Journal of Advanced Multidisciplinary Research
Vol. 4, No. 2, 2023, pp. 46-67

ISSN: 2723-6978
http://jurnal.unissula.ac.id/index.php/JAMR
DOI: http://dx.doi.org/10.30659/JAMR.4.2.46-67

The impact of family control and CEO duality on earning management: The mediating role of corporate commitment to business ethics

Indri Kartika*, Lisa Kartikasari
Department of Accounting, Faculty of Economics, Universitas Islam Sultan Agung, Semarang, Indonesia

*Corresponding Author
Jalan Raya Kaligawe KM, Terboyo Kulon, Kec. Genuk, Semarang City, Central Java 50112, Indonesia
Tel: +62 8122936550, Email: indri@unissula.ac.id

Received:	Revised:	Accepted:	Published:
29 October 2023	21 December 2023	29 December 2023	31 December 2023

Abstract

Earnings management is a practice that often occurs in companies, especially in family companies where most stakeholders focus more on profit information. Management always tries to maintain consistent profit figures to gain positive perceptions from stakeholders. Companies controlled by families can take riskier business decisions to maintain the family business socio-emotionally, such as being able to manage and maintain the image well, even though this affects business management. Some studies have examined earnings management in family companies, but only a few have examined the role of corporate commitment to business ethics in creating ethical financial reporting behavior in companies. The sample of this research was 541 manufacturing companies listed on the Indonesian Stock Exchange in 2019-2021 which were analyzed using Multiple Linear Regression Analysis. The research results showed that family ownership and CEO duality have a positive effect on earnings management, but the family members on board have no effect on earnings management. Corporate commitment to business ethics can moderate by strengthening the relationship between family ownership and CEO duality on earnings management, but cannot moderate the relationship between family members on board on earnings management. Investors need to consider aspects of family ownership concentration and CEO duality to see the potential for earnings management.

Keywords: *Earnings Management; Family Ownership; Family Member on Board; CEO Duality, Corporate Commitment to Business Ethics.*

INTRODUCTION

Financial reports are very important because they can be considered an intrinsic part of a company's information, which can show its performance results (Lari Dashtbayaz et al., 2019). The purpose of financial reports is to provide information that is useful for decision-making by investors and creditors (Jarva et al., 2019). Profit information in financial reports is often the focus for measuring management performance. This can trigger earnings management practices (García-Sánchez & Martínez-Ferrero, 2016) and this is an important issue in accounting studies (Mindzak & Zeng, 2018).

Management will attempt to maintain consistency in profit figures by increasing or decreasing the cash value of the reserve account rather than describing exceptionally good or bad earnings over the years (Ung et al., 2018). This influences investors' decisions as well as the ability to attract resources which can influence various stakeholders (Borralho et al., 2020).

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According to Lassoued et al., (2017), managers use earnings management opportunistically for their own personal gain rather than for the interests of shareholders. This is because there is a gap in the incentives of managers and shareholders which can encourage managers to use the flexibility of accounting standards to manage profits.

Previous research explains that earnings management is influenced by several factors, including family ownership. In most countries including Asia, the family is the most common type of controlling shareholder. The most common family ownership is characterized by the family as the controlling owner (Chi et al., 2015b). In family companies, family wealth is closely related to company prosperity (Chi et al., 2015b). According to Baatour et al., (2017) and Kumala & Siregar, (2021), family companies usually build trusting relationships with stakeholders to maintain their reputation (García-Sánchez & Martínez-Ferrero, 2016). This is why they tend to present lower levels of earnings management (Prencipe et al., 2008 and Prencipe et al., 2011). Stakeholders in family businesses also need reliable financial information, because they will be disadvantaged in earnings management situations. Family businesses are less likely to use these unethical practices, especially given exposure to the financial press and the business's closeness to consumers. This is supported by research by Borralho et al., (2020), that family companies are less susceptible to earnings management practices than non-family companies, and the relationship between family company status and earnings management is moderated by company generation.

On the other hand, the family as controlling shareholder has wider access to information than minority shareholders, which causes an increase in information asymmetry between controlling shareholders and minority shareholders (Kumala & Siregar, 2021). In a family entity, agency problems occur between the majority shareholder, namely the family, and the minority shareholders (Al-Okaily et al., 2020; Paiva et al., 2016b). This is because company management was handled by the family, they will side with the family's interests. Company management will use asymmetric information within the organization to control the profits of controlling shareholders even though it can be detrimental to minority shareholders. Managers will utilize information to expropriate minority shareholders through earnings management practices (Feki Cherif et al., 2020; Tian et al., 2018). According to Chi et al., (2015), Ding et al., (2011), and Paiva et al., (2019), earnings management actions are more intensely carried out by family entities compared to non-family entities. (Martin et al., 2016) stated that family entities in Indonesia are more aggressive in carrying out earnings management.

Hashmi et al., (2018) and Tee & Kasipillai, (2022) believed that in family companies whose management structure is dominated by family members, family members generally not only have the status of owners but also occupy company management positions (or known as family members on board). This causes family members to have greater control over company policies so that they can reduce conflicts between owners and managers. However, on the other hand, the role of dominant family members can lead to conflict between majority and minority shareholders.

