reported that environmental, social, and governance (ESG) performance and capital structure did not have significant individual effects on firm value among Indonesian manufacturing firms during 2019–2023, although their joint effect was significant. These findings indicate that firm value cannot be adequately explained by a single corporate characteristic. Therefore, further investigation is needed to understand whether board characteristics influence firm value directly or indirectly through earnings management, which may affect the quality and credibility of financial information available to investors.

Although prior studies have provided extensive evidence on individual mechanisms, the literature remains fragmented. Most studies examine gender diversity, audit committee expertise, board skill, board independence, managerial ownership, earnings management, or firm value separately. Consequently, evidence remains limited on how these monitoring and alignment mechanisms operate simultaneously and

whether their effects on firm value are transmitted through financial reporting behavior. This study fills this gap by integrating governance characteristics into a framework of agency theory and positioning earnings management as a transmission mechanism between governance and firm value.

The objective of this study is to examine the effects of gender diversity, the professional competence of the audit committee, the qualifications of board members, the independence of the board, and managerial ownership on earnings management and firm value, as well as to examine the mediating role of earnings management in the relationships between board characteristics and firm value. The study is expected to extend the literature by linking board monitoring, human capital, independence, and incentive alignment within a single empirical framework, while providing implications for boards, audit committees, investors, and regulators in assessing governance effectiveness and financial reporting quality.

To address the identified research gap, this study examines the relationships between board characteristics, managerial ownership, earnings management, and firm value through three interconnected empirical models. The first model examines the effects of board characteristics and managerial ownership on earnings management. The second model investigates the effect of board independence on managerial ownership. The third model examines the effects of board characteristics, managerial ownership, and earnings management on firm value. Furthermore, the mediation role of earnings management is assessed by examining the indirect effects of board characteristics and managerial ownership on firm value through earnings management, based on the coefficient estimates from Models 1 and 3.

Accordingly, this study addresses the following research questions:

1. How are board characteristics and managerial ownership associated with earnings management among Indonesian manufacturing firms?
2. Does board independence influence managerial ownership among Indonesian manufacturing firms?
3. How are board characteristics, managerial ownership, and earnings management associated with firm value among Indonesian manufacturing firms?
4. Does earnings management mediate the relationships between board characteristics and managerial ownership and firm value among Indonesian manufacturing firms?

Literature Review and Hypothesis Development

Literature Review

Agency Theory, Board Characteristics, and Firm Value

Agency theory explains that the separation between ownership and control may create conflicts because managers' interests are not always aligned with shareholders' interests. Corporate governance mechanisms, including board gender diversity, audit committee expertise, board skills, and board independence, can strengthen monitoring, while managerial ownership may align managerial and shareholder interests (Fama & Jensen, 1983; Jensen & Meckling, 1976). In emerging markets such as Indonesia, concentrated ownership may also generate Type II agency conflicts between controlling and minority shareholders (La Porta et al., 1999; Claessens et al., 2000; Faisal et al., 2020), particularly when managerial ownership creates both interest alignment and managerial entrenchment. Resource dependence theory further suggests that board expertise provides valuable knowledge, advice, and access to external resources that may enhance firm value (Pfeffer & Salancik, 1978; Hillman & Dalziel, 2003), while signaling theory emphasizes the role of reported earnings in shaping investors' perceptions. Accordingly, earnings management may serve as a reporting mechanism through which governance characteristics influence firm value. These relationships should be interpreted within Indonesia's two-tier governance system, in which the Board of Directors manages the company and the Board of Commissioners supervises management; therefore, board characteristics examined in this study specifically refer to the Board of Commissioners.

Board Characteristics and Earnings Management

Board characteristics influence the quality of monitoring over managerial reporting decisions. Recent studies indicate that effective board composition can reduce information asymmetry and opportunistic reporting, although its effectiveness varies across countries and forms of earnings management (Alves, 2023; Alhossini et al., 2024). Evidence suggests that gender diversity, audit committee expertise, and board independence can constrain accrual-based manipulation, while stronger monitoring may encourage managers to substitute real activities manipulation for accrual-based earnings management. Zalata et al. (2022) further demonstrate that female directors' financial expertise is particularly relevant in limiting earnings management, highlighting the importance of professional competence alongside board diversity. In Indonesia, Rudyanto & Kusnadi (2025) find that audit committee status is negatively associated with real earnings management,

with a stronger association when female members are present. These findings emphasize that governance effectiveness depends not only on formal board composition but also on the substantive expertise and monitoring capabilities of boards and audit committees.

Board Independence and Managerial Ownership
Board independence and managerial ownership represent distinct but potentially complementary corporate governance mechanisms. Under agency theory, independent board members strengthen monitoring, whereas managerial ownership may align managers' interests with shareholders. However, their relationship is not straightforward because board independence reflects monitoring, while managerial ownership concerns managers' equity stakes. Evidence from Indonesian listed firms indicates that managerial ownership is positively associated with firm performance, but independent commissioners do not consistently strengthen this relationship (Jurnali et al., 2024). Recent research also highlights the importance of considering institutional context when evaluating the joint roles of independent commissioners and ownership structures in governance effectiveness (Satiti et al., 2026). Accordingly, further empirical examination is needed to determine whether board independence is positively associated with managerial ownership in the Indonesian context.

