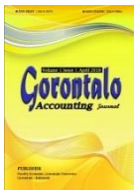

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Whistle-Blowing Policy as a Governance Tool: An Empirical Study of Earnings Management in Indonesian Companies

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Abstract. This study aims to examine whether the implementation of Whistle-Blowing Policy (WHBLP) strengthens the effectiveness of Corporate Governance (CG) mechanisms in limiting earnings management (EM) practices in Indonesian manufacturing companies. The research adopts an empirical quantitative approach, using secondary data from manufacturing firms listed on the Indonesia Stock Exchange (IDX) for the period 2021–2023. The sample was selected through purposive sampling, and data analysis was conducted using panel data regression and the Modified Jones Model (MJM) to measure discretionary accruals as a proxy for earnings management. The findings reveal that firms with well-structured internal controls and WHBLP can enhance monitoring mechanisms of CG, thus mitigating earnings management. However, the results also indicate that CG mechanisms are sometimes more effective in firms without WHBLP, suggesting the need for stronger policy enforcement. These findings provide practical implications for investors, shareholders, and policymakers in developing more effective whistle-blowing systems to improve corporate governance practices.

Abstrak. Penelitian ini bertujuan untuk mengkaji apakah penerapan Kebijakan Whistle-Blowing (WHBLP) memperkuat efektivitas mekanisme Tata Kelola Perusahaan (Corporate Governance/CG) dalam membatasi praktik manajemen laba (Earnings Management/EM) pada perusahaan manufaktur di Indonesia. Penelitian ini menggunakan pendekatan kuantitatif empiris dengan data sekunder dari perusahaan manufaktur yang terdaftar di Bursa Efek Indonesia (BEI) untuk periode 2021–2023. Sampel dipilih menggunakan teknik purposive sampling, dan analisis data dilakukan dengan regresi data panel serta Model Jones yang Dimodifikasi (Modified Jones

Model/MJM) untuk mengukur akrual diskresioner sebagai proksi dari manajemen laba. Hasil penelitian menunjukkan bahwa perusahaan dengan sistem pengendalian internal yang terstruktur dengan baik dan penerapan WHBLP mampu meningkatkan mekanisme pengawasan dari CG, sehingga dapat mengurangi praktik manajemen laba. Namun, hasil juga menunjukkan bahwa dalam beberapa kasus, mekanisme CG lebih efektif pada perusahaan yang tidak menerapkan WHBLP, yang mengindikasikan perlunya penegakan kebijakan yang lebih kuat. Temuan ini memberikan implikasi praktis bagi investor, pemegang saham, dan pembuat kebijakan dalam mengembangkan sistem whistle-blowing yang lebih efektif guna meningkatkan praktik tata kelola perusahaan.

Keywords:
Corporate Governance; Whistle blowing; Earning management

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Introduction

In the era of globalization, accounting scandals and financial fraud have become critical issues that attract the attention of stakeholders, including investors, managers, auditors, and regulators. Earnings management (EM) practices frequently occur due to the flexibility in accounting standards, allowing managers to manipulate earnings within legal boundaries. Such practices reduce the quality of financial reports, increase information asymmetry, and weaken stakeholder trust. EM not only distorts the firm's financial performance but also harms the credibility of capital markets and the economy as a whole (Campa et al., 2023). These occur because of flexible accounting standard does exist that possibly drives the management to manipulate firm earning in the boundaries of the law and exploit accounting standard (Wan Mohammad et al., 2016). Serious accounting fraud has the potential to start scandals that affect society as a whole and extend beyond the immediate stakeholders (Poradova, 2021).

Further, this practice forces the management to get involved in inaccurate accounting report or in fraud practice (Ghazali et al., 2021). Several cases in Indonesia illustrate how earnings management and fraudulent practices have negatively impacted corporate governance and investor confidence. For example, PT Kimia Farma Tbk, one of Indonesia's largest pharmaceutical companies, was found to have overstated its profit by 24.7% in 2001 through inflated inventory prices and double recording of sales transactions. Similarly, in 2004, PT Indofarma Tbk was discovered by the Capital Market Supervisory Agency (Bapepam) to have overstated the cost of goods sold by IDR 28.8 billion, resulting in inflated net profits by the same amount. These incidents highlight the persistent challenges of fraud and earnings manipulation in Indonesian companies.

The prevalence of fraudulent practices underscores the need for strong Corporate Governance (CG) mechanisms to reduce agency conflicts and improve accountability. One essential component of CG is the implementation of a Whistle-Blowing Policy (WHBLP), which provides a confidential channel for employees and stakeholders to report unethical or illegal activities within the organization. WHBLP is regarded as an effective internal control mechanism that enhances transparency and reinforces the monitoring role of CG structures such as the Board of Directors and Audit Committee. However, the effectiveness of CG and WHBLP in reducing EM

remains a topic of debate, particularly in the context of Indonesian firms where CG practices are still evolving.