Previous research analyzing earnings management practices in family companies has carried out several studies, including Gavana (2022) that family companies in Italy manage profits through related transactions. Ansari, et al (2021) stated that family companies in France, Germany and the United Kingdom that reappointed a founder CEO were not indicated to have carried out earnings management, but this is not the case for family companies that did not appoint a founder CEO. Cherif & Salma (2020) researched family companies in France tend to carry out earnings management. Okaily (2020) found that family ownership in the UK has a negative effect on earnings management. Boralho, et al (2017) showed that family companies in Spain are less prone to practicing earnings management. Abdullah & Ismail (2016) confirmed that family ownership

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in Malaysia has no effect on earnings management. Paiva et al (2016) conducted empirical studies based on firms from China and Taiwan and suggest that family ownership is associated with a higher earnings management. Chi, et al (2015) showed that CEO duality interacts with family ownership to increase earnings management. Martin et al (2014) emphasized that family companies have a lower tendency to carry out earnings management compared to non-family companies. Furthermore, Jiraporn & DaDalt (2009) found that family ownership has a negative effect on earnings management.

Differences in ownership concentration and institutional environment may account for this diversity in findings (Paiva et. al, 2016). While Chi et al. (2015) argues that the relatively high concentration of corporate ownership, weakness of legal systems, lower transparency in financial reporting and ineffectiveness of corporate governance mechanisms in East Asia. This research tries to use the Corporate Commitment to Business Ethics variable as a variable that can moderate the influence of family control on earnings management. This is based on Guendez & Guijaro (2018) that there are environmental factors, namely culture, that can curb earnings management. Besides that, Yaser & Ibrahim (2019) noted that accounting ethics has a positive effect on ethical behavior and professional attitudes. Thus, if Corporate Commitment to Business Ethics is high, it can reduce the negative influence of family control on earnings management.

It is hoped that this research can contribute to providing research references in the field of financial accounting, especially earnings management practices in manufacturing companies in Indonesia with family ownership. Besides that, it can also be a reference for investors and creditors in making investment decisions in family companies.

Agency Theory, Socioemotional Wealth (SEW) Theory, Family Ownership, Family Members on Board, CEO Duality, Corporate Commitment to Business Ethics, Size, Profitability, and Leverage

Agency Theory explains the relationship between shareholders and management. Jensen and Meckling (1976) defines two parties between shareholders as job givers to managers who carry out orders. Shareholders hope to get a return commensurate with what they have invested, this is inversely proportional to what is done by managers who do not always follow the directions of shareholders. These differences in interests will give rise to agency problems where managers will make policies that will benefit one-sidedly and ignore the interests of shareholders, which is called agency conflict (SH Kim & An, 2018).

Family companies have quite low agency conflicts with managers. Supervision becomes easier because the family has the right to control the company. This is because in family companies, management is generally dominated by family members, which can reduce agency costs (Huu Nguyen et al., 2020). Public companies in Asia have a concentrated ownership structure in family ownership (SH Kim & An, 2018; Kumala & Siregar, 2021; Tee & Kasipillai, 2022) so that the family will easily control management to obtain private benefits.

Socioemotional Wealth Theory first proposed by Gómez-Mejía et al. (2007) that explained the combination of two different systems implemented in family businesses. The goal of the first system must be non-economic, namely maintaining emotional relationships between families by maintaining harmony and maintaining the good name of the family from generation to generation, while the goal of the second system is a two-pronged business-oriented economy. The goal is assumed to be to meet the family's affective needs, which is called socioemotional wealth (Gómez-Mejía et al., 2007).

Socioemotional Wealth Theory explains that in every decision making, the choices made by the company depend on the family as shareholders who try to maintain their investment.

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Social-emotional well-being is an important family business skill because it can influence family company performance. Family company can make riskier business decisions to maintain the socio-emotional family business, such as being able to manage and maintain a good name, even though it affects the management of the business. Thus, it can be concluded that family company is more willing to take higher risks of adverse outcomes to maintain their socio-emotional wealth.

Sitanggang et al., (2020) defined earnings management as conscious managerial intervention in the process of determining earnings, usually to achieve personal goals. Earnings management can be cosmetic when managers manipulate accruals that have no cash flow. Earnings management can be done using a real or accrual approach. The accrual approach is carried out by taking advantage of the flexibility of selecting accounting methods. Accounting standards provide various alternative accounting methods, and managers can choose methods that can produce profits as expected (Purba and Umboh, 2021). Real profit management can be seen when managers choose activities that influence cash flow to change income, including overproducing to reduce unit costs, providing discounts, reducing discretionary expenses, and so forth.

Family ownership is defined as the percentage of shares owned by family members (San Martin Reyna, 2018). Family ownership is defined as any business involving two or more family members and where the majority of ownership or control resides in the family. Family businesses are perhaps the oldest form of business organization. Family Members on Board is defined as when family members in a company not only become owners but also become part of the company's management or management structure. CEO Duality is defined as someone who has two positions simultaneously in the company, namely as Chairman of the Board (Board of Commissioners) and Chief Executive Officer (Board of Directors). CEO duality occurs if one person occupies the position of CEO and chairman and is defined as non- CEO duality if the positions are separated (Tshipa et al., 2018). Business ethics is often limited to philosophical theories relating to right or wrong decisions. A survey of definitions found the most frequently mentioned rules, standards and moral principles for business ethics (Ferrell et al., 2019).

Firm size is used as a control variable in this research. Firm size is used as a scale to determine the firm size. Firm size is important for investors because a company that has high total assets is more attractive in the eyes of investors. According to (Jihadi et al., 2021), profitability ratios show how well a company uses its assets to generate profits and value for shareholders. Profitability ratios show a company's ability to generate revenue against costs during a certain period. The ratio reveals how well a company utilizes its assets to generate profits. Return on assets (ROA) is a profitability ratio that shows how much profit a company can generate from its assets. Leverage is calculated as total debt over total assets. Leverage is used as a control for the level of financial risk in the model. Financial risk is the uncertainty associated with any form of financing. With a solid capital structure, a company can more easily access financial resources, and the ability to finance growth can be reduced by high leverage (Ergün & Doruk, 2020).