Hypothesis Development
Gender Diversity and Earnings Management
From an agency theory perspective, gender diversity can strengthen board monitoring and reduce opportunistic earnings management. Alves (2023) finds a negative association between gender diversity and earnings management in European Union firms, while Anh & Khuong (2022) highlight the importance of women's meaningful monitoring roles in emerging markets. However, evidence from Indonesian manufacturing firms remains inconsistent (Hasan & Lestari, 2024), although gender diversity may reinforce other governance mechanisms affecting reporting behavior (Hasan & Lestari, 2024; Arifin & Gantyowati, 2024). Thus, its effectiveness in constraining earnings management may depend on directors' substantive oversight roles and institutional context.
Therefore, the following hypothesis is proposed:
H1: Gender diversity has a negative effect on earnings management.

Audit Committee Expertise and Earnings Management
From an agency theory perspective, audit committee expertise strengthens financial reporting oversight and may constrain accrual-based earnings management. However, its effectiveness varies across earnings management strategies. Cheung & Adelopo (2022) find that financial expertise reduces accrual earnings management but increases real earnings management, while Cheung & Chung (2022) and Xia et al. (2024) show that its effects depend on expertise type and manipulation strategy. Indonesian evidence also indicates that audit committee expertise does not uniformly constrain earnings management (Mardianto & Novita, 2024). Since this study uses discretionary accruals, stronger audit committee expertise is expected to reduce accrual-based earnings management. Hence:
H2: Audit committee expertise has a negative effect on earnings management.

Board Skill and Earnings Management
According to agency theory, board skills strengthen monitoring by enabling directors to evaluate managerial decisions, scrutinize accounting judgments, and limit opportunistic earnings management. Adams et al. (2018) demonstrate that board skills are multidimensional, while Al-Shaer et al. (2024) highlight their role in shaping firm value through corporate strategy. Alam et al. (2025) further find that board expertise is positively associated with firm performance, particularly when combined with board independence. These findings suggest that relevant board skills enhance monitoring effectiveness and the ability to challenge managerial discretion, thereby potentially constraining earnings management. Thus:
H3: Board skill has a negative effect on earnings management.

Board Independence and Earnings Management
Agency theory suggests that independent directors are expected to strengthen objective monitoring and constrain opportunistic managerial reporting. However, independence alone may be insufficient without adequate information, expertise, and authority. Putra & Zifi (2022) show that board independence influences the relationship between real earnings management and firm value in Indonesian manufacturing companies, while emerging-market evidence suggests that independence can strengthen monitoring when supported by board expertise (Anh & Khuong, 2022; Putra & Zifi, 2022). These findings indicate that independent

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directors may reduce managerial discretion and earnings management, although their effectiveness depends on their substantive monitoring capabilities. Therefore:
H4: Board independence has a negative effect on earnings management.

Board Independence and Managerial Ownership
According to agency theory, independent commissioners strengthen monitoring, while managerial ownership aligns managers' interests with shareholders, making these mechanisms potentially complementary in reducing agency conflicts. Jiraporn & Nimmanunta (2018) find that greater board independence can increase managerial ownership, whereas other studies report mixed relationships depending on institutional settings and ownership characteristics (Pérez-Calero et al., 2019; Shan, 2019). In Indonesia, founder and family ownership structures may influence managerial shareholding, limiting the direct influence of independent commissioners. Nevertheless, the potential complementarity between monitoring and incentive alignment provides a theoretical basis for examining the relationship between board independence and managerial ownership. Therefore, the following hypothesis is proposed:
H5: Board independence has a positive effect on managerial ownership.

Earnings Management and Firm Value
From an agency theory perspective, firm value reflects investors' expectations regarding future cash flows, risk, governance quality, and reporting credibility. Opportunistic earnings management may temporarily improve reported performance but reduce information quality and increase information risk, potentially lowering firm value. However, market responses may differ between accrual-based and real earnings management. Putra & Zifi (2022) show that the relationship between real earnings management and firm value depends on board independence and the CEO's dual role, while Tristianto & Ridha (2023) and Setiawan et al. (2024) identify earnings management as a mediating mechanism between corporate governance and firm value. These findings suggest that earnings management transmits the effects of governance to market valuation, although its impact depends on the reporting practices involved. Accordingly, opportunistic discretionary accruals are expected to undermine reporting credibility and reduce firm value. Hence:
H6: Earnings management has a negative effect on firm value.

Managerial Ownership and Firm Value
According to agency theory, managerial ownership aligns managers' interests with shareholders, potentially reducing agency costs and enhancing firm value, although excessive ownership may lead to managerial entrenchment. Empirical findings remain mixed. Holly et al. (2022) find no direct effect of managerial ownership on firm value but report a negative association with earnings management. Similarly, Indy et al. (2023) and Lauw & Rahadian (2022) find no direct effect on firm value, although managerial ownership may influence firm value indirectly through profitability. Other Indonesian studies also indicate context-dependent relationships (Setiawan & Venona, 2023; Indriawati et al., 2023). Nevertheless, the incentive-alignment argument suggests that managerial ownership encourages managers to protect shareholders' long-term interests, thereby potentially increasing firm value. Thus:
H7: Managerial ownership has a positive effect on firm value.

