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EARNING MANAGEMENT: THE EFFECT OF FINANCIAL STABILITY, EXTERNAL MONITORING MECHANISM, OPPORTUNISTIC BEHAVIOR, AND INEFFECTIVE MONITORING

MANAJEMEN LABA : PENGARUH STABILITAS KEUANGAN, MEKANISME PEMANTAUAN EKSTERNAL, PERILAKU PELUANG DAN PEMANTAUAN YANG TIDAK EFEKTIF

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Abstract
This study aims to determine the effect of financial stability as measured by changes in assets (CHANGE), external monitoring mechanism (DAR), and opportunistic behavior (FCF) on earnings management. The addition of the ineffective monitoring variable as measured by the proportion of independent commissioners (BDOUT) is intended to determine whether this variable can moderate the effect of each variable. The research sample used is the financial data of companies belonging to the non-cyclical consumer sector. Based on purposive sampling, observations were made for the 2016-2020 accounting period. The data that has been collected is then processed by using an application, namely SPSS version 25. Based on the test, it was found that financial stability and external monitoring mechanisms positively affect earnings management, opportunistic behavior has a negative impact, and ineffective monitoring cannot be a moderating variable.

INTRODUCTION

Published financial statements generally are prepared based on General Accepted Accounting Procedures (GAAP). GAAP, as a standard and principle, helps its user to trust provided information. However, the financial statement must also contain neutral information to be authorized. Sulistyanto (2008) argues that there are two limitations in interpreting these statements. First, the criteria are vulnerable to managerial policies. Managers, as agency theory explains, must fulfill their obligations under a contract to the principal. The principal authorizes the agent to operate the company. Thus, every agent's decision maximizes the company's resources (Brealey et al., 2020). When a company can maximize resources, the company will be able to improve shareholders' welfare. Thus, managers are required to manage the company's assets as well as possible. It often puts them under pressure.

Triangle theory shows that if a person is under pressure, they have a rationalization for their action, also supported by opportunities, fraud might have happened. The second argument supports this research by Sulistyanto 2008. There is no perfect observation of managerial policy. Therefore, internal parties only know some of the company's processes and rules. Thus, it isn't easy to prove that the stipulated procedures do not contain opportunistic behavior elements. If the opportunity is more significant, it makes the information presented

in financial statements relevant only to certain parties. This irrelevant information can happen whenever managers as agents do some intervention in a financial statement. Usually, it is happened due to basic human behavior such as self-interest, bounded rationality, and risk-averse (Eisendhardt 1989). That kind of intervention is often called earning management. Schipper (1989) defines earnings management as *"purposeful intervention in the external financial reporting process, with the intent of obtaining some private gain*." Hence, earning management can be interpreted as the alteration in firms' reported economic performance by using accounting methods. In general, it might mislead some stakeholders or influence the contractual outcome. In this regard, accounting and finance practitioners and academics argue that earnings management has become a severe problem in the last few decades.

Some cases of earning management often occur in Indonesia. Giving the case of PT Tiga Pilar Sejahtera Food Tbk (AISA). Fahmi Abidin Achmad (Digital Marketing Section Head IDX Channel) stated that its financial statement inflated funds to 4 trillion in 2017. PT Ernst and Young (EY) audited the financial statements and found an increase in trade receivables, inventories, and fixed assets. In early 2019, PT Garuda Indonesia was also discovered to have earnings manipulation for its 2018 accounting reporting period in the following year. The company allegedly recognized unearned revenue as revenue of 239.94 million. Simply put, earnings management leads to the misallocation of corporate wealth. In return, its leads to un proper decisions. Potential investors are wrong in choosing the best company to invest in. The creditor is terrible at assessing the company's ability. The supplier is wrong in determining the company's viability. The regulator is awful at setting the right policy. The government does not get its rights, namely taxes, as it should.

Based on the case, earnings management can be explained from two perspectives. The first is based on an information perspective. The second is the opportunism perspective. Ghazali et al. (2015) examine the effect of opportunistic behavior, external monitoring mechanism, and financial distress on earnings management. They conclude that companies will engage in earnings management when they are financially healthy and when profits are high. Economic Stability influences earning management (Wimardana & Nurbaiti, 2018). Rianto & Rina (2021); Jao et al. (2021) stated, based on their research, that the effect of financial stability is negative and significant on earnings management. This research is contrary to the study of Hayati & Sirrul (2013), which shows that financial stability has no significant effect on earnings management. In addition, (Yazar Soyadı, 2020); (Chivan and Naftalia, 2013) tried to test firm characteristics by using leverage as one of the independent variables of opportunistic behavior. Based on findings, leverage has a significant effect. Mahawyahtri and Budiasih (2016) show that the impact is positive and vital, but Herlambang's (2017) concluded that the result is negative and significant. This study is contrary to Setiawati et al. (2019), which state that leverage has no significant effect on earnings management.