PT Kimia Farma Tbk as the biggest pharmacy firm in Indonesia experiences this phenomenon where in 2002 this firm evidently inflating its profits. It is proven right after financial statement re-audit in December 31th 2001 finds the firm reports IDR 132 billion, 24.7% higher profit than actual profit. The profit differences occur because of two mistakes, the error in presenting related to inventory which is mark-up inventory price, secondly the error in presenting related to sales which is double recording of sales.

Apart from the case above, the other case also experienced by PT Indofarma Tbk. In 2004, Bapepam (Capital Market Advisory Agency) found PT Indofarma Tbk in processing goods prices is overstated. As the result, the cost of the goods sold is understated IDR 28.8 billion and its net profit is overstated with the same value. In previous paper francis et al (2008) state that firms which show good profit quality tend to have level of voluntarily disclosure higher than they who have worse profit quality. Li (2010) finds that expected earning management contains prediction errors related to historical share return, where the management neglect attaching related information through share price to expected profit efficiently. Errors in prediction may arise from manager assessment mistakes on firm business prospect. Moreover, Gong et al (2021) stipulate that the existence of earning management prediction does not decreasing accrual price setting. Earning Management (EM) practice has shifted the attention and the effort of researchers to Corporate Governance (CG). Agency theory and existing literatures suggest that CG mechanism, for instance, Board of Directors, ownership, and audit committee decrease agency conflict and EM practice. Agency theory assumes that there is a moral hazard inherent in the principal-agent relationship that gives rise to agency costs (Abdullah & Ismail, 2016).

CG researchers have recently shifted their focus from the traditional conceptualization of principal-agent agency conflict to a relatively new conceptualization of agency conflict referred to as PP conflict (Basheer et al., 2021). Yet, postulated that CG mechanism in Indonesia is not strong enough to decrease agency conflict. According to Tanjung (2023) the discussion about CG and its uptake in Indonesia is still in its infancy.

It led by conflict of interest (between managers and shareholders or between major and minor shareholders), and information asymmetry in almost all organizations. Besides, there is a gap on CG mechanism effectiveness because of a lot of members of board have another job in the other firms and depend on CEO to provide them specific relevant information to monitor managers. Considering that whistleblower methods have been shown to improve accountability and transparency in the use of public funds, their significance becomes pertinent (Pramono & Aruzzi, 2023).

Whistle-Blowing Policy (WHBLP) debated as vital part of internal control system. Accordingly, formulating WHBLP will elevate monitoring role of CG mechanism (Nam & Nam, 2004; Shawver & Shawver, 2007; Young, 2013). Most importantly, prior literatures extensively examine CG mechanism role in mitigating EM. Yet, the results are not compatible and creating need to do further research on the role of CG mechanism in mitigating EM in Indonesia. Consequently, this paper shows that functional corporate governance and its effectiveness can be achieved with WHBLP, which significantly decreasing EM practices.

Precisely, the aim of this paper is to examine whether CG mechanism in firms with WHBLP is more effective in limiting EM practice than the firm without WHBLP. For the best knowledge of researchers, this paper is the first empirical research which implementing agency theory and resources in examining whether the monitoring role

of CG mechanism in firm with WHBLP limits EM practice or not. Hence, this paper will assist policy makers and the other stakeholders in elevating the role of central government. Suggested also, that policy makers to encourage firms to have effective WHBLP. Besides, policy makers necessarily need to create an act or law to manage WHBLP and in the same time protect the whistle blower from the negative reaction of the others part.

Agency Theory

For incorporated firms (specifically for listed firms), it is commonly practice to distinguish management part (management, or namely agent) and the owner (shareholder, or namely principal). It means, if the firm is bankrupt, own equity which already delivered by the owner highly possible will gone, but private wealth will be not included to cover the failure. It will drive agency problems.

Agency theory arises in two forms, between firm owner (principals) and the management (agents), and between shareholder and bondholders. Agency theory addresses the issues that arise in businesses as a result of owners and managers being separated, with a focus on minimising these issues (Panda & Leepsa, 2017). Agency theory focusses on partnerships that resemble the fundamental agency structure of a principal and an agent acting cooperatively but with different objectives and risk-taking attitudes (Eisenhardt, 1989).