HYPOTHESIS DEVELOPMENT

Family Ownership and Earnings Management

According to Salehi, Hoshmand and Rezaei Ranjbar (2019), the family controls the business and has significant influence in the business, which is reflected in the composition of the board and shareholdings of family members. Family companies own the largest shares, with some members owning at least 50 percent of the company. Due to the high share of ownership, the wealth of family members is closely related to firm value. Therefore, family members are not only concerned with personal gain (Salehi et al., 2019), but will also emphasize mutual benefits (Tai,

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2017). Apart from that, family ownership in the company also has a big influence on management decisions (Matzler et al., 2015).

Charbel et al., 2013 and Cheng (2014) shows that the owners and management of family companies believe that the business is an asset that is passed down from generation to generation. According to the Socioemotional Wealth Theory, company owners consisting of family members have a strong desire and drive to always provide the best image for each generation. Business owners and managers' concern about this can also increase the company's motivation to achieve company goals through better financial reporting (Greco et al., 2015). The company maintains its reputation so that earnings management in family companies tends to be low. Therefore, the hypothesis in this research is formed as follows:

H1: Family ownership has a negative effect on earnings management

Family Members on Board and Earnings Management

Beuren et al., (2016) explained that the participation of family members in managing the company is one of the characteristics of a family company. Family commitment and dedication in business is something that is difficult to imitate in a company. A consistent vision of a family company can open up more opportunities for business development and sustainable business success (Le Breton-Miller and Miller 2015;Memili et al. 2018;Frank et al. 2019). This can also produce more unified leadership and increase solidarity within and between all family members who carry out the company's long-term perspective.

The involvement of family members in management can influence creative decision making and the development of management strategies. Family involvement also allows for a concentration of power that can organize and run the company more effectively and control the available information (Uwuigbe et al., 2015). Another advantage of family participation in a company is that members can gain a greater understanding of the company's operating environment more broadly so that when submitting reports to investors at the end of the period, the company can be assessed as having good performance. Therefore, the hypothesis in this research is formed as follows:

H2: Family members on board have a negative effect on earnings management

CEO Duality and Earnings Management

Combining the roles of CEO and chairman into one person (or so-called CEO duality), makes that person control the board and the board will be ineffective in controlling managerial opportunism. As a result, CEO Duality increases the power of the CEO and reduces the independence of the board. Therefore, it is best to separate the two roles, so that the CEO is responsible for implementing company policies and managing the company, and the chairman of the board is responsible for monitoring and evaluating the board's management and activities. The board is also responsible for hiring, firing, evaluating, and rewarding the CEO, so the chairman should not be the same person whose performance is evaluated. CEO Duality is expected to reduce efficiency as CEOs gain more power than shareholders to pursue their interests.

Agency theory states that CEO Duality is bad for company performance because it compromises CEO monitoring and control. However, in recent years, many companies have shifted from CEO Duality leadership structures to non-CEO Duality structures, while a small number of companies have shifted in the opposite direction (Tshipa et al., 2018). CEO Duality causes a weakness in the supervisory function of directors by board of commissioners, this can trigger earnings management carried out by the company. Therefore, the hypothesis in this study is proposed as follows:

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H3: CEO Duality has a negative effect on earnings management

Corporate Commitment to Business Ethics, Family Ownership, and Earnings Management

Family companies control the company and have significant influence, which is reflected in the composition of the management and share ownership of family members (Salehi et al., 2019). Al-Okaily (2020) stated that close monitoring of the company family could result in a lower risk of material misstatement. Hashmi et al. (2018) shows that family companies have higher earnings quality than companies that are not controlled by the family. Therefore, family companies must introduce formal management systems to ensure managers' behavior is in line with company goals, thereby bringing greater control to the company.

Agency theory defines the level of accounting quality based on the type of ownership, such as the separation between ownership and management which causes conflict between the two due to asymmetric information between managers and shareholders (Jensen and Meckling, 1976). Active monitoring carried out by the family can reduce information asymmetry between managers and owners (Chen et al., 2008) and reduce the inherent risks of material misstatement (Al-Okaily, 2020). De Massis et al., (2016) revealed that personal relationships, behavior, attitudes and situations experienced in family companies can have a significant influence on succession. Socio-emotional Wealth Theory assumes that family companies carefully choose their actions and decisions to avoid threats to their emotional wealth (Boujelben & Boujelben, 2020). This alignment of incentives prevents family management from manipulating reported earnings because it hinders the family's reputation and the long-term company performance.

Accounting ethics is closely related to earnings management because ethics originating from the culture accepted by accountants and auditors at the academic stage are reflected in the quality of the financial reports prepared by the company. The absence of ethical behavior for financial managers and auditors can result in a lack of credibility and clarity of accounting information (Al frijat & Albawwat, 2019). Family ownership has large control with the desire to obtain high profits, and is influenced by low ethical behavior which can improve earnings management. Therefore, the hypothesis in this research is proposed as follows:

H4: Corporate commitment to business ethics strengthens the relationship between family ownership and earnings management

Corporate Commitment to Business Ethics, Family Members on Board and Earnings Management

Family companies with a concentrated company ownership structure, and this concentrated company has an influence on the quality of financial reporting (Duréndez & Madrid-Guijarro, 2018). Controlling shareholders can take over the interests of non-controlling shareholders to increase their wealth, thereby encouraging profit manipulation (Abdullah & Ismail, 2016). Boujelben & Boujelben (2020) explains that companies with more family members on the board disclose less information in annual reports as well as a decrease in the quality of voluntary disclosure in KPI (Key Performance Indicator).

