



Do the Characteristics of the Board of Directors Affect Earnings Management in State-Owned Enterprises?

Ni Komang Trisma Dani¹, Ni Luh Putu Widhiastuti², Ni Wayan Rustiarini³

^{1,2,3}Universitas Mahasaraswati Denpasar, Jl. Kamboja No. 11 A, Denpasar

ABSTRACT

This study aims to examine the effect of board size, board education, board gender, board political connection, and board narcissism on earnings management in State-Owned Enterprises (SOEs) listed on the Indonesia Stock Exchange during the 2021–2023 period. This research is grounded in agency theory, which explains that differences in interests between principals and agents may encourage opportunistic behavior, including earnings management. The population consisted of all SOEs listed on the Indonesia Stock Exchange, and the sample was selected purposively, yielding 24 companies with 72 firm-year observations. Secondary data were obtained from annual reports and analyzed using multiple linear regression. The results indicate that board size, board education, board gender, and board political connection do not significantly affect earnings management. In contrast, board narcissism has a positive and significant effect on earnings management. These findings suggest that board members' personal characteristics play a more important role in influencing earnings management practices than the board's structural characteristics. This study contributes to the corporate governance literature by highlighting the importance of behavioral factors, particularly board narcissism, in explaining earnings management practices within Indonesian SOEs.

Type of Paper: Empirical Paper

Keywords: earnings management; board size; board gender; political connection; board narcissism

1. Introduction

Earnings management is a crucial issue in financial accounting and corporate governance because it affects the quality of financial reports used by investors, creditors, and other stakeholders for economic decision-making. Earnings management practices arise when company management intervenes in the financial reporting process for specific purposes, such as improving the company's performance image, obtaining bonuses, maintaining a position, or

^{1,2,3}Kontak Penulis:

E-mail: komangtrismadani27@gmail.com¹, putuwidhiastuti@unmas.ac.id²,
rusti_arini@unmas.ac.id³

Afiliasi: Universitas Mahasaraswati Denpasar

attracting investors (Habib et al., 2022). Earnings management is management's behavior in adjusting earnings as desired through specific accounting policies. Earnings management is an opportunistic act because management manipulates accounting figures to suit its own interests (Sari et al., 2021). This phenomenon is closely related to agency theory, which explains the conflict of interest between shareholders (principals) and management (agents) due to information asymmetry. Under these conditions, management can exploit the flexibility of accounting standards to present company performance that appears better than it actually is (Yudistira et al., 2025).

The phenomenon of earnings management is suspected to have occurred at the State-Owned Enterprises (BUMN) PT. Waskita Karya (Perseroan) and PT. Wijaya Karya (Perseroan). The Ministry of State-Owned Enterprises suspects financial report manipulation to make the companies appear to be performing well. These two state-owned construction companies frequently experience financial difficulties and have large debts to both creditors and vendors. Therefore, the Ministry of State-Owned Enterprises strongly suspects that the two SOEs are polishing their cash flow statements to make them appear smooth, even as their financial condition is in difficulty. Previously, a similar case was also carried out by another state-owned company, namely Garuda. Garuda engaged in earnings management practices to make the company's performance appear good in the public eye. In 2018, Garuda recorded a net profit, supported in part by a collaboration with PT Mahata Aero Teknologi to place advertisements on aircraft. However, it later turned out that the profit came from the company's unrealized revenue or receivables. This case shows that earnings management practices remain a serious problem in state-owned companies and can undermine investor and public confidence in the integrity of their financial reports (Money.kompas.com, 2023).

This research gap stems from the importance of implementing Good Corporate Governance (GCG) mechanisms to minimize earnings management practices. One oversight mechanism that plays a crucial role in GCG implementation is the board of directors. The board of directors is responsible for determining the company's strategic direction and overseeing management to ensure it remains aligned with shareholder interests. Board characteristics are believed to influence the effectiveness of oversight of opportunistic management actions (Putri et al., 2021). In this study, the board characteristics examined included board size, educational background, gender, political connections, and board narcissism. A larger board size is believed to increase oversight effectiveness by leveraging the diversity of expertise and experience within the decision-making process. Furthermore, board directors with educational backgrounds in economics, accounting, and finance are considered to be better able to understand and detect financial statement manipulation (Rustiarini et al., 2021).