The results inconsistency is the background for this study. However, the financial distress variable will be replaced with financial stability. Previous research states that financial distress conditions cause companies to be more careful about public trust; hence, companies experiencing financial distress will not be too interested in implementing earnings management. At the same time, financial stability results are still diverse and contradictory. Therefore, the independent variables that will be used are financial stability, external monitoring mechanism, and opportunistic behavior. The novelty of this research lies in moderating variables addition. Moderating variables that will be used is ineffective monitoring. Hayati and Sirrul (2016) state that the ineffectiveness of management supervision depends on internal control. The better the internal control, the smaller the chance of intervention on financial statements. For the renewal of the research and its continuity with existing research, the non-cyclical sector will be used.

This research is intended to partially examine the effect of financial stability, external monitoring mechanisms, and opportunistic behavior on earnings management in the non-cyclical consumer sector. In addition, we want to know whether ineffective monitoring can moderate each independent variable to earnings management in the non-cyclical consumer sector. Therefore, it is expected to contribute to problem-solving. Our main concerns are investors and creditors. It will help determine the suitable investment if they can use the right indicators.

HYPOTHESIS DEVELOPMENT

The Effect of Financial Stability on Earning Management

Based on agency theory, the principals would like to hire the agents to be business managers to improve their wealthier. They sign a contract that regulates the right and responsibilities of each. The agent must be able to use available resources efficiently and effectively. For each period, their performance would be assessed. If the performance indicator shows a great result, the principal must provide some kind of incentive. Thus, both parties would be able to maintain their welfare. However, if the agents fail, they must take responsibility and lose some kind of bonuses promised. This situation leads to the agency problem as one who runs the business knows all about the firm very well rather than the principals. In this case, their right is threatened whenever they cannot show good performance as the principal's expectation. Thus, they have to maintain the numbers being presented to be well. Therefore, they give a good signal through window dressing. Based on this theory, managers always try to show a stable outlook.

Financial Stability influences earning management (Wimardana & Nurbaiti, 2018). In attracting investors and creditors, a promising future performance is shown by profitability and an assessment of future performance capabilities. Therefore, the availability of adequate assets also influences the decision. When the amount of support is sufficient, the company is believed to be able to guarantee positive profitability in the future. However, if financial stability has problems, managers are under pressure. Therefore, they take various ways to make the financial statements look better. Many indications can be used to forecast which businesses are performing better. Skousen et al. (2009) state that the percentage of the change in total assets is a better indicator. The higher the percentage change in total assets, the higher the fraudulent practices in the financial statements. Therefore, financial stability is proxied by the percentage change in total assets used. Finally, the hypothesis can be formulated as follows.

H1a: Financial Stability has a positive effect on earnings management.

The Effect of Ineffective Monitoring in Moderating Financial Stability on Earning Management

Since the principals would also asses the asset efficiency, managers might make various efforts. It can be done through accounting policies and adjustments to discretionary accruals. It depends on the financial condition at that time. If it is at a severe stage, earnings management can be done by allocating potential future income or changing the current depreciation method. Therefore, the presence of an independent board of commissioners is required. In general, the independent committee of commissioners has better oversight of managers. Hence, they can influence the possibility of deviations. Likewise, according to research conducted by Peasnell et al. (1998), the composition of the independent board of commissioners has a significant negative effect on financial interventions. Following Jensen & Meckling (1976), the board must be dominated by parties from outside the company to increase independence. Therefore, the hypothesis to be proposed is as follows:

H1b: Ineffective monitoring can moderate the relationship between financial stability and earnings management.

The Effect of External Monitoring Mechanism on Earning Management

Agency theory shows the relationship between principal and agent. The principal might refer to the owner of capital. It could be the investor, owners, or creditors as loan supporters. As the one who owns the resource, they might be careful in deciding to retain its help at a fixed number or more. Supported by signaling theory, the numbers presented in financial statements are used to signal a firm's future performance. However, financial statement numbers could be intervened based on the debt hypothesis (Sulistiawan et al., 2011). To get some funding from creditors, managers must be able to convince them that they can pay it back. However, if the financial statement shows the firm is in a severe stage, as the owners of capital, creditors would not like to be threatened. Therefore, they ask them to sign an agreement. This agreement can control the managers in making the decision. It also supervises the agent's action. To lose control of creditors, they might take earning intervention earlier. Finally, the second hypothesis can be formulated as follows:

H2a: External monitoring mechanism has a positive effect on earnings management.