Jensen and Meckling (1976) shows that the larger the company, the greater the total agency costs due to the possibility of more difficult monitoring as well as separation of duties is very important because it can lead to effective monitoring of board actions. Based on socioemotional wealth theory, family companies tend not to manipulate income and are more willing to disclose information to prevent reputational losses and damage to the family's image due to reporting misleading accounting information. Therefore, if company managers/owners have good ethical behavior, it can reduce conflicts, losses and profit management. Moral behavior with integrity

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and honesty can prevent fraud and embezzlement of financial reports so that it has an active contribution to real profit management (Al frijat & Albawwat, 2019). These manipulative earnings management practices are believed to be unethical because they reduce transparency and lead to misleading financial information which can ultimately harm companies, investors and other stakeholders. Therefore, the hypothesis is proposed as follows:

H5: Corporate commitment to business ethics strengthens the relationship between family members on board and earnings management

Corporate Commitment to Business Ethics, CEO Duality and Earnings Management

Golden and J. Kohlbeck (2017) explained that when compared to non-family companies, family companies tend not to disclose estimates of earnings management when their CEO's wealth is higher. Family owners are usually closely involved in business activities and hold fundamental positions in the company, and tend to act opportunistically as an entrenchment and self-defense strategy (Villarón-Peramato et al., 2018). On the other hand, managers place greater priority on preserving socio-emotional wealth and are less willing to risk their reputation by engaging in earnings management (Liu et al., 2017; Park et al., 2018).

When a company has good business ethics, it will have a positive impact on the running of the company and influence the CEO Duality in the company. CEO Duality indicates that a manager simultaneously occupies two positions as CEO and chairman of the board (Chi et al., 2015b). The better business ethics a company has, it will influence the level of earnings management in the company through the duality role of the CEO. Therefore, the hypothesis is proposed as follows:

H6: Corporate commitment to business ethics weakens the relationship between CEO duality on board and earnings management

Theoretical Framework

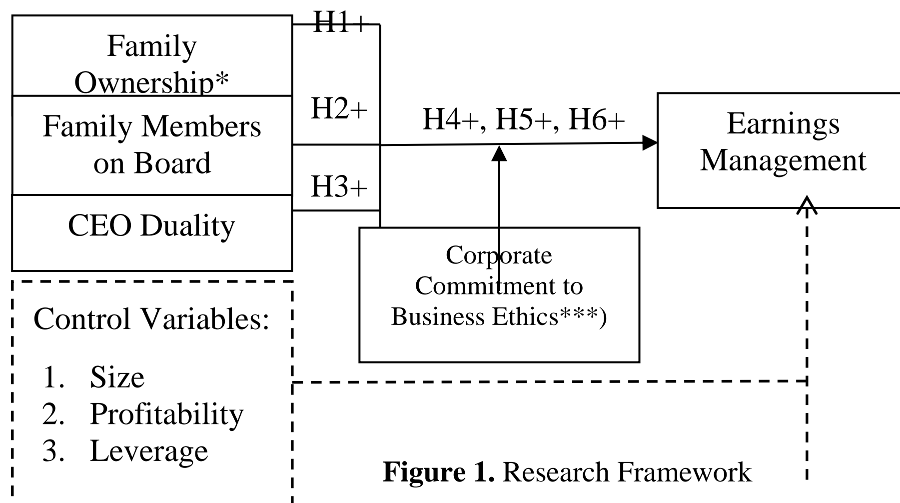

Figure 1. Research Framework

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METHOD

Sample Selection

The population in this study are manufacturing companies listed on the Indonesia Stock Exchange in 2019-2021 as it is the companies that have more accrual components compared to other companies (Adhikary et al., 2021), and most manufacturing companies in Indonesia are family companies. The number of manufacturing companies that have been registered on the Indonesian Stock Exchange and listed on IDX reached 181 companies in 2019, 193 companies in 2020, and 217 companies in 2021. The Indonesian Stock Exchange divides the manufacturing industry into several sub-sectors, namely basic and chemical industries, industrial consumer goods, and various manufacturing industries.

The sample in this study was taken based on the following criteria: (1) publish an annual report from 2019-2021 via www.idx.co.id or the company website, (2) the company presents complete financial reports during the research time period, (3) the financial reports presented by the company use IDR currency, and (4) the company presents the information required in this research. Based on these criteria, a sample of 541 companies was obtained during the 2019-2021 period.

Measurement of the Variables

The dependent variable in this research is Earnings Management measured by the Modified Jones Model (1995). The independent variable (family ownership) is measured using a dummy variable (score of 1 for Family ownership with dispersed ownership ≤ 5%, score of 2 for Family ownership with concentrated ownership > 5% - 33%, and score of 3 for Family ownership with highly concentrated ownership > 33 %. Family Members on Board of this study is measured using a dummy variable (score of 1 for companies that have family members in the management structure, and score of 0 for companies that do not have family members in the management structure). CEO Duality is measured using a dummy variable (score of 1 if the CEO also serves as chairman of the board and a value of 0 if the CEO does not serve as chairman of the board) (AL Nasser, 2019). Moderating variables (Business Ethics Commitment) is measured by Ethical Commitment Index (ECI) (Jung, 2008 and Choi and Pae,2011). The control variable (Size) is measured using the total assets owned by the company (S. H. Kim & An, 2018). Size is measured using the formula (Size= log n Total Assets). Furthermore, profitability is measured using Return on Assets (ROA) with the formula ROA = Net Profit/Total Assets. Leverage according to La Rosa et al., (2020) is measured using the formula Leverage = Total Debt/Total Equity.