According to agency theory, CG mechanism helps solving agency problems. Besides, from the perspective of resource dependence theory, CG mechanism is strategic tools which will help connecting external resources to the firms (Panda & Leepsa, 2017). Consequently, prior researches do the research extensively the effect of Board of Director (BOD) mechanism, for instance, independency and tenure, size of board, meeting, independency, and gender diversity) and AC mechanism (i.e size of AC, meetings, independency, gender diversity, competency, and number of director jobs) on EM. However, the result is inconsistent. For instance, the prior results do not provide clear conclusion of the effectiveness of BOD to lessen EM practice. Similarly, empirical result of the correlation of independency AC and EM is contradictive. Due to prior studies have not provided yet concrete correlation between AC and EM mechanism, highly recommended to conduct the future studies related to those topics.

According to above situations, in the other word lack of relevant information can affect independent director, which depend on managers and auditing information, to reveal and repair EM. Therefore, outside directors, entirely, may not achieve the progress in practicing its own corporate governance practice, specifically where labor market on outside director perhaps is not developed effectively.

Whistle-Blowing

The term "whistle blowing" describes any dubious, immoral, or unlawful event—or, more specifically, knowledge about such an event (Skoczylas-Tworek, 2020). Whistle blowing is the practice of one worker or some workers spill the frauds which practiced by firms or their boss to the firms, where firms may adjust the list of reported subject to put an ease for the worker to detect reported frauds (Schmidt, 2005). According to Kuang & Lee (2017) if fraud is done by director members or people who have connection, therefore fraud reporting delivered to the chief of commissioner. Further handling will be given to board of commissioner and if necessary, suggested to invite investigator/ independent external auditors.

Hypothesis Development

The firms have to use other mechanism to stress agency problems, where board have to seek the information from low level managers on decision and top manager's performance. Recently, firms in Indonesia are encouraged to develop policy to their internal control system, such as WHBLP, because it will deliver valuable information

which will elevate organization effectiveness and good practice of CG (Dosinta & Yunita, 2024).

In some area in Asia, such as Indonesia, Japan, Singapore, Thailand and Malaysia have required companies to formulate WHBLP that allows employees, especially internal and external auditors, to directly access and talk with independent directors about their concerns about illegal behavior or unethical, without fear of retribution (Cheung & Chan, 2006; Claessens & Fan, 2003; Nam & Nam, 2004). Practically, without WHBLP, in addition to misleading shareholders' assessments of financial information, company management can also hide EM practices that create information asymmetry between shareholders and managers. Thus, the presence of WHBLP in a company can increase the role of CG (BOD and AC) to detect and mitigate EM and protect the interests of investors and stakeholders.

A strong commitment to the company's WHBLP can largely tie the interests of managers to the interests of other stakeholders. Many corporate frauds are revealed not only by auditors or external analysts, but also by employees who have access to accounting information (Shahwan, 2015). Therefore, WHBLP, as one of the CG mechanisms, can increase the flow of information to directors, in particular, independent directors, and thus help them detect EM. Unless, managers can manipulate earnings while internal auditors fail to report unethical practices in a company. As a result, when there is an efficient WHBLP in place, directors and other stakeholders can readily hear from external and internal auditors about any concerns pertaining to the calibre of financial reporting, particularly when it comes to managers' participation in EM activities. Thus, with an effective WHBLP, the CG mechanism will be more effective in detecting EM practices.

This study aims to examine whether Corporate Governance mechanisms are more effective in limiting earnings management practices in companies that implement Whistle-Blowing Policies compared to those that do not. The research focuses on manufacturing firms listed on the Indonesia Stock Exchange (IDX) during the period 2021–2023.

Therefore, the hypothesis is stated as follows:

H1: The CG mechanism is more effective in companies that have WHBLP than companies that do not have WHBLP.

Research Method

The population in this study consists of all manufacturing companies listed on the Indonesia Stock Exchange (IDX) during the period 2021–2023. According to IDX data, there were 143 manufacturing firms listed during this period.

The sample was selected using purposive sampling based on the following criteria:

1. Manufacturing companies consistently listed on IDX from 2021 to 2023.
2. Companies that published complete financial reports for the entire observation period.
3. Companies that reported positive net income in each year of the observation period (firms with negative net income in any single year during 2021–2023 were excluded).

After applying these criteria, 78 companies were included in the final sample, resulting in 234 firm-year observations (78 firms over 3 years).