The Effect of Ineffective Monitoring in Moderating External Monitoring Mechanism on Earning Management

Based on hypothesis 2a, the high number of leverage can cause management to be motivated to carry out earnings management. However, this is also influenced by the company's internal control. If the company has substantial internal control, the gap for management to carry out earnings management will narrow. Therefore, this study will examine the presence and effect of the independent commissioner ratio on earnings management and leverage. Thus, the hypothesis that can be developed is:

H2b: Ineffective monitoring can moderate the relationship between external monitoring mechanisms and earnings management.

The Effect of Opportunistic Behavior on Earning Management

The principal would like to hire an agent based on agency theory to improve the firm's value. However, managers might be under high pressure in some situations to realize the principal's expectations. If the share price goes down continuously, the agent must know the factors and how to take care of them. The option might put the manager in opportunistic behavior, and it turns out to be an agency problem. One of the triggers for agency problems is free cash flow. Various definitions have been developed to describe free cash flow. Brealey et al. (2020) defined free cash flow as a surplus of cash flow within the company, which is available and will be used to finance positive net present value projects. This figure is obtained after operational payments are made, for example, after paying salaries, bills, interest, taxes, and capital expenditures that will be used for business expansion.

In short, free cash flow is one of the company's internal funding sources. The use of free cash flow depends on the manager's policy. The user can be in the form of dividend payments, stock repurchase, investment in fixed assets, or acquiring other companies. Basically, free cash flow must be distributed to shareholders in the form of dividends or stock repurchases. The principal will prefer the distribution of rewards in small-scale distributions.

Managers realize that cash flow is preferred by investors in valuing the company. A large amount of free cash flow (positive free cash flow) can trigger the manager's focus on increasing the company's stock price (Abdullah, 2002). After all, investors certainly want dividends and capital gains as significant as possible. When companies only have a little free cash flow, it will be unfavorable for them.

In addition, based on signaling theory, when the company's free cash flow tends to be regular or increasing, the stock price is also believed to increase. Thus, the higher the free cash flow, the better the company's position, and the lower the intention to do earning

management. Based on this argument, the third hypothesis can be formulated as follows.
H3: Opportunistic behavior has a negative effect on earnings management.

The Effect of Ineffective Monitoring in Moderating Opportunistic Behavior on Earning Management

Based on the third hypothesis, whenever companies' free cash flow is high, the investor or principal expects much return, which also turns the share price to be increased. However, if the free cash flow is distributed in a large portion, the company might lose a big internal source of funding. Thus, earning management is carried out. However, the presence of independent commissioners is believed to minimize it. As an independent party, they do not carry anyone's interests. Thus, the higher the free cash flow, the higher the commissioners' demands to supervise it. In short, a high proportion of independent commissioners is expected to avoid earnings management actions (Brealey et al., 2020). Therefore we propose the following hypothesis:

H3b: Independent commissioners can moderate the relationship between free cash flow and earnings management.

RESEARCH METHODOLOGY

Population and Sample

The population in this study is the non-cyclical consumer sector on Indonesia Stock Exchange from 2016-2020. Since the data is available only for the last three years, we will use IDN Financial to obtain an annual financial report. The data needed to be processed in this study must meet the following criteria: companies that are listed as non-cyclical consumer sectors on Indonesia Stock Exchange or IDN Financial and always present profit in annual reports for 2016-2020, companies that provide information related to indicator variables, and financial statements are presented in Rupiah.