Board Characteristics and Firm Value
From an agency theory perspective, board characteristics can enhance firm value by strengthening managerial monitoring, reducing agency costs, and increasing investor confidence. International and emerging-market evidence indicates that gender diversity, board expertise, skills, and independence influence firm value, although their effects vary across institutional contexts. Al-Shaer et al. (2024) show that board skills, independence, and gender composition interact with corporate strategy in explaining firm value, while Alam et al. (2025) find that board expertise improves firm performance, particularly when supported by board independence. However, Indonesian evidence remains mixed: Jayanti et al. (2023) report a negative association between gender diversity and firm value, whereas Anggraini and Lestari (2024) and Uzliawati (2025) provide evidence of the relevance of governance characteristics to firm value in Indonesian consumer-sector and banking firms, respectively. These findings suggest that governance effectiveness depends on specific board attributes and institutional conditions, while competent boards may create value through more effective oversight, informed decisions, and strategic guidance. Therefore, the following hypotheses are proposed:

H8: Gender diversity has a positive effect on firm value.
H9: Audit committee expertise has a positive effect on firm value.
H10: Board skill has a positive effect on firm value.
H11: Board independence has a positive effect on firm value.

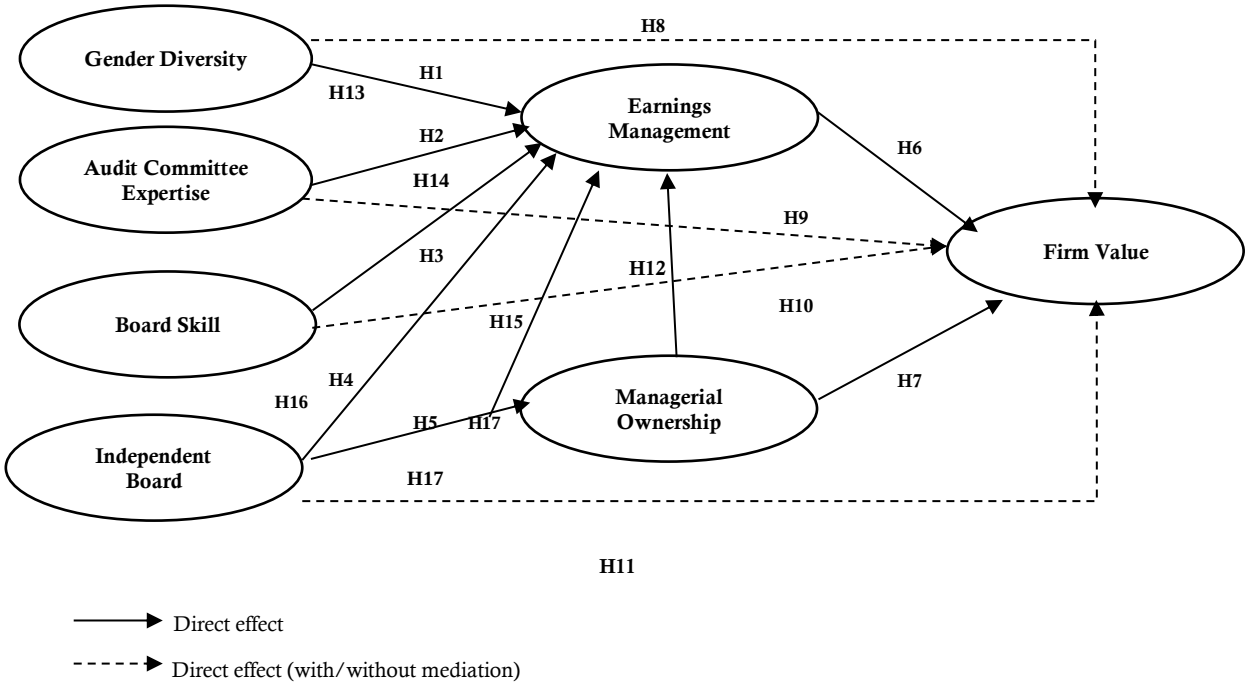
Managerial Ownership and Earnings Management
According to agency theory, managerial ownership may reduce earnings management because managers who own shares also bear the financial consequences of reporting manipulation, thereby aligning their interests with shareholders. Holly et al. (2022) find a negative and significant effect of managerial ownership on earnings management, while Rosyidah & Rahayu (2024) report an association between managerial ownership and earnings management in Indonesian food and beverage firms, influenced by audit quality and other factors. However, Sambora & Siahaan (2025) find that managerial ownership and audit committee characteristics do not significantly affect earnings management. Indy et al. (2022) further show that ownership structures and sustainability reporting are associated with earnings management, although managerial ownership does not consistently influence disclosure outcomes. These mixed findings suggest that the effect of managerial ownership depends on governance context; nevertheless, the alignment hypothesis predicts that greater managerial ownership will constrain opportunistic accrual choices. Hence:
H12: Managerial ownership has a negative effect on earnings management.

