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Firm Characteristics and Earnings Management: Does Governance Still Matter?

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Abstract
Purpose: This study examines how firm size and leverage influence earnings management and whether corporate governance mechanisms moderate these relationships, grounded in legitimacy theory.
Research Methodology: Moderated Regression Analysis (MRA) was applied to 135 manufacturing companies listed on the Indonesia Stock Exchange (IDX) during 2023.
Results: Larger and more leveraged firms tend to engage in earnings management to preserve legitimacy. Audit committee meeting frequency significantly reduces earnings management and weakens the positive effects of both firm size and leverage on it. Board of commissioners meeting frequency also negatively affects earnings management and attenuates the leverage–earnings management relationship; however, it paradoxically amplifies the firm size–earnings management relationship, suggesting that governance formality without substantive oversight may be counterproductive.
Conclusions: Active audit committees serve as effective deterrents to earnings management, while the board of commissioners produces mixed moderating effects depending on the quality of engagement. Regulators and firms should prioritize substantive governance practices over mere formal compliance.
Limitations: Findings are confined to IDX-listed manufacturing firms in 2023, with earnings management proxied through Jones discretionary accruals and governance measured solely by meeting frequency. Caution is advised when generalizing across sectors or different macroeconomic conditions.
Contributions: This study enriches legitimacy theory by explaining earnings management behavior in Indonesian manufacturing firms. Empirically, it highlights audit committee effectiveness as a critical deterrent to earnings management, offering practical guidance for regulators and companies to prioritize substantive governance over formal compliance.

Keywords: *Audit Committee, Board of Commissioners, Corporate Governance, Earnings Management, Firm Size*

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1. Introduction

Indonesia's economic resilience in 2024 remains robust, driven by consumption, investment, exports, and imports, with growth stabilizing around 5.1-5.2 percent (Kemenkeu, 2024). In this context, financial reporting that complies with PSAK standards is essential for investors, creditors, and regulators, as it reflects the company's financial position, performance, and cash flows (R. Amyulianthy, Muda, Said, & Setyaningrum, 2022). Such reports are vital for assessing organizational health and growth prospects, thereby influencing managerial accountability and stakeholder decision-making (Sari, Ferdawati, & Eliyanora, 2022).

Misalignment between managers and shareholders often leads to earnings management, in which financial statements are manipulated to achieve personal goals, such as attracting investors through inflated profits. (Bahri & Arrosyid, 2021). Legitimacy theory suggests organizations try to maintain their "social legitimacy,' meaning the public perceives their actions and performance as acceptable (Deegan, 2019). In this context, management may use earnings management symbolically to present the company as financially healthy, even if it is not, to maintain trust from investors, creditors, regulators, or the public, and to respond to public pressure, media, or reputation crises. It can also be motivated by managers seeking bonus incentives. (Rafrini Amyulianthy, Muda, Said, Setyaningrum, & Harnovinsah, 2023; Hikal et al., 2025). Under legitimacy theory, earnings management goes beyond contracts, primarily aimed at preserving the company's image and social acceptance. Therefore, it can be driven by institutional pressures such as media scrutiny, political influence, environmental concerns, or market expectations.

Earnings management remains widespread in Indonesia, as evidenced by cases such as PT Tiga Pilar Sejahtera Food Tbk and PT Kimia Farma Tbk. These cases involved inflating revenues and inventories, which led to distorted profits and financial harm (Hidayat, 2015; Wulandari, 2022). Such incidents underline the ongoing risks of earnings manipulation, particularly in large companies or those under substantial financial stress.

Company traits such as size and leverage are key factors influencing earnings management. Larger firms tend to face more regulatory scrutiny and may manipulate earnings to meet stakeholder expectations, while highly leveraged firms might adjust earnings to improve financial ratios (Alqatan & Hichri, 2025; Joe & Ginting, 2022). Nonetheless, empirical research shows mixed results regarding their impact on earnings management, highlighting the need for further exploration (Hidayatullah & Arif, 2023).

Corporate governance plays a crucial role in overseeing financial reporting and ensuring transparency. Strong governance structures, characterized by frequent meetings of the audit committee and the board of commissioners, can mitigate earnings management by increasing oversight and accountability (Rafrini Amyulianthy, Oktrivina, Masri, & Nelyumna, 2022; Annabella & Susanto, 2022). These mechanisms address institutional pressure by aligning the interests of managers and stakeholders.