Furthermore, the research gap stems from inconsistencies in prior findings on the factors influencing earnings management. Several studies have found that board size negatively affects earnings management (Karina & Sutarti, 2021), while others have found a positive effect (Wulandari & Jaya, 2023). Regarding gender, Fitriani & Feliana (2022) found that the presence of women on the board of directors influences earnings management practices, while other studies found no effect on earnings management (Budhyarto, 2023; Megawati & Sulfitri, 2023). Inconsistencies also exist in the variables of political connections and board narcissism. These discrepancies indicate that the relationship between board characteristics and earnings management practices warrants further empirical testing, particularly in state-owned enterprises (SOEs), which differ from private companies due to government involvement in ownership structures and corporate decision-making.

Based on these phenomena and research gaps, this study aims to provide empirical evidence on the influence of board size, board educational background, board gender, board political connections, and board narcissism on earnings management in state-owned enterprises (SOEs) listed on the Indonesia Stock Exchange during 2021–2023. This study is expected to provide theoretical contributions to the literature on agency theory, corporate governance, and opportunistic management behavior, particularly regarding how board characteristics influence earnings management practices. Furthermore, this study is expected to provide practical contributions for SOEs, investors, regulators, and other stakeholders to inform improvements in the effectiveness of corporate oversight and the maintenance of the quality and integrity of financial reports.

2. Literature Review

2.1 Agency Theory

Agency theory explains the contractual relationship between a company's owner (principal) and its management (agent) in carrying out the company's activities (Jensen & Meckling, 1976). In this relationship, the principal grants the agent authority to manage the company and make operational decisions on the principal's behalf. However, this relationship often gives rise to conflicts of interest because each party has different goals. Shareholders desire to increase the company's long-term value, while management tends to be oriented towards personal interests such as bonuses, compensation, or maintaining their positions. This divergence of interests creates agency problems within the company (Shogren & Raley, 2022).

Agency conflicts intensify when management has more information than shareholders. This imbalance of information is known as information asymmetry. This situation creates opportunities for management to engage in opportunistic actions, such as manipulating accounting information to improve the company's performance. One form of this opportunistic behavior is earnings management, which involves the use of flexible accounting policies in preparing the company's financial statements (Kasbar et al., 2023).

Agency theory states that conflicts of interest and information asymmetry can be minimized through effective oversight mechanisms. One such mechanism is Good Corporate Governance (GCG). The implementation of GCG aims to increase transparency, accountability, and the quality of oversight of management activities. Within the corporate governance structure, the board of directors plays a crucial role in overseeing the company's operations and ensuring that management is carried out in accordance with shareholder interests (Putri, 2023). Board characteristics such as size, educational background, gender, political connections, and narcissism are believed to influence the effectiveness of oversight of earnings management practices within the company.

2.1 Hypothesis Formulation

2.1.1 Board Size and Earnings Management

The size of the board of directors plays a crucial role in overseeing company operations and preventing fraudulent activities that could harm the company, potentially resulting in losses. According to agency theory, an adequate board of directors can encourage companies to ensure transparency, openness in financial information, and accuracy in management information disclosures. It can also provide fairness to shareholders, thereby minimizing earnings management (Githaiga et al., 2022).

According to Financial Services Authority Regulation Number 33/POJK.04/2014, Chapter II, Board of Directors, Part One, Membership, Chapter II, Article 2, Paragraph (1), the Board of Directors of an issuer or public company must consist of at least two (2) board members. As stated above, a larger board of directors enhances the management and oversight functions of company management to prevent irregularities. If the board of directors can effectively manage and oversee company management, earnings management will decrease. Previous research has found that the number of board members negatively impacts earnings management practices (Karina & Sutarti, 2021; Rinta, 2021; Tarus & Korir, 2024). This means that increasing the number of board members signals effective management and oversight, thereby reducing earnings management. The first hypothesis states:

H₁: Board size negatively impacts earnings management.