Earnings Management as a Mediating Mechanism
From an agency theory perspective, earnings management may serve as a transmission mechanism through which corporate governance affects firm value by influencing managerial reporting behavior and the credibility of financial information. Effective governance can constrain opportunistic earnings management, improve reporting quality, reduce information risk, and support firm valuation. Although Ivone & Alvina (2023) find that earnings management does not significantly mediate the CSR–firm value relationship, Holly et al. (2022), Tristianto & Ridha (2023), and Setiawan et al. (2024) highlight its potential mediating role between managerial ownership or corporate governance and firm value. Similarly, Indy et al. (2023) show that governance can influence firm value through an intermediate disclosure mechanism. Evidence from board characteristics further supports this argument: Zalata et al. (2022) emphasize the role of female directors' financial expertise in constraining earnings management, Saona et al. (2019) associate gender diversity with earnings management practices, and Cheung & Adelopo (2022) examine audit committee financial expertise in relation to accrual-based and real earnings management. Collectively, these findings suggest that governance characteristics may influence firm value indirectly through earnings management, although the strength of this mechanism depends on the governance attributes and reporting practices examined. Accordingly, this study proposes the following directional mediation hypotheses:
H13: Earnings management positively mediates the relationship between gender diversity and firm value.
H14: Earnings management positively mediates the relationship between audit committee expertise and firm value.
H15: Earnings management positively mediates the relationship between board skills and firm value.

Board Independence, Earnings Management, and Firm Value
According to agency theory, board independence strengthens managerial oversight and influences financial reporting practices, potentially affecting firm value indirectly through earnings management. However, this mediating relationship depends on how board independence affects earnings management and how earnings management relates to firm value. Putra & Zifi (2022) find that board independence moderates the relationship between real earnings management and firm value in Indonesian manufacturing firms. Although their study examines moderation rather than mediation, it highlights the relevance of board independence in determining how earnings management relates to firm value, providing a basis for examining whether earnings management mediates the relationship between board independence and firm value. Therefore, the mediating role of earnings management in the relationship between board independence and firm value is examined as follows:
H16: Earnings management mediates the relationship between board independence and firm value.

Board Independence, Managerial Ownership, and Firm Value
Board independence and managerial ownership represent distinct but potentially complementary corporate governance mechanisms. Independent commissioners perform a supervisory function, whereas managerial ownership may align managers' interests with those of shareholders. Jiraporn & Nimmanunta (2018) provide empirical evidence that increased board independence can lead to higher managerial ownership, suggesting that monitoring and ownership incentives may operate as complementary mechanisms.

However, the relationship is not universal. Pérez-Calero et al. (2019), in an international meta-analysis, show that the relationship between ownership structure and board independence varies according to ownership type and institutional context. These findings suggest that the indirect relationship between board independence and firm value through managerial ownership warrants empirical examination in the Indonesian manufacturing context. Accordingly, the following hypothesis is proposed:
H17: Managerial ownership mediates the relationship between board independence and firm value.



Notes: Solid arrows represent direct effects, while indirect paths represent mediation effects. H13–H17 represent the hypothesized mediation paths. The mediation paths involving Independent Board are reported as additional analyses.

Figure 1
Research Model

Methods

This study employs an explanatory quantitative design using secondary panel data from manufacturing firms listed on the Indonesia Stock Exchange during 2019–2024. The unit of analysis is the firm-year observation. Samples are selected using purposive sampling based on firms that remained listed throughout the observation period, published annual reports and audited financial statements, disclosed information on the board, audit committee, and managerial ownership, and provided the market data required to measure Firm value. Data are obtained from annual reports, audited financial statements, and relevant market data.

In accordance with Indonesia's two-tier board system, the Board of Directors is responsible for company management, whereas the Board of Commissioners performs the supervisory function. In this study, gender diversity, audit committee expertise, and board skills are measured according to their respective operational definitions, with gender diversity and board skills referring specifically to the Board of Commissioners. Board independence is measured as the proportion of independent commissioners relative to the total number of commissioners. The operational definitions and measurements of all variables are presented in Table 1.

Table 1
Operational Definitions and Measurements

Variable	Code	Measurement
Gender Diversity	GD	Female commissioners/total commissioners
Audit Committee Expertise	ACE	Audit committee members with accounting, finance, or auditing expertise/total members
Board Skill	BS	Commissioners with relevant professional skills/total commissioners
Independent Commissioners	IB	Number of Independent commissioners/total number of commissioners
Managerial Ownership	MO	Shares owned by management / total shares outstanding
Earnings Management	EM	Discretionary accruals estimated from Modified Jones Model
Firm Value	FV	Tobin's Q = (market value of equity + book value of debt) / book value of assets

Source: Developed by the authors (2026)
Note: For Board Skill, a commissioner is classified as possessing relevant professional skills when the annual report provides evidence of professional qualifications, expertise, or work experience relevant to corporate oversight, such as accounting, finance, auditing, risk management, business management, or the company's industry. Each commissioner is coded as 1 if the predefined criteria are met and 0 otherwise. The Board Skill score is calculated as the number of commissioners meeting these criteria divided by the total number of commissioners. Earnings management is measured using signed discretionary accruals estimated from the Modified Jones Model. Positive values indicate income-increasing discretionary accruals, whereas negative values indicate income-decreasing discretionary accruals.