The operational variable in this study is to see whether the CG mechanism is more effective in companies with WHBLP than those without WHBLP. The research applies the Modified Jones Model (MJM) by Dechow et al., Which has accrual attributes generated from management opportunism. Therefore, cross-sectional analysis using Ordinary Least Square (OLS) was carried out for three years using

seven sectors with specific industry and year effects to estimate the coefficients of α_1, α_2, α_3 and ε_{it} from:

$$\frac{TA_{it}}{A_{it-1}} = \alpha_1 \left(\frac{1}{A_{it-1}}\right) + \alpha_2 \left[\frac{(\Delta REV_{it} - \Delta REC_{it})}{A_{it-1}}\right] + \alpha_3 \left(\frac{PPE_{it}}{A_{it-1}}\right) + \varepsilon_{it} \quad (1)$$

where TA is total accrual (net income minus cash flow from operations), A_{it-1} is total assets in the previous year, ΔREV_{it} is the change in income, ΔREC_{it} is the change in trade receivables. Second, PPE_{it} is a gross fixed asset, and ε_{it} is an error term. Therefore, the coefficient values of α_1, α_2, α_3 and ε_{it} estimated by (1) are used in (2) to estimate nondiscretionary accruals (NDA):

$$NDA = \alpha_1 \left(\frac{1}{A_{it-1}}\right) + \alpha_2 \left[\frac{(\Delta REV_{it} - \Delta REC_{it})}{A_{it-1}}\right] + \alpha_3 \left(\frac{PPE_{it}}{A_{it-1}}\right) + \varepsilon_{it} \quad (2)$$

Finally, the level of discretionary accrual (DNA) is extracted from:

$$DA = \frac{TA_{it}}{A_{it-1}} - NDA \quad (3)$$

This study uses the absolute value of DA as used by previous studies. First, regression analysis is carried out for all company observations. Second, separate tests are carried out for each group (companies with and without WHBLP) to see whether the CG mechanism is more effective in companies that have WHBLP than those who do not.

Third, this paper uses some control variables, firm size, leverage, size, ROA, and operating cash flow. The estimation used is as follow:

$$DA = \alpha + \beta_1 BCIND + \beta_2 BCTEN + \beta_3 BSIZE + \beta_4 BMEET + \beta_5 BIND + \beta_6 BFEM + \beta_7 ACSIZE + \beta_8 ACMEET + \beta_9 ACIND + \beta_{10} ACFEM + \beta_{11} ACAE + \beta_{12} ACMD + \beta_{13} Conc5 + \beta_{14} Big4 + \beta_{15} FSIZE + \beta_{16} LEV + \beta_{17} ROA + \beta_{18} NCFO + \varepsilon.$$

The variables presented in this table below:

Table 1. Variables Definition and Measurement

VARIABLE	**Measurement**
DA	DA absolute value using MJM
BCIND	"1" if chief of independent board, "0" otherwise
BCTEN	Tenure of board chief in board of directors
BSIZE	Total Board member
BMEET	Number of board meetings per annum
BIND	Board independency proportion (expressed in percentage)
BFEM	"1" if there is women presents in board, "0" otherwise
ACSIZE	Total member of Audit Committee
ACMEET	Number of audit committee meeting per annum
ACIND	Independency proportion of audit committee
ACFEM	"1" if Audit Committee has women present in board, "0" otherwise
ACAE	Proportion of Audit Committee with accounting competency (expressed in percentage)
ACMD	Number of Audit Committee who also become director in other firm
Conc5	Share proportion owned by top 5 major shareholders (expressed in percentage)

Big4	"1" if the firm audited by Big 4, "0" otherwise
FSIZE	Natural log of total assets
LEV	total leverage to total assets
ROA	Net revenue to total assets
NCFO	"1" if firm has negative cash value of operating, "0" otherwise

Data Analytic Technique

The study applies panel data regression analysis to examine the effect of Corporate Governance mechanisms and Whistle-Blowing Policy on earnings management. The regression models were estimated using the Fixed Effects Model (FEM), selected based on the Chow and Hausman tests. EViews 8 software was used to perform the statistical analysis. Control variables include firm size, leverage, return on assets (ROA), and operating cash flow. This study uses panel data regression analysis to examine the relationship between Corporate Governance (CG) mechanisms, Whistle-Blowing Policy (WHBLP), and earnings management (EM). The Fixed Effects Model (FEM) was selected based on the results of the Chow and Hausman tests. EViews 8 software was used for data processing and analysis. Hypothesis testing was conducted using t-tests and F-tests, and the model's goodness of fit was assessed using the coefficient of determination (R^2).

Result and Discussion

Sample Description

The population of this paper is all the manufacture firm listed in Indonesia Stock Exchange in period of 2021-2023, with total population is 143 firms. Sampling is done using purposive sampling method. This method allows selecting the sample based on certain criteria. The number of firms that met the first criteria, which are as listed manufacturing companies in 2021-2023 amounted to 143 companies. Firms that meet the second criterion are 124, they are the firms that publish financial reports consistently and complete data in 2021-2023. For the third criterion, firms with negative income in one year or more are excluded from a sample of 78 companies. From 143 manufacturing companies listed on the Indonesia Stock Exchange in 2021-2023, 78 companies met the sample criteria. The observation period of this study is 3 years, 2021-2023. In this study, 243 observations obtained were 78 companies multiplied by 3 years.