Given the conflicting empirical results and the limited number of studies on the moderating effect of corporate governance, further research is warranted. This study focuses on 135 manufacturing firms listed on the Indonesia Stock Exchange in 2023 to examine the influence of firm size and leverage on earnings management, with corporate governance as a moderating variable. The manufacturing sector is chosen due to its operational complexity, asset-intensive structure, and high leverage, making it a relevant setting for analyzing such relationships (Fitriani & Sulistyawati, 2022).

2. Literature Review and Hypotheses Development

2.1 Theoretical Framework

2.1.1 Legitimacy Theory

Legitimacy theory posits that organizations actively manage their public image to align with societal norms and stakeholder expectations (Suchman, 1995). Legitimacy theory posits that organizations actively manage their public image to align with societal norms and stakeholder expectations. This behavior reflects a symbolic effort to maintain organizational credibility when actual performance falls short of public or regulatory expectations, especially under heightened media scrutiny or during times of reputational vulnerability (Harnovinsah, Nugroho, & Mihadi, 2023). Within this theoretical lens, earnings management becomes not merely a financial tactic but a means of social survival, employed to reduce the legitimacy gap that emerges between stakeholder demands and firm realities (Amyulianthy, Muda, Said, Setyaningrum, & Harnovinsah, 2023). As such, governance structures and disclosure practices are often adapted to reinforce the firm's image of accountability, even if underlying financial performance remains unchanged (Ali, Lodhia, & Narayan, 2020). This distinction is important for the present study that earnings management is examined not merely as a contract-driven behavior, but as an institutionally embedded response to reputational pressures that governance mechanisms may either suppress or inadvertently reinforce.

2.1.2 Firm Characteristics

The relationship between firm characteristics and earnings management has generated substantial but mixed empirical evidence. With respect to firm size, some studies find that larger firms engage in greater earnings manipulation due to higher stakeholder expectations and reputational pressures. This tension suggests that firm size does not operate uniformly, its effect on earnings management is likely conditional on the governance environment in which the firm operates. Similarly, leverage has been positively associated with earnings management, as debt-laden firms face pressure to satisfy covenant requirements and signal financial health to creditors (Joe & Ginting, 2022). Meanwhile, while others argue that size reduces manipulation because larger firms face more rigorous auditing and regulatory scrutiny (A. Girau, Bujang, Paulus Jidwin, & Said, 2022). However, caution that leverage effects may be moderated by managerial characteristics and internal control quality, further underscoring the need to examine leverage within a broader governance context. Taken together, the inconsistency in prior findings points to the importance of governance mechanisms as boundary conditions as a gap this study directly addresses.

2.1.3 Corporate Governance

Corporate governance refers to the framework of rules, practices, and processes by which a company is directed and controlled, ensuring accountability and fairness among stakeholders. This concept gained global prominence following high-profile corporate scandals such as Enron and WorldCom, which exposed the need for stronger oversight mechanisms (Triyuwono, 2018). Corporate governance has been extensively studied as a mechanism for reducing earnings management, yet findings diverge based on how governance quality is operationalized. Studies using board size and independence as proxies tend to report weak or inconsistent results Setiani and Mad (2022), whereas studies focusing on meeting frequency as proxy for active engagement, it showed consistently find stronger negative associations with earnings management. This distinction matters so governance structure alone does not guarantee effective oversight; it is the intensity of deliberation that determines monitoring quality. According to Jensen and Meckling (1976) laid the groundwork for modern governance practices by emphasizing the importance of transparency, accountability, and ethical corporate conduct. Corporate governance mechanisms are tools that facilitate the pursuit of shareholder interests, particularly by reducing opportunistic behavior.

According to legitimacy theory, Corporate Governance (CG) is not merely an internal control mechanism, but also functions as both a symbolic and substantive tool to demonstrate accountability and transparency, meet stakeholder expectations, avoid threats to public legitimacy (e.g., financial scandals, ethical breaches), and also respond to pressures from media, investors, regulators, and civil society. Within the Indonesian context, two governance bodies are particularly relevant the audit committee and the board of commissioners. Empirical evidence consistently supports the role of audit committee meeting frequency in reducing discretionary accruals, as regular meetings enhance scrutiny of financial reporting processes (Sabrina & Sadalia, 2021). The board of commissioners, by contrast, report negative associations with earnings management, Annabella and Susanto (2022) caution that excessive meetings may impose costs without proportional governance benefits, suggesting diminishing returns to meeting frequency. In practice, companies are encouraged to adhere to governance principles such as transparency, responsibility, fairness, and independence, as outlined in regulations like PER-01/MBU/2011. These principles support ethical conduct, protect stakeholder interests, and help foster long-term organizational sustainability (Sabrina & Sadalia, 2021).