Research Design

This study used Moderated Regression Analysis (MRA) method using analytical tools in the form of the IBM SPSS statistics. The first stage is a descriptive statistical test which aims to describe the data based on the results obtained from each variable measuring indicator. Furthermore, the classical assumption test is used to ensure that the regression coefficients are unbiased and consistent and have accurate estimates consisting of (1) normality test, (2) multicollinearity test, (3) heteroscedasticity, and (4) autocorrelation test. Apart from that, a Model Fit Test must also be carried out to measure the accuracy of the experimental regression function in estimating the actual value, then a hypothesis test must be carried out to determine whether the existing hypothesis is accepted or rejected (Hair et al., 2019). Therefore, the multiple regression equation in this study is as follows:

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$$Y = \alpha + \beta1.X1 + \beta2.X2 + \beta3.X3 + \beta4.X1.Z + \beta5.X2.Z + \beta6.X3.Z + \varepsilon \quad (1)$$

Note:
Y : Earnings Management
α : Constant
β1β2β3β4β5β6 : Regression Coefficient
X1 : Family Ownership
X2 : Family Members on Board
X3 : CEO Duality
Z : Corporate Commitment to Business Ethics
ε : error

RESULTS AND DISCUSSION

Descriptive Analysis

This research used four types of variables consisting of the dependent variable (earnings management), the independent variable (family ownership, family members on board, and CEO duality), moderating variable (Corporate Commitment to Business Ethics), and control variables (size, profitability and leverage). The following are the results of descriptive statistical tests:

Table 1. Descriptive Statistical Test Results

Variable	Total Sample	Minimum	Maximum	Mean	Std. Deviation
Family Ownership	541	1.00	3.00	1.4067	0.68114
Family Members on Board		0.00	1.00	0.3438	0.47542
CEO Duality		0.00	1.00	0.4677	0.49941
Corporate Commitment to Business Ethics		0.35	0.95	0.7167	0.13149
Earnings Management		-0.31	0.15	-0.0889	0.09249
Size		12.02	31.43	22.6918	5.34785
Profitability		0.00	2.23	0.7800	0.56658
Leverage		-0.07	0.12	0.0181	0.04500

Based on Table 1, it is known that the average of manufacturing companies which are family companies is 1.40, that family ownership of the sample companies is in the position>5% - 33. Meanwhile, the average involvement of family members in the board of directors is 0.3438. CEO Duality in Indonesia has an average of 0.4677 or almost half of the companies in Indonesia have company members who have two positions at once. Corporate Commitment to Business Ethics is very good with an average of 0.7167. Earnings Management with a mean of -0.089 and a standard deviation of 0.9249. The size variable with an average of 22.69 is very good, indicating that firm size in Indonesia is very large. The profitability variable has an average of 0.78, higher than a standard deviation of 0.56, then leverage with an average of 0.018 and a standard deviation of 0.045.

Classical Assumption Test Results

The classical assumption test in this research provides certainty that the regression equation obtained is accurate in estimation, unbiased and consistent. It consists of four types of tests: normality test, multicollinearity test, heteroscedasticity test and autocorrelation test. The following are the results of the classical assumption test:

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Normality Test Results

The normality test in this research was carried out to assess the distribution of data in a group of data or variables, whether the distribution of the data is normally distributed or not. This study used one-sample Kolmogorov-Smirnov test, histogram graphs, and P-P Plot graphs. The following are the results of the normality test:

Table 2. Results of One-Sample Kolmogorov-Smirnov Test

			Unstandardized Residuals
N			541
Normal Parameters, b	Mean		.0000000
	Std. Deviation		.03035313
Most Extreme Differences	Absolute		0.050
	Positive		0.049
	Negative		-0.050
Statistical Tests			0.050
Asymp. Sig. (2-tailed)			0.002c
Monte Carlo Sig. (2-tailed)	**Sig.**		**0.123d**
	99% Confidence Interval	Lower Bound	0.114
		Upper Bound	0.131

Based on the results of the normality test using the one-sample Kolmogorov-Smirnov test, it shows that the significance value is 0.123 or 12.3%. From the significance value of the Kolmogorov-Smirnov test, the data tested showed normally distributed because the Kolmogorov-Smirnov significance value is 0.123 which is greater than 0.05. Tests on the variables of earnings management, family ownership, family members on board, CEO duality, corporate commitment to business ethics, size, profitability, and leverage are said to be normally distributed.

Another factor that is used to see whether the data that has been tested is normally distributed or not, it can be seen in the histogram graph and normal plot graph. The following is a graph used in the normality test:

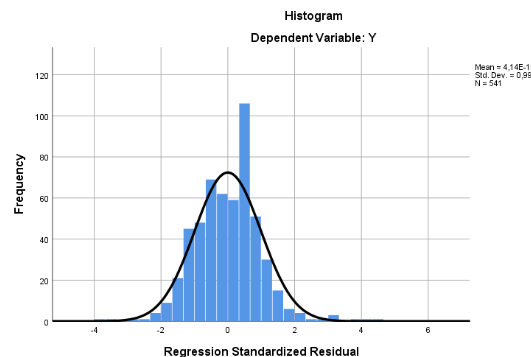

Figure 2. Normality Test Results - Histogram Graph

Based on Figure 2, it is known that the data is normally distributed with the histogram graph depicting a distribution pattern that does not skew to the right and left, but is right in the middle like a bell shape.

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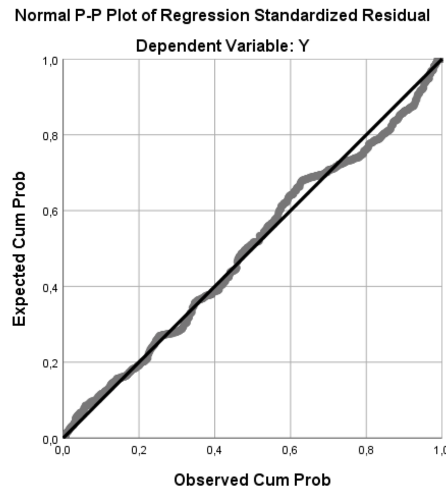

Figure 3. Normality Test Results - PP Plot Graph

Based on the normal P-Plot graph, the data points in the graph are spread around the diagonal line and follow the direction of the diagonal line. It means, the normality test based on the normality P-Plot graph can be said to be normally distributed.