Descriptive Analysis

This descriptive statistic is used to provide the maximum, minimum, mean, and deviation standard score of used variables. Table 2 below presents the descriptive analysis:

Table 2. Descriptive Analysis

	N	Mean	Maximum	Minimum	Std. Dev
ACAE	234	42462.35	86976.00	24343.00	13110.35
ACFEM	234	0. 371795	1	0	0. 484320
ACIND	234	0.434409	0	1	0.496213
ACMD	234	0.488911	1	0	0.430876
ACMEET	234	28.14234	1	0	1.89683
ACSIZE	234	0.089403	0	0	0.103218
BCIND	234	65868.00	0	0	244464.09
BCTEN	234	57887.00	0	0	21341.00
BFEM	234	66876.07	0	1	56562.00
BIG4	234	23.8787	0	1	786756.11
BIND	234	38329.00	0	1	23258.21
BMEET	234	14.29060	19	10	9.472370

BSIZE	234	5.068376	10	9	2.015930
CONC5	234	41299.00	86976.00	23253.00	13436.60
DA	234	21.29117	454.7784	564.7014	83.31535
LEV	234	8.89688	1	0	1.998876
FSZE	234	25.84093	27.52697	21.96393	1.612378
NCFO	234	0.384615	1	0	0.487547
ROA	234	0.234336	0.898680	0.001326	0.226026

Source: processed secondary data (2024)

Table 2 presents the descriptive statistics for the variables used in this study, consisting of 234 firm-year observations. The discretionary accruals (DA), which serve as a proxy for earnings management, have a mean value of 21.29, with a maximum of 454.77 and a minimum of -564.70, indicating significant variability in earnings management practices among the sampled firms. The average board size (BSIZE) is 5.07 members, with the smallest board consisting of 9 members and the largest of 10 members. Board independence (BIND) shows an average proportion of 38.32%, ranging from 0% to 100%, suggesting varying degrees of independent oversight across firms. Audit committee meetings (ACMEET) have an average of 28.14 meetings per year, with a minimum of 0 and a maximum of 1 meeting, although these figures may indicate potential data discrepancies that require further validation. Firm size (FSIZE), measured as the natural logarithm of total assets, has a mean of 25.84, with a maximum of 27.53 and a minimum of 21.96. Meanwhile, the leverage (LEV) ratio averages 8.89, with reported maximum and minimum values of 1 and 0, respectively, though these figures may also suggest inconsistencies in data scaling or measurement. Overall, the descriptive statistics highlight substantial differences in corporate governance characteristics and earnings management practices among the firms in the sample.

Normality test

Table 3. The Result of Normality Test

Series: Standardized Residuals Sample 2021-2023 Observations 234	
Jarque-Bera	361.3219
Probability	0.00000

Source: processed secondary data (2024)

According to Table 3 above, it can be seen that the residual data are not normally distributed where the Jarque-Bera value is 361.3219 > 2 and the probability value is 0.00000 <0.05. Gujarati (2007) states that the assumption of normality may not be too important in large data sets, i.e the total of data/observations is more than 30. In this study the number of observations is 234, of which 78 companies are multiplied by 3 years. So, in accordance with the statement of Gujarati (2007), this study is above a large data set because it is large from 30 data, so the assumption of normality in this study is not an issue.

Panel Data Regression Estimation Eligibility Test

In panel data processing, what is done first is the selection of estimation methods that are in accordance with the research, namely common effects, fixed effects and random effects. Furthermore, it is done by a chow test and a hausman test. it explains as follow:

Chow Test

Before conducting the chow test, the first step is to compare the regression results of the common effect and fixed effect. The results can be seen through the table as follows

Table 4. Result Analysis Common Effect and Fixed Effect

Variable	**fixed Effect**		**Common Effect**	
	Coefficient	Prob	Coefficient	Prob
C	36.08114	0.7759	-18.7437	0.918
BCIND	-16.3039	0.2423	8.741726	0.6953
BCTEN	3.236666	0.32	0.561397	0.8972
BSIZE	-2.05306	0.4645	0.154489	0.9762
BMEET	0.789331	0.7324	-1.70324	0.6422
BFEM	12.33523	0.3755	-14.8682	0.4554
BIG4	4.279097	0.8809	0.39969	0.9916
ACSIZE	-0.03473	0.9915	0.660235	0.8831
ACMEET	-5.22276	0.1245	-4.95928	0.5261
ACIND	0.000224	0.572	-0.00016	0.7529
ACFEM	-36.4639	0.1057	-59.4428	0.0521
ACAE	-0.00017	0.7086	-0.00041	0.5215
CONC5	-0.00021	0.6336	-0.00017	0.7713
FSIZE	-1.77486	0.7022	2.016886	0.756
LEV	-2.07E-11	0.2621	-1.43E-11	0.5197
ROA	-3.3351	0.9045	60.82329	0.1494
NCFO	38.16655	0.1264	62.46673	0.0736
Adjusted R-squared	0.062265		-0.08865	
Sum squared resid	1516653		1057952	
F-statistic	0.900536		0.795986	
Durbin Watson	2.262593		3.074636	
N	234		234	