The data were analyzed using STATA through descriptive statistics, correlation analysis, and multicollinearity tests. The panel data model was selected using the Chow test, the Hausman test, and the Lagrange Multiplier test. Heteroskedasticity, autocorrelation, and cross-sectional dependence are assessed, and robust or clustered standard errors are applied where appropriate.

The research model contains three main endogenous variables, namely Earnings Management, Managerial Ownership, and Firm Value. The statistical testing is structured as follows:

Model 1: $EMit=\alpha+\beta1GDit+\beta2ACEit+\beta3BSit+\beta4IBit+\beta5MOit+\mu i+\lambda t+\varepsilon it$

Model 2: $MOit=\alpha+\beta1IBit+\mu i+\lambda t+\varepsilon it$

Model 3: $FVit=\alpha+\beta1GDit+\beta2ACEit+\beta3BSit+\beta4IBit+\beta5MOit+\beta6EMit+\mu i+\lambda t+\varepsilon it$

The mediating role of Earnings Management is examined through the hypothesized indirect paths. In addition, mediation analyses examine the indirect effects of Independent Board on Firm value through Earnings Management and Managerial Ownership.

Research Results

Descriptive Statistics

Table 2 presents the descriptive statistics of the governance characteristics, earnings management, and firm value of the sampled companies. Gender Diversity has a mean of 0.12, indicating that female representation on the board remains relatively low. Audit Committee Expertise and Board Skill have mean values of 0.67 and 0.58, respectively, suggesting that the proportions of audit committee members with relevant expertise and board members with professional skills vary across firms. Independent Board has a mean of 0.38, with a standard deviation of 0.09, indicating variation in the proportion of independent commissioners among the sampled companies.

Managerial Ownership has a mean of 12.50% and a standard deviation of 18.40%, with values ranging from 0.00% to 85.00%. These figures indicate substantial differences in managerial share ownership across firms. Earnings Management has a mean of 0.02, ranging from -0.18 to 0.21, with a standard deviation of 0.07, reflecting variation in earnings management practices across observations. Firm value, measured by Tobin's Q, has a mean of 1.42 and a standard deviation of 0.68, ranging from 0.45 to 3.80.

Overall, the descriptive statistics indicate heterogeneity in corporate governance characteristics, managerial ownership, earnings management, and firm value. These variations provide a basis for further analysis of the relationships among governance mechanisms, earnings management, managerial ownership, and firm value.

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Table 2
Descriptive Statistic Results

Variable	Min	Max	Mean	Std. Dev.
Gender Diversity	0.00	0.50	0.12	0.15
Audit Committee Expertise	0.33	1.00	0.67	0.18
Board Skill	0.00	1.00	0.58	0.22
Independent Board	0.30	0.67	0.38	0.09
Managerial Ownership	0.00	85.00	12.50	18.40
Earnings Management	-0.18	0.21	0.02	0.07
Firm Value	0.45	3.80	1.42	0.68

Source: Processed Data (2026)

Panel Data Regression Model Selection

The sample was selected using purposive sampling. From the initial population of 62 industrial manufacturing companies listed on the Indonesia Stock Exchange, 17 companies were excluded due to incomplete annual reports, while another 18 were excluded because their research variable data were incomplete. Consequently, 27 companies met the selection criteria, resulting in 162 firm-year observations for the 2019–2024 period.

To identify the most appropriate estimation model, the Lagrange multiplier (LM) test, the Chow test, and the Hausman test were conducted, taking into account three alternative models: the common-effects model (CEM), the fixed-effects model (FEM), and the random-effects model (REM).

The LM Test is significant for all three models ($p < 0.01$), indicating that REM is preferable to CEM. The Chow Test also produces significant results ($p < 0.01$) across all models, suggesting that FEM is preferable to CEM. Based on the Hausman Test, Model 1 and Model 2 report probability values of 0.198 and 0.517, respectively, supporting the use of REM. In contrast, Model 3 reports a probability value of 0.000, indicating that FEM is more appropriate. Accordingly, Model 1 and Model 2 are estimated using the Random Effect Model, while Model 3 is estimated using the Fixed Effect Model.

Direct Effects

The direct-effect analysis examines the relationships among corporate governance mechanisms, Earnings Management, Managerial Ownership, and Firm Value. The estimation results are presented in Table 3.

Table 3
Direct Effect Results

Model	Exogenous Variable	Coefficient	Z-statistic	Two-tailed p-value
Model 1 – EM	Gender Diversity	-0.038	-2.110	0.035**
	Audit Committee Expertise	0.027	2.360	0.018**
	Board Skill	0.048	2.060	0.039**
	Independent Board	-0.051	-2.420	0.016**
	Managerial Ownership	-0.035	-1.720	0.085*
	Observation (N)	162	-	-
	R-square	0.284	-	-
	Wald-Statistic	24.68	-	-
Model 2 – MO	Independent Board	0.336	4.360	0.000***
	Observation (N)	162	-	-
	R-square	0.126	-	-
	Wald-Statistic	19.01	-	-
Model 3 – FV	Gender Diversity	0.026	2.220	0.026**
	Audit Committee Expertise	0.033	2.100	0.036**
	Board Skill	0.040	2.520	0.012**
	Independent Board	-0.057	-3.710	0.000***
	Earnings Management	0.823	13.510	0.000***
	Managerial Ownership	0.024	1.690	0.091*
	Observation (N)	162	-	-
	R-square	0.347	-	-
	Wald-Statistic	48.72	-	-

Significant: p < 0.01*, p < 0.05** and p < 0.1***
Source: Authors' Calculation (2026)

Table 3 presents the direct effect results using two-tailed p-values. In Model 1, Gender Diversity and Independent Board are negatively associated with Earnings Management, whereas Audit Committee Expertise and Board Skill are positively associated with Earnings Management. Managerial Ownership is negatively associated with Earnings Management at the 10% significance level.