MULTICOLINEARITY TEST RESULTS

The multicollinearity test in this study was used to see the relationship/correlation between each variable. The following are the results of the multicollinearity test:

Table 3. Multicollinearity Test Results

Model	Tolerance	VIF	Results
Family Ownership	,188	5,325	Multicollinearity does not occur
Family Members on Board	,199	5,030	Multicollinearity does not occur
CEO Duality	,257	3,885	Multicollinearity does not occur
Corporate Commitment to Business Ethics	,262	3,818	Multicollinearity does not occur
Size	,364	2,746	Multicollinearity does not occur
Profitability	,136	7,335	Multicollinearity does not occur
Leverage	,478	2,091	Multicollinearity does not occur

Table 3 shows the results of the multicollinearity test for each variable. The tolerance values for the variables of family ownership, family members on board, CEO duality, corporate commitment to business ethics, size, profitability, and leverage show greater than 0.10. Meanwhile, the VIF values for the variables of family ownership, family members on board, CEO duality, corporate commitment to business ethics, size, profitability and leverage also show smaller than 10.00. Therefore, it can be concluded that the regression model equation does not

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ISSN: 2723-6978
http://jurnal.unissula.ac.id/index.php/JAMR
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have multicollinearity. It means, there is no significant correlation between the independent variables so it is suitable for use for further analysis.

HETEROSCEDASTICITY TEST RESULTS

The heteroscedasticity test in this study was used to see whether in the regression model, there is inequality of variance from the residuals of one observation to another using the Glejser test. The following are the results of the heteroscedasticity test:

Table 4. Heteroscedasticity Test Results - Glejser Test

Model	Sig	Results
Family Ownership	0.083	Heteroscedasticity does not occur
Family Members on Board	0.287	Heteroscedasticity does not occur
CEO Duality	0.192	Heteroscedasticity does not occur
Corporate Commitment to Business Ethics	0.104	Heteroscedasticity does not occur
Size	0.175	Heteroscedasticity does not occur
Profitability	0.413	Heteroscedasticity does not occur
Leverage	0.140	Heteroscedasticity does not occur

Based on Table 4, it shows that the significance values of family ownership, family members on board, CEO duality, corporate commitment to business ethics, size, profitability, and leverage are greater than 0.05. These results show that all variables tested using the Glejser test show that heteroscedasticity does not occur and this research is fit.

AUTOCORRELATION TEST RESULTS

The autocorrelation test was used to test whether in a linear regression model there is a correlation between confounding errors in t period and errors in t-1 period (previous). The following are the results of the autocorrelation test:

Table 5. Autocorrelation Test Results

Model	Durbin-Watson	Results
1	2.018	There is no autocorrelation

Based on Table 5, the Durbin-Watson value is 2.018 and it is known that the dU value based on the t table is 1.839 so that the DW>dU value. Thus, the equation can be formulated as follows:

$= dU < dw < 4\text{-}dU$

$= 1.839 < 2.018 < 4\text{- } 1.839$

$= 1.839 < 2.018 < 2.161$

These results indicate that the dw value is in accordance with existing regulations, namely the dw value is greater than the dU value, and the dw value is less than 4 – dU. It indicates that there is no autocorrelation.

RESULTS OF MODERATED REGRESSION ANALYSIS

This study examined the influence of two or more independent variables on one dependent variable. The following are the results of the multiple linear regression test:

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Table 6. Moderated Regression Analysis Test Results

Model	Unstandardized Coefficients
	B
Constant	-0.460
Family Ownership	-0.019
Family Members on Board	0.038
CEO Duality	0.132
Corporate Commitment to Business Ethics	0.002
Size	0.014
Profitability	-0.030
Leverage	0.072
Family Ownership with Corporate Commitment to Business Ethics	0.005
Family Members on Board with Corporate Commitment to Business Ethics	-0.003
CEO Duality with Corporate Commitment to Business Ethics	-0.010

Based on the table above, the following equation can be formulated:

Y =α +β 1.X1+β 2.X2+β 3.X3 +β 4 X1Z + β 5 X2Z + β 6 X3Z + ε

Y =α - 0.460 - 0.019 .X1+ 0.038.X2 + 0.132.X3+ 0.005

Based on Table 6 and the equation results, it can be concluded that all the variables tested support earnings management. Family ownership, family members on board, CEO duality, corporate commitment to business ethics, size, profitability, and leverage can make positive and negative contributions to earnings management.

F-TEST RESULTS

The F-test was used to find out whether the independent variables simultaneously influence the dependent variable. The results of the F-test are as follows:

Table 7. F-Test Results

Model	Sig	Results
Regression	0,000	Accepted

Based on the F test above, it can be explained that a sig value of 0.000 < 0.05 means independent variables (family ownership, family members on board, and CEO duality); and moderating variable (Commitment to Business Ethics); and control variables (size, profitability, and leverage) simultaneously influence earnings management.

COEFFICIENT OF DETERMINATION TEST (R2) RESULTS

The coefficient of determination test (R2) was used to explain the proportion of variation in the dependent variable that is explained by the independent variable. Apart from that, the coefficient of determination test can also be used to measure how good the regression line is. The following are the results of the coefficient of determination test (R2):

Table 8. Coefficient of Determination Test Results (R2)

Model	Adjusted R Square Before Moderation	Adjusted R Square After Moderation
1	0.539	0.894

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Based on the R Square test results, it is known that the adjusted R Square value is 0.539 or 53.9%, meaning that the independent variable can influence the dependent variable by 53.9% and the remaining 46.1% is influenced by other variables. The results of the R Square test after the moderating variable show that the R Square value increases (as it is known that the adjusted R Square value is 0.894 or 89.4%). It means that the moderating variable can strengthen the relationship between the independent variable and the dependent variable with the control variable of 89.4 % and the remaining 10.6% is influenced by other variables.