Source: processed secondary data (2024)

Table 4 shows the regression results using the common effect and fixed effect approaches. The regression results from the two methods have different results. The fixed effect approach has an adjusted R-square greater than the common effect approach where there are two statistically significant independent variables, while the common effect results are 2 significant variables.

The Durbin Watson value on the common effect approach model is smaller than using the fixed effect approach, to determine the better approach method Chow test must be performed. The Chow Test results are presented as follows:

Table 5. Result of Chow Test

Redundant Fixed Effects Tests **Equation: Untitled** **Test cross-section fixed effects**			
Effects Test	Statistic	d.f.	Prob.
Cross-section F	0.788317	-77,140	0.000

Cross-section Chi-square	84.27995	77	0.000

Source: processed secondary data (2024)

According to Table 5 it appears that the value of Prob. Cross-section F of 0.0000, where the value indicates a value <0.05 (the significance level of this study). Based on the results of the Chow Test it is concluded that between the common effect and fixed effect methods this research is better to use the fixed effect method. This research is better to use the fixed effect model, but because there is still one more approach method in the panel data that is random effect, this study also needs to compare the two methods. Comparison of the two methods is to find the best method to be used in estimating panel data in this study. To compare the two methods, the Hausman Test is used.

Hausman Test

After doing the chow test, the next step is to perform the hausman test. Because in Eviews uses three methods of testing, for the hausman test is a test to compare and choose between fixed effects and random effects methods that are best used in a research method. A comparison between fixed effect and random effect approach models is presented in Table 4.6 as follows:

Table 6. Analysis Result of Fixed Effect and Random Effect

Variable	**Random Effect**		**Fixed Effect**	
	Coefficient	Prob	Coefficient	Prob
C	-18.7437	0.918	36.08114	0.7759
BCIND	8.741726	0.6953	-16.3039	0.2423
BCTEN	0.561397	0.8972	3.236666	0.32
BSIZE	0.154489	0.9762	-2.05306	0.4645
BMEET	-1.70324	0.6422	0.789331	0.7324
BFEM	-14.8682	0.4554	12.33523	0.3755
BIG4	0.39969	0.9916	4.279097	0.8809
ACSIZE	0.660235	0.8831	-0.03473	0.9915
ACMEET	-4.95928	0.5261	-5.22276	0.1245
ACIND	-0.00016	0.7529	0.000224	0.572
ACFEM	-59.4428	0.0521	-36.4639	0.1057
ACAE	-0.00041	0.5215	-0.00017	0.7086
CONC5	-0.00017	0.7713	-0.00021	0.6336
FSIZE	2.016886	0.756	-1.77486	0.7022
LEV	-1.43E-11	0.5197	-2.07E-11	0.2621
ROA	60.82329	0.1494	-3.3351	0.9045
NCFO	62.46673	0.0736	38.16655	0.1264
Adjusted R-squared	0.345876		0.062265	
Sum squared resid	1057952		1516653	
F-statistic	0.795986		0.900536	
Durbin Watson	3.074636		2.262593	
N	234		234	

Source: processed secondary data (2024)

Table 6 shows the regression results using the fixed effect and random effect approach models. Regression results from the two models have different results. The fixed effect approach has an adjusted R square greater than the adjusted R-square than the random effect approach. The value of Durbin Watson in the random effect

approach model is smaller than using the fixed effect approach, to determine the proper approach model must be tested. The hausman test results are presented in Table 7 as follows:

Table 7. Hausman Test

Correlated Random Effects – Hausman test Equation: Untitled Test cross-section random effects			
Test Summary	Chi-Sq. Statistic	Chi-Sq. d.f.	Prob.
Cross-section random	16.51488	5	0.0055

Source: processed secondary data (2024)

Table 7 is a hausman test table that shows the chi-square probability smaller than the significance level used (0.0055 <sig. A value of 0.05) so that between fixed effects and random effects, the efficient model used in this study is the fixed effect model.

Result of Panel Data Analysis

Data with panel characteristics are time structured data as well as cross sections. Such data can be obtained for example by observing a series of cross section observations (between individuals) at a certain period.

