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Research Paper

The Effect of Profitability, Dividend Policy, Institutional Ownership, and Managerial Ownership on Earnings Management in Infrastructure Companies Listed on the Indonesia Stock Exchange

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ABSTRACT: *This study examines the effect of profitability, dividend policy, institutional ownership, and managerial ownership on earnings management within Indonesia's infrastructure sector, a critical industry with unique dynamics during the 2020–2024. Employing a quantitative approach with panel data regression using the Random Effect Model (REM), the analysis utilizes data from 23 infrastructure companies listed on the Indonesia Stock Exchange, yielding a total of 115 observations. Earnings management, serving as the dependent variable, is measured using Discretionary Accruals (DAC). In contrast, the independent variables comprise Return on Assets (ROA), Dividend Payout Ratio (DPR), Institutional Ownership (IO), and Managerial Ownership (MO). The results indicate that profitability positively and significantly affects earnings management, suggesting that more profitable firms tend to engage in earnings manipulation. Conversely, managerial ownership exhibits a negative and significant effect, implying its role as an effective internal governance mechanism in constraining earnings management practices. In contrast, dividend policy and institutional ownership show no significant partial effect. Collectively, all independent variables have a substantial joint influence on earnings management. These findings highlight the dual role of internal factors, where profitability acts as a driver. At the same time, managerial ownership is a crucial mitigating mechanism in earnings management practices within the infrastructure industry.*

KEYWORDS: *Earnings Management, Profitability, Managerial Ownership, Infrastructure Sector*

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I. INTRODUCTION

The infrastructure sector holds a strategic role in the national economy, particularly in Indonesia, as it serves as a fundamental pillar for economic growth and as a catalyst for equitable development, job creation, and increased contributions to the Gross Domestic Product (GDP). Adequate infrastructure enhances public access to basic services, stimulates the growth of other economic sectors, and strengthens national competitiveness. Research indicates that increased budget allocations for infrastructure development can stimulate GDP growth, especially through strategic projects such as transportation and public utilities that generate spillover effects on the construction, trade, and tourism sectors [1], [2]. Regionally, areas with strong infrastructure connectivity tend to experience more rapid economic growth.

The contribution of the infrastructure sector to the economy is also evident in its substantial capacity for employment absorption. Infrastructure development requires significant human resources, both directly through the construction sector and indirectly through supporting sectors such as transportation, logistics, and public services [1], [2]. This has important implications for Indonesia as a developing country, where unemployment and income inequality remain pressing challenges. Thus, investment in infrastructure not only affects macroeconomic indicators but also social welfare through job creation.

Furthermore, infrastructure plays a vital role in ensuring balanced regional development. Unequal access to infrastructure can exacerbate the gap between developed and underdeveloped regions. Studies have shown that equitable infrastructure distribution can reduce regional disparities, thereby promoting more inclusive economic growth [3]. Development strategies oriented toward less developed areas can improve the socio-economic structure of these regions. Moreover, fair and inclusive infrastructure policies can also support sustainable development, ensuring that the benefits of development are enjoyed equally by all segments of society [4].

However, despite its potential, the infrastructure sector faces multiple challenges, ranging from financing gaps to the risk of unequal benefit distribution [5]. These gaps can be addressed through Public-Private Partnerships (PPP) and innovative non-state budget financing schemes [6], [7]. In addition, strong regulation and support for project sustainability are crucial to ensure that infrastructure development proceeds effectively and accountably [8].

The unique characteristics of the infrastructure sector, such as long-term project horizons, substantial capital requirements, strict regulations, government involvement, and a tendency toward oligopolistic market structures, create conditions that may foster earnings management practices. From the agency theory perspective, the divergence of interests between managers and shareholders may encourage managers to manipulate financial statements to meet short-term targets or influence investor perceptions [9]. Meanwhile, from the signaling theory perspective, companies may use manipulated financial reports as a positive signal to retain or attract investors, particularly in long-term projects that require market trust [10].

The COVID-19 pandemic in 2020 posed a significant test for Indonesia's infrastructure sector. Declines in investment, supply chain disruptions, and social restrictions markedly impacted corporate revenues and profitability [11], [12]. Many companies' Return on Assets (ROA) fell due to decreased revenues and rising operational costs [13]. Nevertheless, the 2021–2024 recovery period showed performance improvements driven by increased economic activity, government support through the National Economic Recovery (PEN) Program, and rising investment in the sector.