In Model 2, Independent Board is positively associated with Managerial Ownership (β = 0.336, p < 0.001). In Model 3, Gender Diversity, Audit Committee Expertise, Board Skill, and Earnings Management are positively associated with Firm value, whereas Independent Board is negatively associated with Firm value. Managerial Ownership is positively associated with Firm value at the 10% significance level. Hypothesis support is assessed by considering both the direction of the estimated coefficient and its two-tailed statistical significance.

Although Earnings Management is positively and statistically significantly associated with Firm value (β = 0.823, z = 13.510, p < 0.001), the economic magnitude of this relationship requires careful interpretation. Table 2 reports a standard deviation of 0.07 for Earnings Management and 0.68 for Firm value. Based on the reported coefficient, a one-standard-deviation increase in Earnings Management corresponds to an estimated increase of approximately 0.058 units in Firm value, equivalent to about 8.5% of one standard deviation of Firm value. This interpretation assumes that the reported coefficient and descriptive statistics use consistent measurement scales. The variable construction and model specification should therefore be verified before drawing conclusions about the economic significance of this association.

Indirect Effects

The indirect-effect analysis examines whether Earnings Management and Managerial Ownership act as mechanisms linking board characteristics to Firm value.

Table 4
Indirect Effect Results

Exogenous Variable	Mediator	Endogenous Variable	Indirect Coefficient	Z Statistic	P-Value	Two-tailed p-value
Gender Diversity	Earnings Management	Firm Value	-0.031	-2.105	0.033	0.035**
Audit Committee Expertise	Earnings Management	Firm Value	0.022	2.350	0.019	0.019**
Board Skill	Earnings Management	Firm Value	0.041	2.064	0.039	0.039**
Independent Board	Earnings Management	Firm Value	-0.043	-2.378	0.017	0.017**
Independent Board	Managerial Ownership	Firm Value	0.009	1.632	0.103	0.103

Significant: p < 0.01*, p < 0.05** and p < 0.1***
Source: Authors' Calculation (2026)

Table 4 presents the indirect effects of board characteristics on firm value through earnings management and managerial ownership, using two-tailed p-values. The results show that earnings management significantly mediates the relationship between gender diversity and firm value (β = -0.031, z = -2.105, p = 0.035). Similarly, earnings management mediates the relationships between audit committee expertise and firm value (β = 0.022, z = 2.350, p = 0.019) and between board skill and firm value (β = 0.041, z = 2.064, p = 0.039). These findings indicate that earnings management serves as an indirect pathway linking these governance characteristics to firm value, although the direction of the indirect effect differs across variables.

The indirect effect of independent board on firm value through earnings management is also statistically significant but negative (β = -0.043, z = -2.378, p = 0.017). In contrast, the indirect effect of independent board on firm value through managerial ownership is positive but statistically insignificant (β = 0.009, z = 1.632, p = 0.103). Therefore, the results do not support the mediating role of managerial ownership in the relationship between independent board and firm value. Overall, the findings support the mediating role of earnings management in the four reported relationships, whereas the mediation through managerial ownership is not supported.

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Mediation Analysis

To further examine the role of the mediating variables, the direct and indirect effects were compared.

Table 5
Summary of Mediation Results

Relationship	Mediator	Direct Effect	Indirect Effect	Conclusion
Gender Diversity → Firm Value	Earnings Management	Positive, significant	Negative, significant	Competitive Mediation
Audit Committee Expertise → Firm Value	Earnings Management	Positive, significant	Positive, significant	Partial Mediation
Board Skill → Firm Value	Earnings Management	Positive, significant	Positive, significant	Partial Mediation
Independent Board → Firm Value	Earnings Management	Negative, significant	Negative, significant	Partial Mediation (Additional Analysis)
Independent Board → Firm Value	Managerial Ownership	Negative, significant	Positive, not significant	No Mediation

Source: Authors' Calculation (2026)

Table 5 summarizes the mediation results based on the direct and indirect effects reported in Tables 3 and 4. Earnings Management exhibits a competitive mediation pattern in the relationship between Gender Diversity and Firm Value because the direct effect is positive, whereas the indirect effect is negative. In contrast, the relationships involving Audit Committee Expertise and Board Skill exhibit partial mediation, with positive and statistically significant direct and indirect effects. The relationship between Independent Board and Firm Value also exhibits partial mediation through Earnings Management, as both the direct and indirect effects are negative and statistically significant.