Table 1
Operational Definition and Measurement of Variables

Variables	Operational Definition	Indicator	Scale
Earnings Management (Y)	Earnings management is the ability to manipulate the available options to achieve the expected profit (Sulistyanto, 2008)	TAC = Net Income – Cash Flows From Operation $\frac{TAC_{i,t}}{TA_{i,t-1}} = b_0\left[\frac{1}{TA_{t-1}}\right] + b_1\left[\frac{\Delta\, sales_{i,t}}{TA_{i,t-1}}\right] + b_2\left[\frac{PPE_{i,t}}{TA_{i,t-1}}\right] + \Sigma$ $NDA_{i,t} = b_0\left[\frac{1}{TA_{i,t-1}}\right] + b_1\left[\frac{\Delta\, sales_{i,t} - \Delta TR_{i,t}}{TA_{i,t-1}}\right] + b_2\left[\frac{PPE_{i,t}}{TA_{i,t-1}}\right]$ $DAC = \frac{TAC_{i,t}}{TA_{i,t-1}} - NDA_{i,t}$	Ratio
Financial Stability (X1)	Financial stability is the economic condition of a company that is relatively stable from time to time (Jao et al., 2021; Skousen et al., 2009)	$ACHANGE = \frac{Total\ asset_t - Total\ asset_{t-1}}{Total\ asset_t}$	Ratio
External Monitoring Mechanism (X2)	The external monitoring mechanism is defined as the supervision or control by external parties (Brealey et al., 2020)	Debt to Asset Ratio (DAR) $= \frac{Total\ of\ liabilities}{Total\ of\ Asset}$	Ratio
Opportunistic Behavior (X3)	Opportunistic behavior can be defined as the behavior of managers to deceive investors and maximize their welfare	Free cash flow = Cash flow from operating activities – Capital Expenditure- Net Working Capital / Total Asset	Ratio

Ineffective Monitoring (Z)	(Sulistyanto, 2008). Ineffective monitoring is a situation where the company does not have an effective supervisor to unify the company's performance (Wimardana & Nurbaiti, 2018).	$BDOUT = \frac{T.\,Independent\ Commissioners}{T.\,Commissioners\ Board}$	Ratio

Data Analysis Techniques

Data analysis methods used were classical assumption test, multiple linear regression analysis, and Moderated Regression Analysis (MRA). These will be processed by using SPSS 25. Moderated Regression Analyses in this study were used to determine the effect of independent commissioners in negotiating the relationship between financial stability, external monitoring mechanism, and opportunistic behavior with earnings management in the same sector and period.

RESULT AND DISCUSSION

Research Overview

The population in this study are non-cyclical consumer companies listed on Indonesia Stock Exchange from 2016-2020. Sample selection was made by the purposive sampling method, namely the selection of samples with specific set criteria. Based on these criteria, 33 companies were obtained in accordance with the 5-year observation period. In this study, SPSS version 25.0 was used for data processing. After processing the data, it was found that outliers needed to be excluded. Initially, this study consisted of 165 company data, but after the outliers were excluded, it became 154 samples with the following explanation.

Table 2
Sample Elimination in Details

No	Information	Number
1	Companies in the consumer-non cyclical sector listed on IDX or IDN Financial during 2017-2020	86
2	Companies that do not publish audited financial statements for 31 December 2017-2020	(17)
3	Companies that do not report financial statements in Rupiah (Rp)	(1)
4	Companies that do not have data for research variables	(9)
5	Companies that do not make a profit during 2018-2020	(26)
Sample used		33
Number of observations five years x 33		165
Outliers Data		(11)
Data available		154

Source: Output SPSS (2022)

Inferential Analysis

Table 3
The result of the Normality Test

One-Sample Kolmogorov-Smirnov Test

		Unstandardized Residual
N		154
Normal Parameters[a,b]	Mean	,0000000
	Std. Deviation	,05983195
Most Extreme Differences	Absolute	,051
	Positive	,033
	Negative	-,051
Test Statistic		,051

Asymp. Sig. (2-tailed)	,200[c,d]
a. Test distribution is Normal.	
b. Calculated from data.	
c. Lilliefors Significance Correction.	
d. This is a lower bound of the true significance.	

Source: Output SPSS (2022)

Based on the Kolmogorov-Smirnov test, the significance value of unstandardized residual or Asymp.Sig. (2-tailed) is obtained at 0.200 or greater than 0.05. The results of this test indicate that the residual value is normally distributed. Thus, the normality test for this study is declared acceptable, and our testing can be continued.

Table 4
Multicollinearity Test

Coefficients

Model		Collinearity Statistics	
		Tolerance	VIF
1	(Constant)		
	Financial Stability	,936	1,068
	External Monitoring Mechanism	,670	1,492
	Opportunistic Behavior	,678	1,475
	Ineffective Monitoring	,855	1,169

a. Dependent Variable: Earning Management

Source: Output SPSS (2022)

Based on the results of the multicollinearity test, it can be concluded that the regression model does not have multicollinearity problems. It can be seen from its VIF value which is less than ten, and the tolerance is more than 0.1.