2.1.2 Board Educational Background and Earnings Management

In Indonesia, a board of directors serves as an agent responsible for managing and making decisions within a company. Therefore, it can be concluded that the selection of board members is crucial, as it can influence decisions made within the company. Educational background, measured by the level of education attained by board members during their lifetimes, is related to the field of study they pursued upon completing their education. Therefore, the board of directors' educational level influences earnings management (Usman et al., 2024).

An educated person will be more rational in their thinking and actions. They also understand the tasks assigned to them, enabling them to carry out their duties effectively and responsibly, thereby reducing earnings management. Furthermore, other research has found that board directors with high levels of education tend to perform well (Usman et al., 2024). Muhammad & Pribadi (2020) stated that the board of directors' education level negatively influences earnings management. The second hypothesis states:

H₂: Board educational background negatively impacts earnings management.

2.1.3 Board Gender and Earnings Management

One factor that can lead to earnings management is a conflict of interest between the company's management (the agent) and the company's owner (the principal). Based on agency theory, gender differences on boards of directors can influence the dynamics of the principal-agent relationship within a company. The presence of women on the board of directors, who assist the board of commissioners in their supervisory function, acts more cautiously and exhibits a high level of vigilance, which is expected to improve board performance by ensuring the quality of financial reporting (Githaiga et al., 2022). Previous research suggests that women tend to be risk-averse and have better ethical values. Female board members tend to engage in lower levels of earnings management and are more effective on the board (Budhyarto, 2023). The third hypothesis states:

H₃: Female director negatively impacts earnings management.

2.1.4 Board Political Connections and Earnings Management

Political connections are relationships between a particular party and another party with a vested interest in politics, used to achieve a mutually beneficial outcome. Political connections can provide companies with public policy benefits that support business effectiveness and efficiency, such as access to important resources and government support (Rustiarini & Sudiartana, 2021). A well-connected board of directors is seen as minimizing earnings management.

Agency theory explains that political connections can increase oversight of management. Tighter oversight by regulators, the media, and institutional investors can reduce information asymmetry between owners and managers, thereby reducing opportunities for earnings management (Hasan & Rani, 2024). Companies with political connections are often under greater public scrutiny. This can reduce management's incentive to engage in earnings management, as it fears being caught and facing harsher sanctions. Companies with strong political connections are more frequently audited rigorously, thereby reducing opportunities for earnings management (Kesaulya & Putri, 2023). The fourth hypothesis as follows:

H₄: Board political connections negatively impact earnings management.

2.1.5 Board Narcissism and Earnings Management

Narcissism among board directors can trigger unethical behavior within a company. This inappropriate behavior is related to the personality traits, norms, and values held by that individual. Individuals with narcissistic personalities are more egotistical, dominant, prioritize power, and often use aggressive methods, including manipulation, to achieve their personal goals. Narcissistic characteristics among board directors can encourage fraudulent financial reporting by the companies they lead (Cruz et al., 2024; Tarus & Korir, 2024).

Agency theory explains the conflict of interest between principals and agents. Narcissistic board directors, with their inflated egos and self-centeredness, tend to prioritize their personal interests over the company's overall interests, whereas owners aim to maximize the company's performance. Meanwhile, narcissistic board directors tend to pursue personal goals, such as maximizing salary, bonuses, or power (Azevedo et al., 2024). Previous research found that narcissism positively influences earnings management (Cruz et al., 2024). The fifth hypothesis developed in this study is:

H₅: Board narcissism positively impacts earnings management.