From a legitimacy theory perspective, both governance bodies function not only as internal control mechanisms but also as external legitimacy signals (Akbar, Zeb, & Zada, 2025). Their effectiveness, therefore, depends on whether meetings reflect substantive oversight or merely formal compliance where a distinction with direct implications for how firm size and leverage interact with governance quality in driving earnings management. To address stakeholders' needs, corporate governance mechanisms, particularly the board of Frequent meetings of commissioners and audit committees are used as proxies for governance quality, as more regular engagement is assumed to strengthen the effectiveness of monitoring (Akbar et al., 2025). Figure 1 presents the conceptual framework of this research.

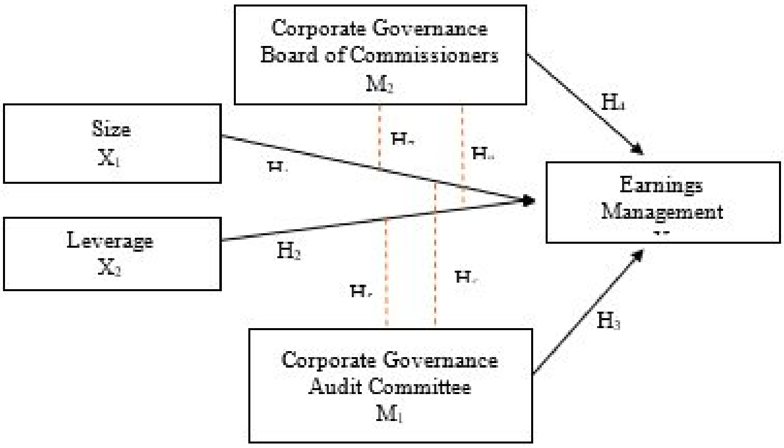

Figure 1. Conceptual framework

2.2 Hypotheses Development

Firm size is a well-established predictor of earnings management, though the direction of its effect remains contested. Larger firms operate under heightened regulatory visibility and face greater pressure from institutional investors and media scrutiny, creating incentives to smooth earnings and project consistent performance (Joe & Ginting, 2022). From a political cost perspective, large firms may strategically manage reported earnings downward to avoid attracting regulatory intervention or tax burdens (Sun, Li, & Wang, 2024). Conversely, when reputational stakes are high, managers of large firms may inflate earnings to signal operational competence to capital markets. Given the dominance of positive associations in the Indonesian manufacturing literature (Hardiyanti, Kartika, & Sudarsi, 2022; Susanti, & Margareta, 2019).

H_1: Firm size has a positive effect on earnings management

Leverage reflects the proportion of debt relative to a firm's capital. A high leverage ratio indicates greater reliance on long-term debt, raising the risk of default. This condition may lead firms to engage in earnings management to meet debt covenants or avoid triggering penalties (Hardiyanti et al., 2022). Research findings show that greater leverage is often associated with increased earnings manipulation, as managers attempt to portray financial soundness (Chen, & Liu, 2025; Tjaraka, Hidayat, & Rusdiyanto, 2022).

H_2: Leverage has a positive effect on earnings management

The audit committee's primary mandate is to oversee financial reporting integrity and ensure the independence of external auditors. Meeting frequency operationalizes active engagement, which committee members scrutinize managerial discretion over accruals in real time (Lai, 2026). A more active audit committee is expected to detect irregularities earlier and respond effectively. Unlike structural characteristics such as size or independence, meeting frequency captures the behavioral dimension of governance such how often the committee actually exercises its monitoring function. Empirical evidence from emerging markets supports a negative association between audit committee meeting frequency and discretionary accruals (Ruziwa, Mvunabandi, & Nomlala, 2025), consistent with OJK Regulation No. 55/POJK.04/2015 which mandates a minimum of four meetings per year.

This leads to:

H_3: Audit committee meetings have a negative effect on earnings management

While the audit committee focuses narrowly on financial reporting, the board of commissioners exercises broader strategic oversight, evaluating the overall direction of managerial decisions including financial policy, risk appetite, and capital allocation. Frequent board meetings thus address earnings management through a different governance channel by constraining the discretionary space available to management across a wider range of decisions (Damayanti, Ulupui, & Perdana, 2023). This is distinct from audit committee oversight, which targets reporting processes specifically. From an institutional theory standpoint to complementing legitimacy theory where regular board engagement signals organizational conformity with governance norms to external stakeholders, thereby reducing the perceived need for symbolic earnings management. Research by Annabella and Susanto (2022) and Anggraini, Widyaningtyas, Dito, Shinta, and Fransiska (2021) confirms that regular board meetings correlate with lower levels of earnings management, as they reinforce accountability.