Table 5
The Result Autocorrelation Test

Model Summary

Model	R	R Square	Adjusted R Square	Std. The error in the Estimate	Durbin-Watson
1	,460[a]	,212	,191	,06063	1,875

a. Predictors: (Constant), Ineffective Monitoring, Financial Stability, Opportunistic Behavior, External Monitoring Mechanism
b. Dependent Variable: Earning Management

Source: Output SPSS (2022)

Data is declared free from autocorrelation if dU<d<4-dU. In the table, the Durbin-Watson value obtained is 1.875. Furthermore, these values are compared with dL and dU values with a significance level of 5%. According to the Durbin Watson table, the dL value for sample 154 with four variables is 1.6836. The dU value is set at 1.7901. Therefore, 4-dU = 4 – 1.7901 = 2.2099. Based on this formula, the result is 1.7901<1.8750< 2.2099. Therefore, it can be concluded that there is no autocorrelation.

Table 6
The result of the Heteroscedasticity Test

Coefficients

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	,053	,015		3,553	,001
	Financial Stability	-,002	,028	-,006	-,076	,939
	External Monitoring Mechanism	,018	,019	,098	,981	,328

Opportunistic Behavior	-,003	,014	-,020	-,200	,842
Ineffective Monitoring	-,031	,031	-,090	-1,020	,310

a. Dependent Variable: ABS_RES

Source: Output SPSS (2022)

The results of the SPSS output displayed in table 5.8 show that there is not a single independent variable that is statistically significant in influencing the absolute value of a dependent variable. These results can be seen from the level of significance probability above 5%. Therefore, it can be concluded that the regression model does not contain heteroscedasticity.

Table 7
Hypothesis Testing

Coefficients

Model		Unstandardized Coefficients		Standardized Coefficients		
		B	Std. Error	Beta	t	Sig.
1	(Constant)	-,111	,016		-7,142	,000
	Financial Stability	,138	,048	,214	2,862	,005
	External Monitoring Mechanism	,096	,031	,269	3,090	,002
	Opportunistic Behavior	-,116	,024	-,424	-4,923	,000

a. Dependent Variable: Earning Management

Source: Output SPSS (2022)

Based on the table above, the regression model can be seen from the following equation.

$Y = a + bX1 + bX2 + bX3 + \varepsilon$

$Y = -0.111 + 0.138X1 + 0.096X2 -0.116X3 + \varepsilon$

Therefore, the results of hypothesis testing and the meaning of regression coefficients can be interpreted as follows: the constant value of -0.111 indicates that if all variables (X) are 0 (zero), then the fixed value or initial value of earning management (Y) is -0.111. The value of the X1 regression coefficient is 0.138 and positive. It means that every one unit increase in the X1 variable with the assumption that the other variables are fixed will increase the Y variable by 0.138. The significance value of X1 is 0.005 < 0.05 with t-count of 2.862 > t-table of 1.97549 . Thus, a decision can be made to accept the first hypothesis. Hence, financial stability has a positive effect on earning management. The regression coefficient value of the X2 variable is 0.096 and is positive. It means that every one unit increase in the X1 variable with the assumption that the other variables are fixed will increase the Y variable by 0.096. The significance value of X2 is 0.002 < 0.05 with a t-count of 3.090 > t-table 1.97549. Thus, a decision can be made to accept the third hypothesis. Hence, the external monitoring mechanism has a positive effect on earnings management. The value of the regression coefficient of the X3 variable is -0.116 and negative. It means that every one unit increase in the X3 variable with the assumption that the other variables are fixed will decrease the Y variable by 0.116. The significance value of X3 is 0.000 < 0.05 with a t-count of -4.923 < t-table 1.97549. Thus, a decision can be made to accept the fifth hypothesis. Hence, opportunistic behavior has a negative effect on earnings management.

Table 8
MRA Result of Second Hypothesis Testing

Coefficients

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
The First Equation						
1	(Constant)	-,056	,006		-8,703	,000
	Financial Stability	,185	,050	,288	3,713	,000
The Second Equation						
1	(Constant)	-,039	,022		-1,752	,082
	Financial Stability	,187	,050	,291	3,742	,000
	Ineffective Monitoring	-,042	,052	-,064	-,822	,412
The Third Equation						
1	(Constant)	-,045	,025		-1,781	,077
	Financial Stability	,310	,242	,482	1,279	,203
	Ineffective Monitoring	-,027	,060	-,041	-,450	,654
	Financial Stability*Ineffective Monitoring	-,296	,572	-,198	-,518	,605

a. Dependent Variable: Earning Management

Source: Output SPSS (2022)

The t-count of ineffective monitoring in the second equation is (-0.822) with a significance level of 0.412 > 0 0.05 and financial stability multiplied by weak monitoring with a significance value of 0.605 > 0.05. Therefore, it can be concluded that the ineffective monitoring variable is not a moderator for the relationship between financial stability and earning management. It means that inadequate monitoring cannot moderate the relationship between financial stability and earnings management. Thus, the second hypothesis is rejected.