However, Managerial Ownership does not mediate the relationship between Independent Board and Firm Value because its indirect effect is statistically insignificant ($\beta = 0.009$, $z = 1.632$, $p = 0.103$, two-tailed). Overall, the findings indicate that the mediating role of Earnings Management varies across governance mechanisms. These results provide only partial support for the conventional agency-theory expectation that governance mechanisms consistently improve firm value by constraining earnings management. The positive association between Earnings Management and Firm Value, together with the positive associations of Audit Committee Expertise and Board Skill with Earnings Management, requires cautious interpretation and further investigation.

Discussion & Conclusion

Discussion

Board Characteristics and Earnings Management

Agency theory suggests that board diversity and independence can strengthen monitoring and constrain managerial discretion. Consistent with this view, gender diversity and board independence are negatively associated with earnings management. Female commissioners may broaden board perspectives, while independent commissioners can strengthen oversight; however, their effectiveness depends on meaningful participation, access to information, and the ability to challenge management. This is particularly important in Indonesia's two-tier governance system, where the Board of Commissioners supervises the Board of Directors. These findings are consistent with Attia et al. (2024) and highlight that formal board composition alone does not guarantee effective monitoring.

In contrast, audit committee expertise and board skills are positively associated with earnings management, suggesting that professional competence does not automatically translate into effective oversight. Expertise may be applied differently depending on monitoring practices, business priorities, and managerial discretion. Cheung & Adelopo (2022) similarly show that audit committee financial expertise may have different associations with accrual-based and real earnings management. Because this study examines discretionary accruals, the possibility that managers use other forms of earnings management remains untested. From a resource dependence perspective, board expertise provides valuable knowledge and resources, but its effectiveness depends on how these capabilities are used in monitoring and decision-making.

Board Independence and Managerial Ownership
Board independence may be associated with managerial ownership because independent commissioners perform a monitoring function that can influence the design and implementation of managerial incentive mechanisms. From an agency theory perspective, managerial ownership may align managers' interests with those of shareholders by giving managers a direct financial stake in firm performance. However, the relationship between board independence and managerial ownership may depend on the company's ownership structure and governance practices. Therefore, independent oversight does not necessarily translate into higher managerial ownership in every firm. The empirical findings should be interpreted in light of the estimated coefficient and its statistical significance.

Earnings Management and Firm Value
The positive association between earnings management and firm value contrasts with agency theory, which suggests that opportunistic reporting may undermine information credibility and shareholder interests. However, earnings management may influence market valuation differently depending on information asymmetry and how investors interpret reported earnings (Chaney & Lewis, 1995; Garanina, 2024). This association does not establish that earnings management increases firm value or that investors perceive it as beneficial.

Interpretation also depends on the measurement of earnings management. When signed discretionary accruals are used, a positive coefficient may reflect income-increasing accrual adjustments rather than the overall extent of manipulation. Hernawati et al. (2021) emphasize the importance of distinguishing the interpretation of positive and negative discretionary accruals. Therefore, further robustness tests using alternative measures are needed to determine whether the observed relationship reflects the direction of accrual adjustments or opportunistic reporting.

Managerial Ownership and Firm Value
Agency theory suggests that managerial ownership can align managers' interests with those of shareholders and potentially reduce conflicts of interest. Nevertheless, higher managerial ownership does not automatically increase firm value because its implications depend on the level of ownership and the extent to which managerial interests remain aligned with those of outside shareholders. In this study, the relationship between managerial ownership and firm value should therefore be interpreted based on the empirical evidence rather than assuming that ownership alignment necessarily improves market valuation. This interpretation recognizes that managerial ownership is a governance mechanism whose effectiveness may vary across firms.

Board Characteristics and Firm Value
The positive associations of gender diversity, audit committee expertise, and board skills with firm value suggest that diverse perspectives and professional expertise may enhance oversight and strategic decision-making. From a resource dependence perspective, board members provide specialized knowledge and resources that support value creation. Al-Shaer et al. (2024) demonstrate that the relationship between board characteristics and firm value depends on corporate strategy, while Alam et al. (2025) report a positive relationship between board expertise and firm performance. These findings support the view that board competencies can contribute to firm value, although their effectiveness depends on how expertise is applied in practice.

Conversely, board independence is negatively associated with firm value, indicating that formal independence does not necessarily translate into effective monitoring or higher market valuation. This finding contrasts with the expected monitoring benefits of independent commissioners and highlights the importance of institutional context. Indonesian evidence also reports mixed relationships between board characteristics and firm value (Jayanti et al., 2023; Anggraini & Lestari, 2024; Uzliawati, 2025). Therefore, the negative association should not be interpreted as evidence that independent commissioners inherently reduce firm value. Rather, it suggests that board composition alone may not capture the quality of oversight, access to information, or commissioners' ability to challenge management.

Managerial Ownership and Earnings Management
From an agency theory perspective, managerial ownership may reduce earnings management by aligning managers' financial interests with those of shareholders and encouraging decisions that support the firm's long-term interests. However, managerial ownership may also provide managers with greater influence over corporate decisions and financial reporting. Consequently, its relationship with earnings management is not necessarily uniform across firms. The empirical findings should be interpreted by considering whether managerial ownership functions primarily as an incentive-alignment mechanism or whether managerial

influence may weaken monitoring. This distinction helps explain why ownership incentives alone may not guarantee more reliable financial reporting.