Financial variables such as profitability, dividend policy, institutional ownership, and managerial ownership play significant roles in influencing earnings management practices in the infrastructure sector. High profitability may reduce the incentive to manipulate earnings, although it may sometimes prompt managers to maintain a positive performance image [14]. Dividend policy can serve as a signal of financial health but may also motivate management to adjust earnings to maintain consistent dividend distributions [15]. Institutional ownership has the potential to curb earnings manipulation through stringent oversight [16], [17], although its effectiveness depends on the regulatory strength within a given country [18]. Meanwhile, managerial ownership can act as an effective internal control mechanism, though under certain conditions it may encourage opportunistic behavior [19], [20].

Based on the above discussion, a research gap exists in understanding the interaction between profitability, dividend policy, institutional ownership, and managerial ownership in influencing earnings management practices within Indonesia's infrastructure sector, particularly during the 2020–2024 period marked by the dynamics of the pandemic and economic recovery. Some previous studies have shown inconsistent results regarding the influence of these variables, indicating the presence of contextual factors such as regulation, corporate governance, and market conditions that shape these relationships. Therefore, this study is essential in providing a more comprehensive understanding of the factors influencing earnings management in the infrastructure sector, thereby contributing to developing more effective policies and corporate governance practices. Building on the preceding background, the central research problem in Indonesia's infrastructure sector concerns how key financial variables influence earnings management practices.

Earnings management among infrastructure companies has become a matter of concern due to its capacity to compromise financial transparency and mislead stakeholders, particularly in an industry distinguished by long-term project horizons, substantial capital requirements, and significant government involvement. The mixed results of previous studies on the effects of profitability, dividend policy, institutional ownership, and managerial ownership underscore that the drivers of earnings management in this sector remain inadequately understood. Such inconsistencies highlight the potential influence of contextual factors, including regulatory frameworks, corporate governance mechanisms, and prevailing economic conditions, which have not been thoroughly examined.

Consequently, this study aims to analyze how profitability, dividend policy, institutional ownership, and managerial ownership individually and collectively affect earnings management in infrastructure companies listed on the Indonesia Stock Exchange. The goal is to close the gap between the existing empirical literature and the sector-specific context during the 2020–2024 period, which was shaped by pandemic-induced challenges and the subsequent phase of economic recovery. Accordingly, the research is guided by the following questions:

1. To what extent does profitability affect earnings management?
2. To what extent do dividend policy, institutional ownership, and managerial ownership affect earnings management individually?

3. How do profitability, dividend policy, institutional ownership, and managerial ownership collectively influence earnings management?

The novelty of this research lies in its sector-specific examination of earnings management within the Indonesian infrastructure industry during a pivotal transition from crisis to recovery. This study advances theoretical discourse by integrating macroeconomic disruptions and recovery dynamics into the analysis and exploring core financial variables' simultaneous and individual effects. It provides practical insights for policymakers, regulators, and corporate governance practitioners committed to strengthening transparency and accountability in the sector.

II. LITERATURE REVIEW

Earnings management refers to the deliberate actions undertaken by management to manipulate financial reports to influence stakeholders' perceptions of the company's financial position [21], [22]. This practice encompasses both *accrual earnings management* (AEM), which exploits accounting discretion to adjust revenue and expense recognition, and *real earnings management* (REM), which manipulates actual business activities such as reducing research expenditures or accelerating asset sales [21]. From a theoretical standpoint, *agency theory* explains that conflicts of interest between managers and shareholders can lead to earnings management, particularly when managerial incentives are tied to performance-based compensation [23]. Conversely, *signaling theory* posits that managers may use earnings management to convey positive signals to the market about the firm's quality [24]. Measurement approaches such as the Jones, Modified Jones, and the Information Quality Indicator of Discretionary Accruals (IQIDA) are widely applied to detect discretionary accruals, particularly in capital-intensive sectors like infrastructure where financial reporting is complex [25].

Profitability, a key indicator of a firm's ability to generate earnings relative to its resources, is often measured by *Return on Assets* (ROA), *Return on Equity* (ROE), and other ratios that reflect efficiency in resource utilization [26], [27]. In capital-intensive industries such as infrastructure, profitability plays a vital role in operational decision-making and investor relations [28]. The relationship between profitability and earnings management is multifaceted. High profitability may reduce the incentive for earnings manipulation, as stable earnings diminish the need to present artificially favorable results [29]. However, in some cases, profitable firms may still engage in earnings management to maintain a positive market image and secure managerial rewards [30]. Conversely, low profitability often motivates managers to engage in more aggressive earnings management to mask underperformance and reassure stakeholders [31]. Empirical findings on this relationship are mixed, suggesting that leverage, liquidity, and corporate governance significantly moderate the profitability–earnings management nexus [32].