This kind of data has an advantage mainly because it is robust against several types of violations of Gauss Markov's assumptions, namely heterokedasticity and normality. In addition, with certain treatments such data structures can be expected to provide more information (high informational content). An aspect that is highly desirable for high-value empirical research.

Implementation of a regulation or the presence of an influential event (for instance: economic crisis) can also cause a period of time to have a special impact. If it can be assumed that there are specific components in both cross section and time series, then the estimation of the equation can be done with the OLS model that is commonly used. Statistical interpretation is also done in a standardized way such as the use of dimensionless data: cross section or time series.

Conversely, if it is believed that there is heterogeneity in both the cross section and time series, then the residual modeling must be done explicitly. The residual component must be modeled correctly in empirical specification. Panel data there are three testing methods, including the Fixed Effect, Random Effect The method chosen for use in this study is the Random Effect. Fixed Effect Regression Results in the following Table:

Table 8. Regression Result of Fixed Effect

Dependent Variable: ETR Method: Panel Least Squares				
Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	-18.7437	181.6787	-0.10317	0.918
BCIND	8.741726	22.27353	0.392472	0.6953
BCTEN	0.561397	4.339427	0.129371	0.8972
BSIZE	0.154489	5.163025	0.029922	0.9762
BMEET	-1.70324	3.658357	-0.46557	0.6422
BFEM	-14.8682	19.8632	-0.74853	0.4554
BIG4	0.39969	37.81565	0.010569	0.9916
ACSIZE	0.660235	4.483822	0.147248	0.8831

ACMEET	-4.95928	7.803603	-0.63551	0.5261
ACIND	-0.00016	0.000513	-0.31548	0.7529
ACFEM	-59.4428	30.33842	-1.95932	0.0521
ACAE	-0.00041	0.000639	-0.64264	0.5215
CONC5	-0.00017	0.000579	-0.2912	0.7713
FSIZE	2.016886	6.478916	0.3113	0.0046
LEV	-1.43E-11	2.22E-11	-0.64541	0.0037
ROA	60.82329	41.96238	1.449472	0.1494
NCFO	62.46673	34.64813	1.802889	0.0736
R-squared	0.345876	Mean dependent var		-21.2912
Adjusted R-squared	-0.08865	S.D. dependent var		83.31535
F-statistic	0.795986	Durbin-Watson stat		3.074636
Prob(F-statistic)	0.00057	S.E. of regression		86.92987
Sum squared resid	1057952	Akaike info criterion		12.05782

Source: processed secondary data (2024)

According to ratio analysis estimation on listed manufacture firms annual report during 2021-2023, Thus, hypothesis testing was conducted, and the results are presented in Table 8 which resulting determination coefficient (R^2) 0.34576, meaning those eighteen independent variables explained 34.57% while the rest of 65.43 % explained by unobserved variables.

The result on F statistic shows 0.795986 with probability of 0.00057. due to probability is less than 0.05, it can be concluded that those 18 independent variables affecting earning management.

Discussion

The findings of this study provide important insights into the role of Corporate Governance (CG) mechanisms and Whistle-Blowing Policy (WHBLP) in mitigating earnings management (EM) in Indonesian manufacturing firms. Based on the analysis of firms listed on the Indonesia Stock Exchange (IDX) between 2021 and 2023, several key conclusions can be drawn.

The results indicate that CG mechanisms have a significant impact on limiting EM practices. Firms with stronger governance structures, such as independent boards and active audit committees, tend to engage less in earnings manipulation. This finding is consistent with agency theory, which posits that effective monitoring by CG structures reduces agency conflicts and opportunistic behavior by management (Eisenhardt, 1989; Abdullah & Ismail, 2016).

Interestingly, the study finds that firms without WHBLP sometimes demonstrate more effective CG mechanisms in controlling EM compared to firms that have implemented WHBLP. This unexpected result suggests that the presence of WHBLP alone may not guarantee improved governance outcomes. One possible explanation is that WHBLP in some firms may exist merely as a formal compliance tool without proper enforcement or protection for whistleblowers. Without a supportive organizational culture and strong enforcement, WHBLP may have limited effectiveness in enhancing transparency and accountability. This aligns with Tanjung (2023), who notes that CG practices in Indonesia are still developing and often face challenges in implementation.

Furthermore, the findings indicate that board characteristics, such as board size and board independence, play a critical role in influencing the effectiveness of CG mechanisms. However, the presence of women on boards and audit committees, as well as the number of audit committee meetings, did not show a consistent

relationship with EM reduction. This suggests that while diversity and meeting frequency are important, they may not be sufficient on their own to curb earnings manipulation without other supporting factors.