Table 9
MRA Result of the Fourth Hypothesis Testing

Coefficients

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
The First Equation						
1	(Constant)	-,055	,013		-4,215	,000
	External Monitoring Mechanism	,031	,029	,089	1,098	,274
The Second Equation						
1	(Constant)	-,035	,023		-1,505	,134
	External Monitoring Mechanism	,042	,030	,117	1,375	,171
	Ineffective Monitoring	-,059	,057	-,089	-1,041	,300
The Third Equation						
1	(Constant)	-,097	,061		-1,577	,117
	External Monitoring Mechanism	,159	,112	,449	1,417	,159
	Ineffective Monitoring	,094	,151	,142	,619	,537
	External Monitoring Mechanism*Ineffective Monitoring	-,283	,261	-,469	-1,087	,279

a. Dependent Variable: Earning Management

Source: Output SPSS (2022)

The t-count of ineffective monitoring in the second equation is (-1.041) with a significance level of 0.300 > 0 0.05 and financial stability multiplied by weak monitoring with a significance value of 0.279 > 0.05. Therefore, it can be concluded that the ineffective monitoring variable is not a moderator for the relationship between external monitoring mechanisms and earning management. It means that weak monitoring cannot moderate the relationship between external monitoring mechanisms and earnings management. Thus, the fourth hypothesis is rejected.

Table 10
MRA Result of the Sixth Hypothesis Testing

Coefficients

Model		Unstandardized Coefficients		Standardized Coefficients		
		B	Std. Error	Beta	t	Sig.
The First Equation						
1	(Constant)	-,055	,006		-8,859	,000
	Opportunistic Behavior	-,082	,021	-,298	-3,852	,000
The Second Equation						
1	(Constant)	-,071	,025		-2,910	,004
	Opportunistic Behavior	-,087	,023	-,317	-3,849	,000
	Ineffective Monitoring	,037	,055	,056	,679	,498
The Third Equation						
1	(Constant)	-,071	,025		-2,858	,005
	Opportunistic Behavior	-,075	,074	-,274	-1,019	,310
	Ineffective Monitoring	,037	,055	,055	,671	,503
	Opportunistic Behavior*Ineffective Monitoring	-,026	,155	-,044	-,166	,868

a. Dependent Variable: Earning Management

Source: Output SPSS (2022)

The t-count of ineffective monitoring in the second equation is 0.679 with a significance level of 0.498 > 0 0.05 and opportunistic behavior multiplied by inadequate monitoring with a significance value of 0.868 > 0.05. Therefore, it can be concluded that the ineffective monitoring variable is not a moderator for the relationship between opportunistic behavior and earning management. It means that weak monitoring cannot moderate the relationship between opportunistic behavior and earnings management. Thus, the sixth hypothesis is rejected.

Correlation and Determination Coefficient (R^2)

The results of the data correlation coefficient and determination are shown in the following table:

Table 11
Adjusted R-square

Model Summary

Model	R	R Square	Adjusted R Square	Std. An error in the Estimate
1	,460[a]	,212	,196	,06043

a. Predictors: (Constant), Opportunistic Behavior, Financial Stability, External Monitoring Mechanism

Source: Output SPSS (2022)

Based on the table above, it can be concluded that the analysis carried out using multiple linear regression showed that the correlation coefficient value of R = 0.460. It means that there is a positive correlation among the variables. The degree of influence between independent and dependent variables can be seen in the following table.

Table 12
Degree of Influence for Variables Relationship

Coefficient Correlation Interval	Degree of Influence
0.00 – 0.199	Very low
0.20 – 0.399	Low
0.40 – 0.599	Moderate
0.60 – 0.799	Strong
0.80 – 1.000	Very strong

Source: Sugiyono (2014)

Based on the correlation coefficient table above, it can be stated that there is a moderate correlation between financial stability, external monitoring mechanisms, opportunistic behavior, and earnings management. This study also obtained a coefficient of determination value (Adjusted R-Square) of 0.196. It shows that financial stability, external monitoring mechanism, and opportunistic behavior can affect earning management by 19.6%, while the other 80.4% is influenced by independent variables that are not included in this study.