Dividend policy, institutional ownership, and managerial ownership are governance-related factors that also influence earnings management practices. Dividend policy, often measured by the *Dividend Payout Ratio* (DPR), may discourage earnings manipulation by signaling financial stability [33]. Nonetheless, the pressure to meet dividend expectations can sometimes prompt earnings management, particularly in adverse market conditions [34]. Institutional ownership generally serves as a monitoring mechanism, where institutional investors exert oversight to ensure accurate reporting [35], [36]. However, the effectiveness of institutional ownership in curbing earnings management depends on the nature and engagement level of these investors [37]. Managerial ownership aligns managers' interests with those of shareholders, potentially reducing earnings manipulation. Yet, the entrenchment effect may emerge at moderate ownership levels, leading to increased manipulation for personal benefit [19].

Empirical studies in the Indonesian infrastructure sector highlight that these governance and financial performance variables interact within a unique industry context characterized by high capital requirements, long-term project horizons, and substantial regulatory oversight. While profitability, dividend policy, institutional ownership, and managerial ownership have all been linked to earnings management, the direction and significance of their effects vary depending on firm-specific factors, governance structures, and broader economic conditions. This inconsistency in findings underscores the need for further research focused on the infrastructure sector, particularly in the wake of recent economic disruptions and the recovery period from 2020 to 2024. Such research will contribute to refining theoretical frameworks and informing regulatory strategies to enhance transparency and financial reporting quality in this critical sector.

III. METHODOLOGY

This study employs a quantitative approach with a deductive, hypothesis-testing framework to empirically examine the influence of profitability, dividend policy, institutional ownership, and managerial ownership on earnings management within the Indonesian infrastructure sector from 2020 to 2024. The research utilizes secondary data collected through documentation techniques from the audited annual reports published on the official Indonesia Stock Exchange (IDX) website. The sample was selected using a purposive sampling method based on specific criteria: companies must be consistently listed in the infrastructure sector during the observation period, publish financial reports in Indonesian Rupiah (IDR), provide complete data regarding operational performance and share ownership, and have all necessary data for the research variables. This screening process yielded a final balanced panel dataset of 23 companies over five years, resulting in 115 firm-year observations for analysis.

The study operationalized one dependent variable and four independent variables within this dataset using a ratio scale for quantitative analysis. The dependent variable, earnings management, is proxied by discretionary accruals (DAC), calculated using the Modified Jones Model to isolate accruals subject to managerial manipulation. The calculation begins by determining Total Accruals (TAC) as the difference between net income (NI) and cash flow from operations (CFO), formulated as:

$$TAC_{it} = NI_{it} - CFO_{it} \rightarrow (1)$$

Non-Discretionary Accruals (NDA) are then estimated through a regression model controlling for changes in revenues (ΔREV) and gross property, plant, and equipment (PPE), as follows:

$$\frac{NDA_{i,t}}{A_{i,t-1}} = \alpha_1 \frac{1}{A_{i,t-1}} + \alpha_2 \frac{\Delta REV_{i,t}}{A_{i,t-1}} + \alpha_3 \frac{PPE_{i,t}}{A_{i,t-1}} + \epsilon_{i,t} \rightarrow (2)$$

Discretionary Accruals (DA) are obtained as the residual difference between total accruals and estimated non-discretionary accruals:

$$DA_{it} = \frac{TAC_{it}}{A_{i,t-1}} - NDA_{it} \rightarrow (3)$$

The independent variables are defined as follows: Profitability is measured by Return on Assets (ROA), calculated as Net Income / Total Assets; Dividend Policy is proxied by the Dividend Payout Ratio (DPR), calculated as Total Dividends Paid / Net Income, with a value of zero assigned to profitable firms that do not pay dividends; Institutional Ownership (KI) is measured as the percentage of shares held by institutional investors; and Managerial Ownership (KM) is the percentage of shares held by directors and commissioners.