H_4: Board of commissioners meetings have a negative effect on earnings management

In large corporations, operational complexity often coincides with more sophisticated earnings management strategies. While larger firms may have resources to engage in manipulation, the presence of an active audit committee may mitigate this behavior. Frequent meetings enhance their ability to oversee reporting accuracy and act as a counterbalance to managerial discretion (Hardiyanti et al., 2022).

H_5: Audit committee meetings moderate the relationship between firm size and earnings management

Firms with high leverage are under pressure to meet debt-related targets, which may increase the likelihood of earnings manipulation. However, an effective audit committee can serve as a governance mechanism that discourages such actions. Studies show that regular audit committee meetings are associated with improved monitoring and reduced earnings management, particularly in leveraged firms (Felicya, & Sutrisno, 2020; Suheny, 2019).

H_6: Audit committee meetings moderate the relationship between leverage and earnings management

In large firms, the role of the board becomes increasingly vital in ensuring ethical financial practices. Regular board meetings enhance the ability to evaluate reporting processes and reduce the potential for managerial opportunism. Annabella and Susanto (2022) found that increased board engagement diminishes the tendency for earnings manipulation in larger firms.

H_7: Board of commissioners meetings moderate the relationship between firm size and earnings management

Companies with substantial debt levels face intense financial scrutiny, increasing the risk of earnings management. However, when the board of commissioners conducts regular evaluations, it can enhance oversight and limit such practices. Previous research supports that board meetings help lower the incidence of earnings manipulation in highly leveraged firms (Annabella and Susanto, 2022; Suheny, 2019).

H_8: Board of commissioners meetings moderate the relationship between leverage and earnings management

3. Methodology

3.1 Population and Sampling

This research adopts a quantitative causal approach aimed at exploring the influence of firm-specific characteristics, namely firm size and leverage, on earnings management practices. The study also investigates the moderating role of corporate governance, represented by the frequency of meetings held by the audit committee and the board of commissioners. These governance mechanisms are expected to affect how companies report their financial performance, particularly with respect to discretionary accruals that may influence earnings figures (Triyuwono, 2018).

The study population includes all manufacturing firms listed on the Indonesia Stock Exchange (IDX) in 2023. This sector is selected due to its relative homogeneity in reporting structures and significant economic contribution. A purposive sampling technique was employed to select companies that had published complete audited annual reports and disclosed the frequency of audit committee and board of commissioners' meetings. This method is suitable for targeting firms that provide the necessary data for the analysis (A. Girau et al., 2022). Data were gathered from secondary sources, including the official IDX website (https://www.idx.co.id) and the official pages of the selected manufacturing firms. Companies that did not disclose details of governance activities or publish audited financial statements were excluded from the sample. This approach ensures consistency and reliability in the data, which is essential for conducting regression analyses (Setiani & Mad, 2022).

3.2 Operationalization Variables

Earnings management, the dependent variable, is measured using the discretionary accrual model developed by Jones (1991), focusing on working capital accruals. This proxy helps isolate the managerial influence on reported earnings from actual operational performance. The model has been widely accepted for detecting earnings manipulation in empirical accounting research (Fiqriansyah, Amandayu, & Orchidia, 2024).

Firm size, an independent variable, is proxied by the ln of total assets. This transformation is used to normalize data distribution and manage heteroscedasticity in large-scale financial datasets (Damayanti, Ulupui, & Perdana, 2023; Setiawan, & Mahardika, 2019). Leverage, the second independent variable, is assessed using the debt-to-equity ratio, which reflects a firm's capital structure and exposure to financial risk (Hardiyanti, Kartika, & Sudarsi, 2022; Nasution, Ginting, Revida, Trimurni, & Lubis, 2025).