3. Research Methodology

This research was conducted on State-Owned Enterprises (SOEs) listed on the Indonesia Stock Exchange (IDX) for the 2021–2023 period. The selection of SOEs as the research location was based on earnings management practices in several publicly listed SOEs, which have attracted public and regulatory attention. Therefore, it is important to examine the factors influencing these practices. Furthermore, SOEs have distinct governance characteristics from private companies due to government involvement in ownership structures and corporate decision-making. The population was all 27 SOEs listed consecutively on the Indonesia Stock Exchange during 2021–2023. The sampling technique used purposive sampling with specific criteria: SOEs listed consecutively on the Indonesia Stock Exchange during the study period and with complete data as required by the research. Based on these criteria, a sample of 24 companies was selected, yielding 72 observations during the study period.

The data collection technique in this study employed a documentation method, collecting annual reports published on the official websites of the Indonesia Stock Exchange and the company. The dependent variable in this study is earnings management. Earnings management is a practice in which management intervenes in the financial reporting process to smooth, increase, or decrease earnings. Earnings management is measured using the Modified Jones Model to estimate discretionary accruals. The concept of discretionary accruals implies that management can manipulate accrued income to achieve desired earnings and is typically used to that end. To measure DAC, total accruals are first measured (Gbadebo et al., 2023; Jamadar et al., 2022). Total accruals are classified into discretionary and nondiscretionary components with the following steps:

- a) Calculate total accruals:

$$TAC_{it} = NI_{it} - CFO_{it}$$

Information:

TAC_{it} = company's total accruals
 NI_{it} = Net profit (profit after tax)
 CFO_{it} = Company's operating cash flow

- b) Calculate the estimated accrual value using the OLS regression equation (*Ordinary Least Squares*):

$$\frac{TAC_{it}}{A_{it-1}} = \alpha^1 \left(\frac{1}{TA_{it-1}} \right) + \beta_{2,i} \left(\frac{\Delta Rev_{it}}{TA_{it-1}} \right) + \beta_{2,i} \left(\frac{PPE_{it}}{TA_{it-1}} \right) + \epsilon$$

Information:

TAC_{it} = Total accruals of company i in period t
 A_{it-1} = Total assets of company i in period t
 ΔREV_{it} = Change in sales of company i in period t
 PPE_{it} = Fixed assets of company i in period t
 ε = error

- c) Calculating non-discretionary accruals (NDA) is as follows:

$$NDA_{it} = \alpha^1 \left(\frac{1}{A_{it-1}} \right) + \alpha^2 \left(\frac{\Delta Rev_{it} - \Delta RE_{it}}{A_{it-1}} \right) + \alpha^3 \left(\frac{PPE_{it}}{A_{it-1}} \right)$$

Information:

NDTA_{it} = Non-discretionary accruals in period t
 A_{it-1} = Total assets of company i in period t
 α = Fitted coefficient obtained from the regression results on the calculation of total accruals

ΔREC_t = Change in accounts receivable of company *i* from period *t* to year *t*
 PPE_{it} = Fixed assets of company *i* in period *t*

d) Calculating discretionary accruals:

$$DAC_{it} = (TAC_{it} / A_{it-1}) - NDA_{it} \dots \dots \dots (1)$$

Information:

DAC_{it} = Discretionary accruals of company *i* in period *t*
 TAC_{it} = Total accruals of company *i* in period *t*
 A_{it-1} = Total assets of company *i* in period *t*
 NDA_{it} = Non-discretionary accruals in period *t*

The independent variables consist of board size, board educational background, board gender, board political connections, and board narcissism. Board size is the number of board members on a company's board. Board size refers to the number of board members, which reflects the role of board members in managing company resources (Rinta, 2021). The educational background of the board of directors refers to the education they have received in their field throughout their careers. The indicator used to measure the board of directors' educational background is whether the board has an economics, finance, or business background; it is coded 1 if so and 0 otherwise.