The study employs panel data regression analysis to analyze the relationship between these variables using EViews 10. The primary regression model is specified as:

$$DAC_{it} = \alpha + \beta_1 ROA_{it} + \beta_2 DPR_{it} + \beta_3 KI_{it} + \beta_4 KM_{it} + e_{it} \rightarrow (4)$$

The most appropriate estimation technique—whether the Common Effect Model (CEM), Fixed Effect Model (FEM), or Random Effect Model (REM)—is determined through the Chow Test and the Hausman Test. Classical assumption tests are conducted to ensure validity and reliability, including the Jarque-Bera test for normality, the Wooldridge test for autocorrelation, the Glejser test for heteroskedasticity, and checks for multicollinearity using the Variance Inflation Factor (VIF) and Tolerance values.

Finally, hypothesis testing is performed to evaluate the significance of each independent variable's impact using the t-statistic, while the F-statistic and the adjusted coefficient of determination (R^2) assess the model's overall relevance and explanatory power.

IV. RESULT AND DISCUSSION

4.1 Descriptive Statistics

The analysis commences with examining the descriptive statistics for all variables across 115 firm-year observations from 2020 to 2024. This initial step is crucial for understanding the fundamental characteristics of the dataset, including the central tendency, dispersion, and range of each variable. A summary of these statistics is provided in Table 1. The data reveals significant heterogeneity among the sample firms. Earnings Management (DAC) exhibits a negative mean of -0.1678 with a substantial standard deviation of 0.3751, indicating a general tendency towards income-decreasing accruals, possibly reflecting accounting conservatism or "big bath" strategies during the volatile period. Profitability (ROA) has a positive mean of 3.55%, yet the range from -11.86% to 11.45% highlights the performance disparity within the sector. Dividend Payout Ratio (DPR) shows considerable variation (Std. Dev. = 0.3359), with a mean of 33.96%, suggesting diverse dividend policies. On average, institutional ownership (KI) is dominant at 54.40%, while managerial ownership (KM) is relatively low at 12.39%, though its maximum value of 79.29% indicates high concentration in some firms.

Table 1. Descriptive Statistics of Research Variables

Variable	Obs.	Mean	Median	Std. Dev.	Minimum	Maximum
DAC	115	-0.1678	-0.0632	0.3751	-0.9598	0.9205
ROA (%)	115	3.55	3.44	4.13	-11.86	11.45
DPR (%)	115	33.96	26.20	33.59	-0.65	101.63
KI (%)	115	54.40	60.89	27.44	0.00	100.00
KM (%)	115	12.39	0.27	24.44	0.00	79.29

Note: DAC is discretionary accruals. ROA is Return on Assets. DPR is Dividend Payout Ratio. KI is Institutional Ownership. KM is Managerial Ownership.

4.2 Diagnostic Test Results

To ensure the validity and robustness of the empirical model, a series of diagnostic tests were conducted. The selection of the most appropriate panel data estimation technique was determined through the Chow and Hausman tests. As shown in Table 2, the Chow test yielded a significant p-value (0.0000), leading to the rejection of the Common Effect Model in favor of the Fixed Effect Model. Subsequently, the Hausman test produced an insignificant p-value (0.4185), indicating that the Random Effect Model (REM) is more appropriate and efficient than the Fixed Effect Model. Therefore, the REM was selected for the primary analysis. Furthermore, the issue of multicollinearity was assessed using the Variance Inflation Factor (VIF). The results confirm the absence of significant multicollinearity, as all Centered VIF values are well below the conventional threshold of 10. This ensures that the estimated coefficients are stable and reliable.

Table 2. Summary of Panel Data Model Selection and Diagnostic Tests

Test Category	Test Name	Statistic	Value	Prob.	Conclusion
Model Selection	Chow Test	F-statistic	105.423	0.0000	Fixed Effects model is preferred over Common Effects model
	Hausman Test	Chi-Sq.	39.086	0.4185	Random Effects model is preferred over Fixed Effects model
Multicollinearity	ROA	VIF	13.640	—	No significant multicollinearity detected
	DPR	VIF	10.232	—	—
	KI	VIF	10.391	—	—
	KM	VIF	13.345	—	—

4.3 Main Regression Results

Table 3 presents the primary empirical findings from the panel data regression using the Random Effect Model. This model examines the influence of profitability, dividend policy, institutional ownership, and managerial ownership on earnings management (DAC). The overall model is statistically significant, as indicated by the F-statistic of 16.4570 ($p = 0.0000$). The Adjusted R-squared value of 0.3516 suggests that the independent variables included in this study can explain approximately 35.2% of the variation in earnings management.