Corporate governance functions as a moderating variable and is represented by the number of audit committee and board of commissioner meetings during the year. First, it is the most behaviorally observable governance indicator available in publicly disclosed annual reports, unlike structural attributes such as board size or independence ratios, which describe composition rather than conduct, meeting frequency directly reflects how actively an oversight body exercises its monitoring function. Second, meeting frequency is theoretically grounded in both legitimacy theory and agency theory: from a legitimacy standpoint, active governance meetings signal organizational accountability to external stakeholders; from an agency standpoint, they reduce the informational advantage that managers hold over principals. Third, meeting frequency aligns directly with regulatory expectations in Indonesia where OJK Regulation No. 55/POJK.04/2015 mandates a minimum of four audit committee meetings per year, while OJK Regulation No. 33/POJK.04/2014 requires board meetings at least every two months , making it a meaningful and institutionally anchored benchmark for governance engagement (Anggraini, Widyaningtyas, Dito, Shinta, & Fransiska, 2021; Widasari, & Isgiyarta, 2017). These governance attributes are aligned with regulatory expectations under good governance principles.

3.3 Research Model

This study employs a two-stage analytical approach. In the first stage, multiple linear regression (Model I) examines the direct effects of firm size, leverage, audit committee meeting frequency, and board of commissioners meeting frequency on earnings management. In the second stage, Moderated Regression Analysis (MRA) is applied by introducing interaction terms between each independent variable and each governance proxy (Model II). MRA is preferred over subgroup analysis because it allows the moderating effect to be tested within a single integrated model, preserving statistical power and enabling direct comparison of coefficient changes between Model I and Model II. All analyses are performed using SPSS version 27 to ensure accurate interpretation of statistical relationships (Suhartanto, 2020). The research model for this study is specified as Formula 1 and Formula 2 :

$$\begin{gathered} Y = \alpha_0 + \alpha_1 X_1 + \alpha_2 X_2 \\ + \alpha_3 M_1 + \alpha_4 M_2 + e \end{gathered} \tag{1}$$

$$
\begin{aligned}
Y = \beta_0 + \beta_1 X_1 + \beta_2 X_2 + \beta_3 M_1 + \beta_4 M_2 + \beta_5 (X_1 \times M_1) \\
+ \beta_6 (X_2 \times M_1) + \beta_7 (X_1 \times M_2) + \beta_8 (X_2 \times M_2) + e
\end{aligned}
\tag{2}
$$

where Y denotes earnings management, X_1 represents firm size, X_2 refers to leverage, M_1 represents audit committee meetings, and M_2 refers to board of commissioner's meetings. Interaction terms are included to identify the moderation effects, allowing the study to determine whether strong governance mechanisms weaken the relationship between firm characteristics and earnings management behavior. Prior to hypothesis testing, standard diagnostic checks, including tests for normality, multicollinearity, and heteroscedasticity were performed to ensure the validity of regression assumptions.

4. Results and Discussions

4.1 Results

This study uses cross-sectional data consisting of a list of manufacturing firms in BEI (idx.co.id) for 2023. The final sample used in the study consists of 135 manufacturing firms. Table 1 shows the total number of manufacturing firms in 2023, based on the purposive criteria created.

Table 1. Sampling Methods

No.	Criteria	Total
1	Manufacturing companies listed on the IDX in 2023	165
2	Manufacturing companies listed on the IDX in 2023 but did not publish an audited annual report	(14)
3	Data Outliner	(16)
Total Observation Total Observation		135

Table 2. Statistics Descriptive Test (n=135)

Variables	Min	Max	Mean	Std. Dev
Earnings Management	-0.36	0.27	0.0014	0.001
Size	20.44	33.73	28.6036	1.802
Leverage	-8.55	5.54	0.7607	0.282
Audit Committee	0.00	55.00	6.3926	5.585
Board of Commissioners	2.00	34.00	9.9259	4.818

Based on Table 2, the following information is provided: Earnings Management. Earnings management shows a minimum value of -0.36 reported by Toba Pulp Lestari Tbk (INRU), and a maximum value of 0.27 reported by Sentra Food Indonesia Tbk (FOOD). The mean value is very close to zero, at 0.0014. The discretionary accrual (DA) values indicate that earnings management is practiced to raise earnings beyond actual performance if DA > 1. Conversely, DA < 1 implies less aggressive earnings management (Fiqriansyah, Amandayu, & Orchidia, 2024). The narrow dispersion suggests that most firms report earnings broadly consistent with underlying economic performance, though the range from -0.36 (INRU) to 0.27 (FOOD) confirms meaningful cross-sectional variation that regression analysis can meaningfully exploit. The firm size variable shows a minimum log asset value of 20.44 (Communication Cable System Indonesia Tbk – CCSI) and a maximum of 33.73 (Astra International Tbk – ASII). The standard deviation of 1.80271 is smaller than the mean, indicating that firm size among the companies is relatively consistent and not highly variable.