The Mediating Role of Earnings Management and Managerial Ownership

The mediation findings indicate that earnings management represents an important pathway through which board characteristics are associated with firm value. This suggests that governance mechanisms may influence market valuation not only through their direct relationships with firm value but also through their association with managerial reporting discretion. Consistent with this interpretation, Setiawan et al. (2024) examine earnings management as a mediator between corporate governance and firm value in Indonesian manufacturing companies. However, the indirect effects in the present study differ in direction across board characteristics. Gender diversity has a negative indirect relationship with firm value through earnings management, whereas audit committee expertise and board skills have positive indirect relationships. These differences reflect the combined effects of each governance characteristic on earnings management and the association between earnings management and firm value. Thus, professional expertise may provide valuable resources, but its implications for firm value depend partly on how it relates to financial reporting practices.

The negative indirect relationship between board independence and firm value through earnings management further demonstrates the complexity of governance mechanisms. Because board independence is negatively associated with earnings management while earnings management is positively associated with firm value in the estimated model, the resulting indirect effect is negative. This statistical pattern should not be interpreted as evidence that reducing earnings management decreases firm value. Rather, the positive association between earnings management and firm value requires cautious interpretation, particularly because signed discretionary accruals may capture the direction of accrual adjustments rather than the overall degree of opportunistic reporting. Accordingly, the mediation result identifies an indirect statistical pathway but does not establish a causal mechanism.

In contrast, the indirect relationship between board independence and firm value through managerial ownership is not statistically significant. This suggests that managerial ownership does not provide sufficient evidence of a mediating mechanism in this relationship, although it may serve other governance functions. For example, Lubis et al. (2025) find that managerial ownership moderates the relationship between leverage decisions and firm value in Indonesian firms, illustrating that its role may depend on the corporate decision being examined. Overall, the findings distinguish the reporting-related pathway through earnings management from the ownership-related pathway through managerial ownership. This distinction contributes to a more nuanced understanding of how supervisory structures and ownership incentives relate to firm value in Indonesia.

Conclusion

This study finds that board characteristics are associated with earnings management and firm value in Indonesian manufacturing companies. Gender diversity, audit committee expertise, and board skills are positively associated with firm value, whereas board independence is negatively associated with it. Earnings management shows a positive association with firm value and mediates the relationship between board characteristics and firm value, while managerial ownership does not mediate the relationship between board independence and firm value.

These findings highlight that formal governance structures do not always ensure effective monitoring. Companies should strengthen board oversight and financial reporting quality. However, the findings should be interpreted cautiously because the study focuses on Indonesian manufacturing companies and uses observational data. Future research could examine other sectors and address potential endogeneity.

Theoretical and Practical Implications

This study integrates Agency Theory, Resource Dependence Theory, and Signaling Theory to explain the relationships between board characteristics, earnings management, and firm value. The findings indicate that formal governance structures and professional expertise do not always ensure effective monitoring, while the positive association between earnings management and firm value should not be interpreted as evidence that earnings manipulation is beneficial.

Practically, companies should strengthen board oversight, ensure meaningful participation of commissioners, and improve audit committee scrutiny and financial reporting quality. Investors should assess board competencies alongside reporting credibility, while regulators should emphasize governance effectiveness rather than formal compliance alone. These implications should be interpreted within the study's sample and observational design.

Limitations & Future Research

This study has several limitations that should be considered when interpreting the findings. First, the study focuses only on manufacturing firms listed on the Indonesia Stock Exchange during 2019–2024. Therefore, the findings may not fully represent firms in other industries or institutional settings. Second, the study uses a relatively limited set of board characteristics to capture corporate governance, while other governance mechanisms may also influence earnings management and firm value. Third, earnings management is measured based on the accrual basis of accounting, which means that management decisions affecting actual operating activities may not be fully captured.

Based on these limitations, future research could extend the sample to other industries and countries to examine whether the findings remain consistent across different institutional environments. Future studies could also incorporate additional governance mechanisms, such as board tenure, ownership concentration, institutional ownership, or audit committee characteristics. Furthermore, distinguishing between accrual-based and real earnings management could contribute to a more comprehensive understanding of how corporate governance affects management's reporting behavior and, ultimately, firm value.

From a practical perspective, the findings suggest that manufacturing companies should focus on the effectiveness of corporate governance mechanisms rather than merely complying with formal requirements. Boards of commissioners and audit committees should strengthen their oversight of managerial reporting practices and assess the credibility of reported earnings. Companies should also evaluate whether board diversity, expertise, and skills contribute to effective monitoring and long-term value creation. For investors, these findings highlight the importance of considering corporate governance characteristics and earnings quality, alongside financial performance, when assessing firm value. These recommendations should be interpreted in the context of the Indonesian manufacturing sector and the specific findings of this study.

Declaration of Generative AI Use

The authors report that generative AI (ChatGPT, GPT-5.6 Luna) was used during the preparation of this manuscript to assist with language refinement, organization of the manuscript, and improvement of clarity and readability. Generative AI was used only as a supporting tool and did not replace the authors' responsibility for the research design, data analysis, interpretation of results, academic judgments, or conclusions. The authors reviewed and verified all AI-assisted content and take full responsibility for the final content of the manuscript.

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