The results show that Profitability (ROA) has a positive and statistically significant coefficient ($\beta = 0.6683$, $p = 0.0226$), supporting the hypothesis that higher profitability is associated with higher levels of earnings management. Conversely, Managerial Ownership (KM) exhibits a negative and highly significant coefficient ($\beta = -0.6485$, $p = 0.0000$), indicating that an increase in managerial shareholding effectively mitigates earnings management practices. However, Dividend Policy (DPR) and Institutional Ownership (KI) had no statistically significant effect on earnings management in this context.

Table 3. Panel Data Regression Coefficients: Effect on Earnings Management (DAC)

Variable	Coefficient	Std. Error	t-Statistic	Prob.
Profitability (ROA)	0.6683	0.2890	23.127	0.0226**
Dividend Policy (DPR)	−0.0028	0.0214	−0.1310	0.8960
Institutional Ownership (KI)	−0.0374	0.1200	−0.3115	0.7560
Managerial Ownership (KM)	−0.6485	0.1366	−4.7465	0.0000***
Constant (C)	−0.1559	0.0942	−1.6556	0.1007

Table 4. Model Summary: Panel Data Regression on Earnings Management (DAC)

Statistic	Value
R-squared	0.3744
Adjusted R-squared	0.3516
F-statistic	16.4570
Prob(F-statistic)	0.0000
Observations	115

4.4 Discussion of Findings

This section provides an in-depth interpretation of the regression results by integrating the statistical findings with the study's theoretical frameworks, Agency Theory and Signalling Theory, and contextualizing them within the existing literature. The analysis confirms that profitability and managerial ownership are significant determinants of earnings management. In contrast, dividend policy and institutional ownership do not exhibit a significant influence in the context of Indonesian infrastructure companies during the 2020–2024 period.

The empirical evidence from this study supports the first hypothesis (H1), confirming a significant positive relationship between profitability and earnings management. My analysis suggests that as infrastructure firms become more profitable, they tend to engage in practices that manipulate reported earnings. This behavior can be understood through the lens of both Agency and Signalling theories. From an agency perspective, strong profitability may amplify managerial opportunism, as executives are incentivized to manipulate accruals to secure performance-based compensation or solidify their professional standing. Simultaneously, from a signalling perspective, the intense pressure within the capital-intensive infrastructure sector to project an image of consistent and superior performance is a powerful motivator. This pressure likely compels managers to utilize the flexibility within accounting standards to meet or surpass market expectations, reinforcing the notion that strong financial performance can paradoxically create a fertile ground for earnings management.

Conversely, this study strongly supports the fourth hypothesis (H4), revealing that managerial ownership significantly and negatively affects earnings management. It emerged as the most potent mitigating factor observed, with the results indicating that a 1% increase in managerial shareholding is associated with a substantial 0.648% reduction in earnings management practices. This finding powerfully affirms the "interest alignment hypothesis" central to Agency Theory. My interpretation is that when managers hold a significant equity stake, their financial interests become intrinsically linked to the long-term health and value of the firm. This alignment naturally curtails the principal-agent conflict, as the incentive to engage in short-sighted, opportunistic behaviors like earnings management diminishes when such actions could erode the value of their own holdings. This result empirically validates the effectiveness of internal corporate governance mechanisms, particularly as advocated by Indonesia's Good Corporate Governance (GCG) guidelines, in fostering transparent financial reporting.

In contrast to these definitive findings, the analysis did not support the second (H2) and third (H3) hypotheses. The results show no statistically significant relationship between either dividend policy or institutional ownership and earnings management. The lack of a substantial link with dividend policy suggests that, for the firms in this sample, dividend decisions are likely governed by a distinct set of strategic considerations, such as maintaining liquidity or funding long-term projects, rather than being influenced by or used as a tool for earnings management. Similarly, the insignificant effect of institutional ownership presents a noteworthy insight. While theory posits that institutional investors should serve as diligent monitors, the evidence here suggests they may function as passive investors within the Indonesian infrastructure sector. It is plausible that their focus is more on short-term returns or that their monitoring mechanisms are not sufficiently robust to penetrate and discipline the discretionary accounting choices made by management. This indicates that the theoretical power of institutional oversight may not be fully actualized in practice within this market context.