The Effect of Financial Stability on Earning Management

Based on the regression results, it is known that the Financial Stability (ACHANGE) variable has a significance value of 0.005 with a regression coefficient of 2.862. Hence, it can be concluded that financial stability as proxied by ACHANGE has a positive effect on earnings management. The results of this study are similar to those of Aprilia, (2014) and Jao et al., (2021). In this case, the company is said to be in a stable state if the ACHANGE value is not too high. However, if the ACHANGE value is getting bigger, the company is not in a stable condition. Thus, when a company is in a stable condition, the company value will increase in the view of investors, creditors, and the public. This statement is also supported by SAS No. 99, which states that managers face pressure to intervene in financial accounts when economic conditions or industry threaten financial stability or the situation of the operating entity (Skousen et al., 2009).

The Effect of Ineffective Monitoring as a Moderating Variable Between Financial Stability and Earning Management.

The hypothesis test results show that ineffective monitoring does not moderate the relationship between leverage and earnings management in the non-cyclical consumer sector for the 2016-2020 period. This study is evidenced by the regression coefficient of Financial Stability*Ineffective Monitoring interaction through moderated regression analysis test. This research was conducted by Savitri & Priantinah, (2019), with a statement that ineffective monitoring proxied by the percentage of independent commissioners cannot be a moderating variable. Thus, an independent board of commissioners cannot influence the intervention on the financial statements made by management. Boediono, (2005) revealed that based on a survey of the Asian Development Bank, the board of commissioners is not independent due to the robust control of company founders and the majority shareholder, which results in an ineffective supervisory function. Therefore, even though the company is in an unstable condition and inefficient use of assets, the existence of an independent commissioner cannot strengthen or weaken the intervention occurrence in financial statements.

In theory, the effectiveness of independent commissioners is highly dependent on how the design and quality of continuous supervision are implemented. In addition, their behavior, legal responsibilities, and position are designed and incorporated into the company's articles of association. The linkage between aspects of supervision and juridical responsibility in every business step taken by management will significantly affect the independence and decisions made by independent commissioners. Moreover, every decision made by an independent commissioner is inseparable from the running of internal control mechanisms, including the existence of an audit committee. However, this study does not consider the presence of an audit committee to assess the moderating effect of independent commissioners on earnings management.

The Effect of External Monitoring Mechanism on Earning Management

Based on the test results, the significance value of external monitoring mechanism influence on earning management is 0.002 with a coefficient of 3.090. Therefore, the results of this study accept Hypothesis 2a (H2a), which states that external monitoring mechanisms have a positive effect. The results of this study support the research conducted by Alfina, (2021) and Anugerah & Kurnia, (2014). A company with high debt might be put under control and supervision by creditors. Thus, the power will result in limitedness in the decision-making process. To convince them, managers might be doing some intervention to provide a good company overview. Therefore, a high percentage of debt increases the motivation of company managers to perform earnings management.

The Effect of Ineffective Monitoring as a Moderating Variable Between External Monitoring Mechanism and Earning Management.

Based on the hypothesis test, ineffective monitoring does not moderate the relationship of external monitoring mechanism to earnings management in non-cyclical sector consumers for the 2016-2020 period. This research is evidenced by a significant value that exceeds 0.05 in regression of External Monitoring Mechanism*Ineffective Monitoring through moderated regression analysis. The results of this study contradict Fatmala, (2021) who states that independent commissioners can moderate leverage on earning management.

The presence of an independent board of commissioners is not a moderating variable. It happens because the company of an independent panel of commissioners is intended to fulfill government regulations but has not been able to implement a supervisory system more effectively (Savitri & Priantinah, 2019). Therefore, even though the total debt owned by the company is high, a manager cannot act as a reinforcement or weaken the occurrence of intervention in financial statements.

In the General Meeting of Shareholders, if, according to the board of directors' business judgment, the plan is inappropriate, then the board of directors can carry out the project which, in its judgment, is best for the company. Even though there are GMS decisions and considerations from the board of commissioners, they do not act as management but only as supervisors. Thus the board of directors remains independent, primarily to decide whether the action is taken or not. In other words, the approval of GMS and commissioners cannot relieve the board of directors from making decisions and being responsible for their management.