T-TEST RESULTS

The t-test in this research was used to test the influence of each independent variable individually on the dependent variable. Following are the results of the t-test:

Table 9. T-Test Results

Model	Unstandardized Coefficients β	Sig	Results
Family Ownership	-0.019	0,000	Accepted
Family Members on Board	0.038	0.104	Rejected
CEO Duality	0.132	0,000	Accepted
Corporate Commitment to Business Ethics	0.002	0,000	
Size	0.014	0,000	Accepted
Profitability	-0.030	0,000	Accepted
Leverage	0.072	0.021	Accepted
Family Ownership with Corporate Commitment to Business Ethics	0.005	0.003	Rejected
Family Members on Board with Corporate Commitment to Business Ethics	-0.003	0.529	Rejected
CEO Duality with Corporate Commitment to Business Ethics	-0.010	0.004	Accepted

Based on Table 9, it can be explained that:

a. **The Impact of Family Ownership on Earnings Management.** It is known that **the unstandardized coefficients β value** is -0.019 and sig is 0.000 <0.05. This means that the hypothesis that family ownership has a negative and significant effect on earnings management is accepted.
b. **The Impact of Family Members on Board on Earnings Management.** It is known that **the unstandardized coefficients β value** is 0.038 and sig is 0.104 > 0.05, meaning that the hypothesis that family members on board have no effect on earnings management is rejected.
c. **The Impact of CEO Duality on Earnings Management.** It is known that **the unstandardized coefficients β value** is 0.132 and the sig is 0.000 <0.05, meaning that the hypothesis that CEO duality has a positive and significant effect on earnings management is accepted.
d. **The Impact of Size as a control variable.** It is known that **the unstandardized coefficients β value** is 0.014 and sig is 0.000 < 0.05, meaning that size as a control variable has a significant positive influence on earnings management.
e. **The Impact of Profitability as a control variable.** It is known that **the unstandardized coefficients β value** is -0.030 and the sig is 0.000 <0.05, meaning that Profitability as a control variable has a significant negative influence on earnings management.
f. **The Impact of Leverage as a control variable.** It is known that **the unstandardized coefficients β value** is 0.072 and sig is 0.021 <0.05, meaning that Leverage as a control variable has a significant positive influence on earnings management.
g. **The Impact of Corporate Commitment to Business Ethics as a moderating variable on family ownership and earnings management.** It is known that **the unstandardized coefficients β value** is 0.005 and the sig is 0.000 < 0.05, meaning that the Corporate

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ISSN: 2723-6978
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Commitment to Business Ethics strengthens the relationship between Family Ownership and Earnings Management.

h. **The Impact of Corporate Commitment to Business Ethics as a moderating variable on Family Members on Board and Earnings Management.** It is known that **the unstandardized coefficients β value** is -0.003 and the sig is 0.529 <0.05, meaning that the Corporate Commitment to Business Ethics cannot moderate Family Members on Board and Earnings Management.
i. **The Impact of Corporate Commitment to Business Ethics as a moderating variable on CEO Duality on Board and Earnings Management.** It is known that **the unstandardized coefficients β value** is -0.010 and the sig is 0.004 <0.05, meaning that the Corporate Commitment to Business Ethics weakens the relationship between CEO Duality on Board and Earnings Management.

DISCUSSION

Family Ownership has a negative and significant effect on Earnings Management

Family companies in Indonesia have low levels of earnings management. The high concentration of family ownership (average 5-33%) makes families dominate the ownership and management of companies, so they are actively involved in the business. To maintain their trust and reputation, family companies usually build relationships of trust with stakeholders (García-Sánchez & Martínez-Ferrero, 2016). Therefore, they tend to present a lower level of earnings management (Prencipe et al., 2008 and Prencipe et al., 2011). Family companies do not want to harm stakeholders, so they present reliable financial information (Mafrolla & D'Amico, 2017). In addition, family companies tend not to use these unethical practices, mainly to avoid press exposure and keep the business close to consumers. This is supported by research of Borralho et al., (2020), that family companies are less susceptible to earnings management practices than non-family companies

This is in line with Socioemotional Wealth Theory where family companies have fairly low agency conflicts so that supervision becomes easier because the family has the right to control the company (Huu Nguyen et al., 2020). This is in line with research conducted by (Kartika & Indriastuti, 2014), Paiva et al., (2016), that family ownership can reduce earnings management practices. However, it is contrast to the findings of Alzoubi, (2016); Lassoued et al., (2017); and San Martin Reyna, (2018), that family ownership has a positive influence on earnings management.

Family Members on Board have no influence on Earnings Management

An increase or decrease in the number of family members on the board of directors does not significantly affect earnings management in the company. Beuren et al., (2016) said that the participation of family members in managing the company is one of the characteristics of a family company. The involvement of family members in evaluations that are formed and used intelligently can influence creative decision making and the development of management strategies. From the 541 companies in the research sample, it is known that most family companies in Indonesia have low involvement of family members on the board of directors. Thus, it can be said that the presence or absence of the number of family members in the board of directors cannot influence earnings management.

This research is not in line with the Socioemotional Wealth Theory used in this research as Socioemotional Wealth is the main preference for family companies to involve the family in management. This research is in line with research of Chi et al., (2015), that family members on board has no effect on earnings management. However, this research is not in line with the

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findings of Huang & Kang, (2019), that family members on board have an influence on earnings management.