4.5 Overall Model Discussion and Implications

Synthesizing the empirical results, my analysis confirms the overall robustness and significance of the research model, as evidenced by the highly significant F-statistic. This indicates that the combination of profitability, dividend policy, and ownership structure collectively provides a meaningful explanation for the variations in earnings management within Indonesia's infrastructure sector. The most compelling insight drawn from this study is the inherent tension between performance pressure and internal governance. On one hand, profitability emerges as a significant driver of earnings management, suggesting that the pressure to meet or exceed market expectations creates a powerful incentive for managers to engage in opportunistic reporting. On the other hand, managerial ownership stands out as a potent mitigating force, demonstrating that aligning managers' financial interests with shareholders is an effective internal control mechanism. This dual finding underscores a critical dynamic: while external pressures can encourage earnings manipulation, strong internal governance, rooted in ownership, can effectively counteract it. From a theoretical standpoint, these findings contribute several nuanced insights. The strong negative relationship between managerial ownership and earnings management supports the core tenet of Agency Theory—specifically, the "interest alignment hypothesis." My research affirms that as managerial equity stakes increase, the classic principal-agent conflict diminishes, leading to more transparent financial reporting. However, the positive influence of profitability adds a layer of complexity, suggesting that agency problems can also manifest as intense pressure to perform, which drives opportunistic behavior. The non-significant findings for institutional ownership and dividend policy are equally important, as they challenge the universal applicability of certain theoretical assumptions. The ineffectiveness of institutional ownership as a monitor in this context suggests that, in practice, these large investors may not always fulfill their theoretical role as active supervisors, possibly due to passive investment strategies or other priorities. The practical implications of this research are significant for several stakeholders. For investors and analysts, my findings serve as a crucial reminder to look beyond headline profitability figures. High profits, while desirable, may not always reflect sustainable performance and could mask underlying earnings management. Instead, managerial ownership should be viewed as a strong, positive signal of good corporate governance and a commitment to long-term value creation. This study highlights that while enforcing disclosure transparency is essential, fostering effective internal governance structures is equally critical for regulators and policymakers. The results provide empirical backing for policies encouraging or incentivizing managerial equity ownership to promote ethical financial reporting. Finally, for corporate boards and executives in the infrastructure sector, this research offers a clear directive: cultivating a culture of ownership among management is one of the most effective safeguards against the pressures that lead to earnings management, ultimately enhancing the credibility and long-term stability of the firm.

V. CONCLUSION

This study was conducted to empirically examine the determinants of earnings management in the Indonesian infrastructure sector from 2020 to 2024. The findings reveal a nuanced relationship between firm performance, corporate governance, and financial reporting quality. In response to the first research question, this study concludes that profitability significantly and positively affects earnings management. The extent of this influence is substantial, with the results indicating that a 1% increase in Return on Assets (ROA) is associated with a 0.668% increase in discretionary accruals. This suggests that the pressure to maintain a high-performance trajectory is a powerful incentive for managers to engage in opportunistic reporting. Answering the second research question, the individual effects of governance mechanisms vary significantly. Managerial ownership was the most potent mitigating factor, exerting a strong, statistically significant negative influence on earnings management; a 1% increase in managerial shareholding is associated with a 0.648% decrease in earnings management. Conversely, dividend policy and institutional ownership were found to have no statistically significant impact, suggesting they are ineffective as individual monitoring mechanisms in this context.

Addressing the third research question, the collective influence of profitability, dividend policy, institutional ownership, and managerial ownership on earnings management is statistically significant. The model demonstrates considerable explanatory power, accounting for 35.2% of the sample firms' variation in earnings management practices. This collective significance highlights a critical dynamic within corporate governance: a fundamental tension between the pressure for performance and the power of internal controls. While high profitability creates an environment conducive to earnings management, strong managerial ownership is a powerful counterbalance. The interplay between these opposing forces is a key determinant of the ultimate quality of reported earnings.

Ultimately, this research provides critical insights for investors, regulators, and corporate boards. The key takeaway is that while profitability drives earnings management, aligning interests through managerial ownership is an effective deterrent. For investors, this implies that a high level of managerial equity is a more reliable indicator of transparent financial reporting than the presence of institutional investors alone. For regulators, the findings underscore the importance of promoting governance policies that foster a true sense of ownership among corporate leaders. For the firms themselves, this study confirms that cultivating a strong internal governance culture, anchored by significant managerial ownership, is the most effective defense against the pressures that can compromise financial reporting integrity.

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