The gender of the board of directors reflects the board's diversity, as evidenced by the presence of female directors. The presence of female directors is measured as the proportion of women on the board relative to the total number of board members. Gender is measured with a dummy variable: 1 if there are female directors, 0 otherwise. Political connections refer to the board of directors' association with specific political positions. A company is defined as having political connections if any of its owners, board of directors, or board of commissioners has served as or is currently a government official, military official, or member of parliament during the study period (Rustiarini & Sudiartana, 2021). Political connections are measured with a dummy variable that equals 1 if the company has a board member with a relationship to the government, political parties, members of parliament, or public officials, and 0 otherwise. The criteria for political connections are:

1. The board of directors holds concurrent positions as politicians connected to political parties.
2. The board of directors holds concurrent positions as government officials.
3. The board of directors holds concurrent positions as military officials.
4. The board of directors is a former government official or former military official.
5. The company's owners or shareholders are politicians, government officials, military officials, former government officials, or former military officials.

Meanwhile, narcissism is a self-centered and self-concerned approach to others (Saputra & Primasari, 2024). Narcissism is measured by the size of the self-portrait in the company's annual report, including:

1. 1 (one) point for annual reports that do not feature a photo of the board of directors.
2. 2 (two) points for annual reports that feature a half-size photo of the board of directors.
3. 3 (three) points for annual reports that feature a full-page photo.

The data analysis technique is multiple linear regression analysis to examine the effect of board size, board educational background, board gender, board political connections, and board narcissism on earnings management. Before hypothesis testing, descriptive statistics were conducted to provide an overview of the research data. Next, classical assumption tests were conducted, including normality, multicollinearity, heteroscedasticity, and autocorrelation tests, to ensure that the regression model met the BLUE (Best Linear Unbiased Estimator) assumptions. Hypothesis testing was conducted using a t-test to determine the partial effect of each independent variable on the dependent variable.

4. Results

The first stage is to conduct a descriptive statistical test that describes the data based on the number of samples, average value (mean), maximum value, minimum value, and standard deviation, as presented in Table 1.

Table 1. Results of Descriptive Statistical Tests

Variable	N	Minimum	Maximum	Mean	Std. Deviation
Board size	72	3.00	15.00	6.68	2.64
Board education	72	0.00	1.00	0.62	0.48
Board gender	72	0.00	1.00	0.61	0.49
Board political connection	72	0.00	1.00	0.05	0.23
Board narcissism	72	2.00	3.55	2.37	0.52
Earning management	72	-0.17	0.13	0.00	0.06

Source: data processed

Table 1 presents descriptive statistics for the research variables. The board size variable has an average value of 6.68, indicating that the sample companies generally have around 6-7 board members. This number indicates that SOEs tend to have relatively large board structures to support the implementation of corporate management and oversight functions. Regarding educational background, approximately 62.5% of the sample companies have board directors with degrees in economics, business, or finance. This figure indicates that most SOEs have placed individuals with relevant academic competencies in company management. However, approximately 37.5% of companies still have boards of directors dominated by educational backgrounds outside these fields. Regarding gender equality, approximately 61.11% of the sample companies have at least one woman on their boards of directors. This finding indicates that female representation in the leadership structure of SOEs is strong and reflects the growing adoption of gender diversity principles in corporate governance. The board political connection variable shows that only approximately 5.56% of observations have political connections on their boards of directors. This percentage is relatively low and indicates that most state-owned enterprises in the sample do not have board directors directly identified as having political connections under the study's criteria. Finally, the board of directors has a narcissism level of 2.37. This value tends to fall in the medium-to-high category, indicating that most companies display photos of directors in their annual reports in a fairly prominent manner. This figure may be due to boards of directors' tendency to build personal brands and demonstrate their leadership presence to stakeholders through the company's annual report.