The leverage variable ranges from a minimum of -8.55 (Pan Brothers Tbk – PBRX) to a maximum of 5.54 (Saranacentral Bajatama Tbk – BAJA). The average leverage ratio is 0.7607 or 76.07%, indicating that Indonesian manufacturing firms in 2023 maintained a relatively healthy debt-to-equity ratio. A debt-to-equity ratio (DER) below 100% or 1.0 is generally considered favorable, as it reflects a stronger financial position. A low DER means a company's debt is relatively small compared to its equity base. Furthermore, a standard deviation of 0.28223, which is smaller than the mean, indicates limited variability in the leverage data.

Audit Committee. The audit committee variable ranged from 0 meetings (Panasia Indo Resources Tbk – HDTX) to 55 meetings (Krakatau Steel [Persero] Tbk – KRAS), with a mean of 6.3926. According to OJK Regulation No. 55/POJK.04/2015 Chapter IV requires audit committees to meet at least once every three months or four times per year, with more than half of the members in attendance (Ardyanti, 2023). The data suggest that the average frequency of audit committee meetings among listed manufacturing firms in 2023 aligns with these governance expectations. Additionally, the standard deviations for both governance variables exceed their means, however, indicating that meeting frequency is more dispersed across firms than the averages suggest a distributional feature that strengthens the statistical case for examining governance as a moderating variable.

Board of Commissioners. The board of commissioners' variable ranges from a minimum of 2 members (Jakarta Kyoei Steel Work LTD Tbk – JKSW) to a maximum of 34 members (Garuda Maintenance Facility Aero Asia Tbk – GMFI), with a mean of 9.9259. OJK Regulation No. 33/POJK.04/2014 mandates that the board of commissioners must hold internal meetings at least once every two months and joint meetings with the board of directors at least once every four months (Anggraini et al., 2021). These results indicate that, on average, manufacturing companies listed on the IDX in 2023 complied well with these regulatory requirements. The standard deviation of 4.81854 is lower than the mean, indicating limited dispersion in the board size data. Subsequently, diagnostic tests, including assessments of normality, multicollinearity, and heteroscedasticity, were conducted. The results indicate that the data employed in this study are normally distributed, exhibit no signs of multicollinearity, and fulfill the assumption of homoscedasticity. Detailed outputs of these diagnostic tests are presented in the annex. Based on these preliminary tests, the analysis proceeds with hypothesis testing. The following Table 3 is the result of the hypothesis test of this research.

Table 3. Hypotheses Testing

Variables	Model I	Model II
Constanta	-0.004	-0.086
	(0.796)	(0.312)
Size	0.001	0.004
	(0.018)**	(0.006)***
Lev	0.013	0.020
	(0.000)***	(0.000)***
Aud.Com	-0.016	-0.041
	(0.000)***	(0.002)***
BoC	-0.005	-0.009
	(0.006)***	(0.003)***
Size*Aud.Com	-	-0.002
	-	(0.072)*
Size*BoC	-	0.0001
	-	(0.075)*
Lev*Aud.Com	-	-0.004
	-	(0.019)**
Lev*BoC	-	-0.00009023
	-	(0.067)*
F-Stat	.000	.000
Adjusted - R^2	0.776	0.783

Size = Company size ; Lev = Company Leverage; Aud.Com = Audit Committee; BoC = Board of Commissioners; Size*Aud.Com = Interaction between Company size and Audit Committee; Size*BoC =

Interaction between Company size and Board of Commissioners; Lev*Aud.Com = Interaction between Company size and Audit Committee; Lev*BoC = Interaction between Leverage and Audit Committee. *, **, *** = signif 10%, 5%, 1%

4.2 Discussion

The first hypothesis posits that firm size has a positive and statistically significant effect on earnings management at the 1% significance level, indicating a strong relationship. Regression analysis using SPSS supports the acceptance of this hypothesis. Larger firms incur higher operational expenses, which can reduce profit margins and pressure managers to present stronger financial outcomes. Under legitimacy theory, such actions are interpreted as symbolic efforts to maintain the image of financial strength and ensure continued acceptance from key stakeholders (Alessa, Akparep, Sulemana, & Agyemang, 2024; Kumar, Singh, Mishra, Lehri, & Kumar, 2025). Managers may feel compelled to engage in earnings management when stakeholders expect consistent performance, especially in large organizations where reputational and social legitimacy are paramount.