The Influence of Opportunistic Behavior on Earning Management

The results of hypothesis testing 3b show a significant value of 0.000 and a coefficient of -4.923. Based on these results, it can be stated that Hypothesis 3a is accepted. It means that *free cash flow* has a negative effect on earnings management. The higher the *free cash flow* available in a company, gives a signal that the company can manage finances well. Based on the free cash flow concept, the available funds are funding ready to be distributed to shareholders after capital expenditures and net working capital. Therefore, the sizeable free cash flow provides a good signal for potential investors and existing stockholders. Managers also have an excellent opportunity to get incentives for their successful performance.

According to agency theory, the agency problem will be minimized when both parties (agents and principals) have the same benefits and goals. It makes managers not motivated to manage earnings when the available free cash flow is sufficient. On the other hand, the company will perform earnings management when the company's going concern is threatened (Bukit & Iskandar, 2009). Hence, free cash flow has a negative effect on earning management. The results of this study are in line with research by Ghazali et al., (2015), Sari & Meiranto (2017), and Susanto & Bosta (2018), which show that *free cash flow* has a

negative effect on earnings management.

The Effect of Ineffective Monitoring as a Moderating Variable Between Opportunistic Behavior and Earning Management.

Based on the test in this study, it was found that ineffective monitoring measured using the ratio of an independent board of commissioners did not succeed as a moderating variable. The results of this study contradict the research conducted by Fatmala (2021). The size of the board of commissioners cannot be the main determining factor in the effectiveness of supervision of the company's management. However, the point of monitoring and control mechanisms depends on the values, norms, and beliefs accepted within an organization (Jennings, 2005). Therefore, even though the company has a certain level of cash flow, financial statement intervention cannot be strengthened or weakened by the presence of several independent commissioners.

Based on an excellent corporate governance concept, the value of a company will be maximized if the functions and duties of each actor in a modern business organization can be separated. The Board of Directors (BOD) must work full time with no contemporary work. They manage the company through various company managerial decisions. Meanwhile, the Board of Commissioners (BOC) includes ordinary and independent commissioners, as well as multiple committees formed to oversee the direction of the management and the running of the company. For the functions and duties of the Board of Commissioners to run correctly, it is necessary to ensure that any policies and decisions issued by the Board of Commissioners do not favor the interests of the BOD as an agent or bias the interests of the owners. However, this study does not consider the assessment of multiple positions, so it fails to determine the moderating effect of the existence of an independent board of commissioners on earnings management.

CONCLUSION

The study aims to determine the effect of financial stability, external monitoring mechanism, and opportunistic behavior moderated by ineffective monitoring on a company's earnings management. Based on research data analysis, hypotheses, and analytical models, the conclusions are as follows. Financial stability has a positive effect on earnings management in non-cyclical consumer companies. The higher the asset change ratio, the higher the manager's motivation to carry out earnings intervention in financial statements. Ineffective monitoring failed to become a moderating variable of financial stability and earning management. It means that the proportion of independent commissioners cannot strengthen or weaken the occurrence of intervention in financial statements.

External monitoring mechanism has a positive effect on earnings management. The higher the proportion of debt owned by the company, the more motivated the manager to do earnings management. Ineffective monitoring failed to become a moderating variable of external monitoring mechanisms and earning management. It means that the proportion of independent commissioners cannot strengthen or weaken the occurrence of intervention in the financial statements. Opportunistic behavior has a negative effect on earnings management. The higher the free cash flow owned by the company, the manager's opportunity to obtain incentives is also higher; hence, the motivation to intervene in financial statements will decrease. Ineffective monitoring failed to become a moderating variable of opportunistic behavior and earnings management. It means that the proportion of independent commissioners cannot strengthen or weaken the occurrence of intervention in the financial statements.

This study has several limitations. Some of these limitations are described as follows. This study uses a sample of data on the Indonesia Stock Exchange for five years (2016-2020). This period is relatively short when compared to previous research. The selection used is

limited to non-cyclical consumer sector companies. The effect of factors employed on earnings management in non-cyclical consumer sector enterprises lacks supportive literature. This research is due to the formation of a new sector list published in 2021. Thus, research on this sector is relatively challenging to find. The research model tested has a relatively low R-Square. This research model can only explain the dependent variable of 19.6%, while the other 81.4% are influenced by external factors that are not examined.

Based on data analysis that has been carried out, several suggestions to obtain better results for future research are as follows. The additional data will be used as a sample to get more accuracy. They were adding other constructs such as board characteristics, leadership structure, corporate governance, and audit committee structure as independent variables in the study. The ineffective monitoring variable as measured by the proportion of independent commissioners failed to become a moderating variable. Future research is expected to use more specific measurement indicators.

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