The next step is to conduct a classical assumption test as a prerequisite for multiple linear regression. The results of the normality test using Kolmogorov-Smirnov test show that the Asymp. Sig. (2-tailed) is 0.200, so the data are normally distributed. The results of the multicollinearity test indicate that all independent variables have tolerances above 0.1 and VIFs below 10. This means that there is no multicollinearity in the regression model. Likewise, in the heteroscedasticity test, all independent variables have p-values greater than 0.05, indicating no evidence of heteroscedasticity in the regression model. The results of the autocorrelation test indicate a DW (Durbin-Watson) value of 1.988, so there is no autocorrelation in the regression model. The next stage is to conduct a multiple linear regression test to examine the effects of board size, board of directors' educational background, board of directors' gender, board of directors' political connections, and board of directors' narcissism on earnings management. The test results are presented in Table 2.

Table 2. Results of Multiple Linear Regression Analysis Test

		Coefficients ^a				
		Unstandardized Coefficients		Standardized Coefficients		Sig.
Model	B	Std. Error	Beta	t		
1 (Constant)	0.138	0.042		3.309	0.002	
Board size	-0.001	0.003	-0.037	-0.313	0.755	
Board education	-0.009	0.016	-0.065	-0.567	0.573	
Board gender	0.001	0.016	0.007	0.057	0.955	
Board political connection	0.003	0.035	0.009	0.079	0.937	
Board narcissism	0.052	0.015	0.406	3.558	0.001	
F Value	2.743					
Significance	0.026					
Adjusted R ²	0.109					

a. Dependent Variable: Earning management

Source: data processed

Simultaneously, the research model yielded results suitable for use. The F-test significance value of 0.026, which is smaller than 0.05, indicates that the independent variables together explain the variation in earnings management. However, the Adjusted R² value of 0.109 indicates that the model explains only 10.9% of the variation in earnings management, with the remaining 89.1% attributable to other factors not included in this study. This condition indicates that earnings management practices in state-owned companies are a complex phenomenon and likely influenced by factors beyond the research model.

Based on the regression test results in Table 2, most board characteristics do not have a significant influence on earnings management practices in state-owned enterprises listed on the Indonesia Stock Exchange during 2021–2023. This is evident from the significance values for board size (0.755), board education (0.573), board gender (0.955), and board political connections (0.937), all of which exceed the 0.05 significance level. These findings indicate that variations in the number of board members, educational backgrounds, the presence of female directors, and political connections cannot convincingly explain differences in earnings management among state-owned enterprises.

Interestingly, the board gender variable has the highest significance value, at 0.955. This value indicates that the presence of female directors has almost no effect on a company's propensity to engage in earnings management. In other words, the quality of financial reporting does not appear to be determined by directors' gender but rather by other factors outside the research model. Similarly, the board political connections variable has a significance value of 0.937. These results indicate that the board of directors' political connections do not automatically encourage or hinder earnings management practices. In state-owned enterprises, political connections likely serve more as a means of coordination with external stakeholders than as an instrument influencing financial reporting policies.

Board narcissism showed a p-value of 0.001, which is much smaller than the 0.05 significance threshold. This finding indicates that board narcissism is the only variable that significantly influences earnings management in this study. This strong significance indicates that the personal characteristics of company leaders play a greater role in influencing the quality of financial reporting than the structural characteristics of the board of directors, such as board size, education, gender, or political connections.

5. Discussion

5.1 Board Size and Earnings Management

The first hypothesis posits that board size negatively affects earnings management. The results of the regression analysis indicate that the variable number of board members is not significant ($p=0.755$). These results indicate that board size does not affect earnings management; thus, the first hypothesis is rejected. This finding indicates that board size has not influenced the company's tendency to engage in earnings management. This condition indicates that the effectiveness of company supervision is determined not only by the number of board members but also by the quality of corporate governance in place. The competence, independence, experience, and commitment of board members in carrying out the supervisory function are believed to play a greater role than the number of board members. In addition, company characteristics can influence the need for a large board of directors, as companies with low operational complexity do not always require a large board to perform the supervisory function effectively. Conversely, companies with more complex business activities require a diverse set of expertise on their boards to support better decision-making. The results of this study do not support agency theory, which posits that more board members increase monitoring effectiveness, thereby reducing conflicts of interest between the principal and the agent and suppressing earnings management. The findings of this study are in line with previous research, which found that the number of board members does not affect earnings management (Lestari et al., 2022), but contradict other research (Karina & Sutarti, 2021), which found that the number of board members has a negative effect on earnings management practices.