Similarly, the second hypothesis demonstrates that leverage has a positive and significant effect on earnings management, with a 1% significance level. Firms with high debt ratios are more exposed to financial distress, which may motivate managers to engage in earnings manipulation to avoid covenant violations and preserve legitimacy in the eyes of creditors and investors. From the legitimacy theory perspective, managers may resort to such practices to reduce perceived performance gaps and to maintain the appearance of financial solvency and control (Hikal, Abdalla, Babiker, Bilal, Babiker, Abdelraheem, & Gamer, 2025; Lakhani, & Herbert, 2022; Ruziwa, Mvunabandi, & Nomlala, 2025). Moreover, companies with high leverage may disclose more information to gain trust, but this could paradoxically enable managers to selectively present financial data that reinforces legitimacy without fully reflecting economic reality.

The third hypothesis confirms that audit committees have a significant negative effect on earnings management at the 1% statistical significance level. This finding highlights the strength of audit committee involvement in curbing manipulative financial reporting practices. From the perspective of legitimacy theory, frequent audit committee meetings serve as both a symbolic and an operational mechanism to demonstrate accountability and compliance with stakeholder expectations (Damayanti, Ulupui, & Perdana, 2023). When the audit committee meets regularly, it reinforces the organization's commitment to responsible governance and enhances its public legitimacy. In line with legitimacy theory, such oversight practices are also intended to meet societal expectations of transparency and integrity. An active audit committee improves the evaluation of decision-making processes and helps ensure that managerial actions align with institutional norms. This is supported by empirical findings from El-Deeb, Halim, and Elbayoumi (2022), who found a negative association between audit committee meetings and earnings management. Azinogo and Erasmus (2025) further emphasize that audit committees serve as critical spaces where financial policies and managerial behaviour are scrutinized, not only to protect principals but to uphold the company's image and legitimacy in the perspective of external stakeholders.

The fourth hypothesis posits that the board of commissioners has a significant negative relationship with earnings management, supported at the 1% significance level. Regression results analysed validate this hypothesis, underscoring the influence of board oversight in discouraging manipulative financial practices. In the context of legitimacy theory, frequent board meetings are viewed as institutional signals of responsible governance, demonstrating the firm's commitment to ethical conduct and stakeholder accountability (Annabella & Susanto, 2022).

Similar to Damayanti et al. (2023), who argue that the effectiveness of board monitoring increases with meeting frequency, as routine evaluations create conditions that discourage opportunistic managerial behaviour. This aligns with the logic of legitimacy theory, wherein organizations seek to maintain congruence with societal norms through visible and consistent governance practices. Anggraini, Widyaningtyas, Dito, Shinta, and Fransiska (2021) found empirical support for this relationship, showing that active board engagement correlates with lower levels of earnings management. Similarly, Annabella and Susanto (2022) highlight that regular board interactions reinforce legitimacy by ensuring internal decisions reflect public expectations of transparency. Nonetheless, Satriadi, Bagaskara, Pranoto, and Haryono (2018) caution that increased meeting frequency, while symbolically beneficial, may incur additional costs and potentially undermine profitability. This suggests that governance efforts must balance symbolic compliance with operational efficiency to sustain both legitimacy and performance outcomes.

The fifth hypothesis demonstrates that firm size initially shows a coefficient of 0.004. However, when interacting with the audit committee variable, the coefficient drops to -0.002, reflecting a 0.002 decline and a directional change from positive to negative at a 10% significance level. This suggests that good corporate governance, proxied by the frequency of audit committee meetings, moderates and weakens the positive relationship between firm size and earnings management. From a legitimacy perspective, larger firms are subject to greater public scrutiny and social expectations, thus requiring more visible and credible governance actions to maintain stakeholder trust (Syofyan, Septiari, Dwita, & Rahmi, 2021).

In this context, frequent audit committee meetings serve not only to detect anomalies in financial statements more promptly, but also to signal compliance and transparency, thereby reducing the need for discretionary reporting. The findings imply that audit committee engagement plays a symbolic and practical role in narrowing the legitimacy gap between the firm's operational reality and external expectations. Consistent with legitimacy theory, this reflects an organizational effort to reinforce its legitimacy through structured oversight, especially in larger firms that are more exposed to reputational risk (Deegan, 2019;Suchman, 1995).