The study also highlights the role of ownership concentration and the involvement of Big 4 auditors. Firms with a higher concentration of ownership and those audited by Big 4 firms tend to exhibit lower levels of EM. This supports prior research that emphasizes the importance of external monitoring and reputable audit services in enhancing financial reporting quality (Francis et al., 2008).

These results have several practical implications. First, policymakers and regulators should not only mandate the adoption of WHBLP but also ensure its proper implementation through clear guidelines and whistleblower protections. Second, companies should strengthen their internal CG mechanisms by enhancing board independence, ensuring active and competent audit committees, and fostering an ethical corporate culture that encourages transparency.

In summary, while WHBLP can be a valuable governance tool, its effectiveness depends on the broader governance environment and organizational commitment. Effective CG mechanisms remain crucial in mitigating EM, and the interplay between formal policies like WHBLP and actual governance practices should be a focus for future research and policy development.

These findings contribute to the growing body of literature on CG and EM, particularly in the context of emerging markets like Indonesia. Future studies could explore the longitudinal impact of WHBLP implementation and investigate sectoral differences in governance practices and outcomes.

The correlation after including intervening variables

Institutional ownership and size of commissioner which the total member of board of commissioner in business entity which has role to monitor and providing advices to directors and be responsible to ensure business entity applied good corporate governance, however it unaffected to earning management. Number of independent commissioners has level of sig which greater than 0.05 which means there is an effect of independent commissioner to earning management.

Correlation after including control variables

According to the results, size is positively significant to earning management wish level of significance of 0.00046. It indicates that the greater the size is, the lesser earning management. Arguably, the greater firm size is, the more flow of information which aftermath less asymmetric information would and resulting less possible earning management get practiced. Besides, it in lines with political cost hypothesis which show that big firm will bear higher political cost due to big firm tend to practice earning management by moving current profit to future profit so as recent profit is less. The testing result is consistent with (Purnama & Nurdiniah, 2019) which found that size negatively significant to earning management. Bigger firms have less chance to do earning management.

Leverage variable evidently has positive and significant correlation with significance level 0.0037 to earning management. It indicates that the higher firm's leverage ratio, the higher firm's earning management. Arguably, when the firms have higher debt ratio, the firms will tend to do earning management practice to avoid debt violation. The results of this paper align with (Andini & Amboningtyas, 2020) which find that leverage significantly correlate to earning management. It explained that firms which have higher leverage ratio is the consequence of the firm's debt is greater than its active, fathomed practicing earning management while firms prone to default, as the firms cannot payback the debt on due date.

Conclusion and Recommendations

This paper extensively examines the effect of CG mechanism (for instance, BOD and AC) on EM. Yet, existing papers have not focused yet on WHBLP existence, where it is the fundamental to strengthen CG mechanism effectiveness. WHBLP assists directors, which most likely has less time availability, energy, and authority to do their jobs, in accessing hidden information by the managements. Therefore, this paper attempts to examine whether CG mechanism in the firms which have WHBLP is more effective in limiting DA compare to the firms which have WHBLP. The results of this paper in line with agency theory and resource dependency, which claim that efficient and well-structured internal control effectively monitor manager attitudes. The results show that more effective CG mechanism in firms which have no WHBLP compare to they have. It is found that the dependency of board chief, their tenure, AC size, AC meetings, and women presenting AC less significant correlate to EM practice mitigation in firms practicing WHBLP. Similarly, ownership concentration and the firms audited by Big 4 redounds EM activities in firms with WHBLP. Further for the firms without WHBLP, only tenure of board chief which negatively significant to DA. These research findings deliver the evidences on value of owning WHBLP which strengthening monitoring role of CG mechanism towards EM mitigation.

To improve the effectiveness of WHBLP, companies should establish clear and anonymous reporting procedures, ensuring confidentiality and protection for whistleblowers. The policy should include independent reporting channels, such as third-party hotlines, and guarantee that reports are followed up transparently without retaliation. Regular employee training on the whistleblowing system and ethical culture reinforcement is also crucial.

For policymakers, there is a need to develop comprehensive regulations mandating WHBLP in all publicly listed companies. These regulations should include legal protection for whistleblowers, incentives for reporting misconduct, and strict penalties for companies that fail to implement or misuse the policy. Furthermore, regulatory bodies should conduct regular audits to ensure compliance and effectiveness.

Investors are encouraged to assess the existence and quality of WHBLP when making investment decisions. They should require companies to disclose information about their whistleblowing systems, including the number of reports received and how they were addressed. Additionally, investors can engage with management to advocate for stronger governance practices and accountability.

By implementing these measures, WHBLP can serve as a more effective tool in enhancing corporate governance and mitigating earnings management, ultimately contributing to greater transparency and trust in the corporate sector.

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