CEO Duality has a positive effect on Earnings Management.

The higher the CEO Duality in the company, the higher the earnings management will be. CEO Duality makes person control the board and the board will be ineffective in controlling managerial opportunism. As a result, CEO Duality increases CEO power and reduces board independence and impacts earnings management. Therefore, it is best to separate the two roles, so that the CEO is responsible for implementing company policies and managing the company, and the chairman of the board is responsible for monitoring and evaluating the board's management and activities. The board is also responsible for hiring, firing, evaluating, and rewarding (Mishra & Kapil, 2018).

This research is in line with agency theory. Agency theory states that CEO Duality is bad for company performance because it is thought to endanger the CEO's monitoring and control (Tshipa et al., 2018). However, in recent years, many companies have shifted from dual CEO leadership structures to non-CEO duality structures, while a small number of companies have moved in the opposite direction. This research is in line with research of Chi et al., (2015), that CEO Duality influences earnings management.

Corporate Commitment to Business Ethics can moderate the relationship between Family Ownership and Earnings Management.

This research found that the Corporate Commitment to Business Ethics in family companies can moderate by strengthening the relationship between Family Ownership and Earnings Management. Family companies control the company and have significant influence, which is reflected in the composition of the management and share ownership of family members (Salehi et al., 2019). Accounting ethics is closely related to earnings management because ethics originating from the culture accepted by accountants and auditors at the academic stage are reflected in the quality of the financial reports prepared by the company. The absence of ethical behavior for financial managers and auditors can result in a lack of credibility and clarity of accounting information (Al frijat & Albawwat, 2019).

This research is in line with Socioemotional Wealth Theory, assuming that family companies carefully choose their actions and decisions to avoid threats to their emotional wealth (Boujelben & Boujelben, 2020). This alignment of incentives prevents family management from manipulating reported earnings because it hinders the family's reputation and the long-term company performance.

Corporate Commitment to Business Ethics cannot moderate the relationship between Family Members on Board and Earnings Management.

This research found that corporate commitment to business ethics in family companies cannot moderate the relationship between family members on board and earnings management. If company managers/owners have good ethical behavior, it can reduce conflicts, losses and profit management, but this research shows different results. Thus, it can be said that whether a company has commitment to business ethics or not, it cannot moderate by strengthening or weakening the relationship between Family Members on Board and Earnings Management.

This research is not in line with socioemotional wealth theory, that family companies are less likely to manipulate earnings and are more willing to disclose information to prevent reputational losses and damage to the family's image due to reporting misleading accounting information

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Corporate Commitment to Business Ethics can moderate the relationship between CEO Duality and Earnings Management.

This research found that the corporate commitment to business ethics in family companies can moderate by weakening the relationship between CEO Duality and Earnings Management. CEO Duality indicates that a manager simultaneously occupies two positions as CEO and chairman of the board (Chi et al., 2015). The better corporate commitment to business ethics in company has, it will influence the level of earnings management in the company through the role of CEO Duality. Having a Corporate Commitment to Business Ethics in a company will weaken the relationship between CEO Duality and Earnings Management. This is in line with Socioemotional Wealth Theory, that family control maintains the quality of profits, a positive image of the Company so that it can exist in the long term (Gómez-Mejía et al., 2007).

Size, Profitability, and Leverage Can Be a Control Variable.

This research found that size, profitability and leverage can minimize other influences from outside (apart from the independent variables). In this research, size, which determines the large or small scale of a company, is important in attracting investor interest. Profitability in this research shows that the company is very good at using its assets to generate profits and value for shareholders. Leverage in this case also shows that the company can control the level of financial risk.

CONCLUSION

Family ownership has a negative effect on earnings management in family companies. Family companies maintain a positive reputation and image by presenting quality profit information. Family members on board have no effect on earnings management. Most family companies in Indonesia have low involvement of family members in the board of directors, so this does not affect earnings management. However, CEO Duality has a positive effect on earnings management. The role of CEO duality can weaken supervision by the board of commissioners over management, so that this can trigger earnings management.

Apart from that, corporate commitment to business ethics can also moderate by strengthening the relationship between family ownership and earnings management, but it cannot be a moderating variable between Family Members on Board on earnings management. Corporate commitment to business ethics can weaken the influence of CEO Duality on earnings management. This means that when a company has a high commitment to business ethics, it can control management to carry out earnings management because every part of the organization will view earnings management as unethical behavior and can be detrimental to stakeholders. This strong view will prevent the CEO Duality from carrying out earnings management. Size, profitability, and leverage can also be the control variables in the relationship between the independent variable and the dependent variable in this research.

This research provides several implications. *First*, this research can be a reference for manufacturing companies in Indonesia to minimize earnings management practices, especially in companies with family ownership, so that financial reports can be trusted by investors, creditors and other stakeholders. *Second*, the government needs to limit companies from implementing CEO duality because this can trigger earnings management which can be detrimental to shareholders. *Third*, investors and creditors need to be aware of the occurrence of earnings management if the company has CEO duality, but this can be ignored if the company has a high corporate commitment to business ethics.

However, this research has several limitations. *First*, the impact of family ownership, CEO Duality, and Family Members on Board on earnings management is still low (53.9%), so the

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remaining 46.1% is still influenced by other variables. Therefore, future researches can add new variables that can influence earnings management. *Second*, the results of this research are limited to a sample of manufacturing companies in Indonesia only, so that future researches can use samples in different countries so that they can compare the results of earnings management practices in various countries.

ACKNOWLEDGMENTS

The authors thank the research funders (the Rector and Dean of the Faculty of Economics, Universitas Islam Sultan Agung), the editors, readers, and all parties involved in preparing this article.

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ISSN: 2723-6978
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