The sixth hypothesis reveals a similar trend: leverage initially shows a positive coefficient of 0.02, which shifts to -0.004 after interaction with audit committee frequency, resulting in a 0.016 decline and a significance level of 5%. This indicates that active audit committees mitigate the positive effect of leverage on earnings management. Highly leveraged firms often face greater pressure to report favourable financial results to maintain creditor confidence. Under legitimacy theory, audit committee diligence serves as a symbolic assurance of accountability, reducing the perceived need to manipulate earnings to maintain financial image (Felicya & Sutrisno, 2020). In leveraged contexts, managers may resort to earnings management to portray financial soundness. However, frequent audit committee meetings can dampen such tendencies by reinforcing institutional norms and transparency, thus protecting the firm's legitimacy in the eyes of stakeholders, particularly creditors and regulators.

5. Conclusions

5.1 Conclusion

This study set out to examine whether firm characteristics drive earnings management and whether corporate governance mechanisms moderate that relationship, where enforcement capacity is uneven and governance quality varies considerably across listed firms. The evidence points in a consistent direction for the direct effects. Firm size and leverage both exert positive and statistically significant influences on earnings management, confirming that scale and financial pressure create conditions in which discretionary reporting becomes more likely. Audit committee and board of commissioners meeting frequency, by contrast, reduce earnings management independently this indicating that active governance engagement functions as a meaningful internal check on managerial discretion, regardless of firm characteristics.

The moderating results are more nuanced and, in one case, unexpected. The audit committee consistently weakens the positive relationships between firm size and earnings management and between leverage and earnings management and does so with sufficient statistical force to produce a directional reversal in the size coefficient. This is the study's strongest finding: an active audit committee does not merely dampen earnings management at the margins; it can effectively neutralize the conditions that produce it. The board of commissioners tells a more complicated story. It successfully attenuates leverage-driven earnings management, consistent with its strategic risk oversight role. However, it amplifies that the firm size–earnings management relationship, suggesting that in large, established firms, board meetings conducted as regulatory formalities may lend a veneer of governance credibility without delivering substantive constraint. Taken together, these findings carry a clear implication that governance frequency matters, but governance substance matters more. Regulators and firms that treat meeting counts as a sufficient indicator of governance quality risk mistaking form for function where a distinction that, as the board of commissioner's result illustrates, can have consequences that run counter to the intended purpose of oversight.

5.2 Research Limitations

This study concludes that the analysis of earnings management and corporate governance among manufacturing firms listed on the Indonesia Stock Exchange provides important insights into the relationship between governance mechanisms and financial reporting practices. However, the findings should be interpreted within the limitations of the research design. The study is limited by the use of a single-year sample from manufacturing firms, which may restrict the applicability of the findings to other industries and economic contexts. In addition, the measurement of earnings management using discretionary accruals and the use of meeting frequency as a governance indicator may not fully represent the complexity of managerial practices and governance effectiveness. Furthermore, the reliance on secondary data limits the ability to explore managerial motivations and internal governance processes in greater depth. Future studies are encouraged to expand the research scope through longitudinal and cross-sector approaches, employ alternative measurements of earnings management, and incorporate more comprehensive governance indicators to provide a deeper understanding of corporate reporting behavior and governance effectiveness.

5.3 Suggestions and Directions for Future Research

For theory, this study contributes to legitimacy theory by demonstrating that governance mechanisms do not operate uniformly as legitimacy-enhancing tools. The contrasting moderating patterns of the audit committee and the board of commissioners suggest that the form of governance engagement whether it is targeted and procedurally focused or broad and strategically oriented which determines its effectiveness in constraining legitimacy-driven earnings management. Future theoretical work should distinguish more carefully between these governance channels rather than treating corporate governance as a unitary construct. For firms, the results argue against treating governance meetings as a compliance checkbox. The board of commissioners finding in particular suggests that meeting frequency without deliberative quality can paradoxically strengthen, rather than weaken, the conditions that produce earnings management in large firms. Boards and audit committees should prioritize documented, outcome-oriented meetings over frequency alone. For regulators and policymakers, the findings support extending disclosure requirements beyond meeting counts to include governance effectiveness indicators such as attendance rates, agenda documentation, and audit committee response timelines. These metrics would give investors and creditors a more reliable basis for assessing governance quality and would create stronger incentives for firms to move beyond symbolic compliance toward substantive oversight.

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Author Contributions

RA contributed to the conceptualization of the study, research design, data analysis, manuscript drafting, and final approval of the manuscript. HH contributed to research supervision, methodological guidance, critical revision of the manuscript, and final approval. AP contributed to data collection, literature review, data interpretation, manuscript revision, and the final approval of the manuscript.

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