5.2 Board Educational Background and Earnings Management

The second hypothesis posits that the educational backgrounds of the board of directors negatively affect earnings management. The statistical results have a significance level of 0.573, which is greater than 0.05. Thus, the second hypothesis is rejected. This finding indicates that the board of directors' educational background is not a primary factor in determining earnings management practices in companies. Earnings management practices are thought to be more influenced by external factors, such as economic conditions, inflation rates, interest rates, and market pressures that encourage companies to meet certain performance targets. Furthermore, the board of directors of state-owned enterprises does not always have educational backgrounds in economics, accounting, or finance; it also includes members from other fields relevant to the company's industry, such as engineering and infrastructure. This condition means that the ability to oversee earnings management practices is determined not only by formal educational background but also by the professional experience and competence of the board of directors. The results do not support agency theory, which posits that boards of directors with educational backgrounds in economics, accounting, and finance will provide more effective oversight to reduce opportunistic management behavior (Andira & Ratnadi, 2022). These findings align with Darmayanti et al. (2021), who found that board members' educational backgrounds did not affect earnings management. However, these findings contradict research by Megawati & Sulfitri (2023) and Refi et al. (2022), which found a negative effect of board members' educational backgrounds on earnings management.

5.3 Board Gender and Earnings Management

The third hypothesis states that female directors negatively influence earnings management. The analysis results have a significance level of 0.955. These results indicate that female directors do not affect earnings management, and the third hypothesis is rejected. This finding indicates that the presence of female directors does not differentiate the extent of earnings management practices employed by companies. The absence of this influence indicates that men and women have equal responsibilities, obligations, and authority in carrying out company management functions. Furthermore, prudence and risk tolerance are not always determined by gender but are also influenced by each board member's competence, experience, and individual character. This condition means that the presence of female directors does not necessarily reduce or increase earnings management practices in companies. The results do not

support agency theory, which posits that female directors are more cautious and more vigilant, thereby improving the quality of company financial oversight and reporting (Muhammad & Pribadi, 2020). This research finding is consistent with previous research (Budhyarto, 2023) which found that board director gender does not affect earnings management. However, the results contradict those of other research (Fitroni & Feliana, 2022), which found that the presence of female directors positively affects earnings management practices.

5.4 Board Political Connections and Earnings Management

The fourth hypothesis states that political connections within the board of directors negatively influence earnings management. The analysis results have a significance level of 0.937, indicating rejection of the fourth hypothesis. This finding indicates that political connections are not a major factor in companies' earnings management practices. Political connections within the board of directors likely serve more as a means of gaining political support or protection than of influencing the financial reporting process. Furthermore, boards of directors with political connections tend to strive to maintain their reputation and good relations with the government and with parties aligned with their political interests. This condition can encourage them to avoid actions that could potentially pose reputational risks, including earnings management practices that could harm the company's image. These results indicate that the effectiveness of corporate governance and internal control mechanisms plays a greater role in preventing earnings management than the presence of political connections alone (Darmayanti et al., 2021). The findings do not support agency theory, which posits that political connections can influence corporate behavior by providing access to resources, information, and government support, potentially creating conflicts of interest in company management (Kurniasih et al., 2022). The results align with Supatmi & Handayani (2022), who found that political connections did not affect earnings management.

5.5 Board Narcissism and Earnings Management

The fifth hypothesis posits that board director narcissism positively affects earnings management. The analysis results show that the board director narcissism variable is significant at the 0.001 level, thereby supporting the fifth hypothesis. This finding indicates that the higher a board director's narcissism, the greater the company's tendency to engage in earnings management. Narcissistic characteristics, characterized by a need for recognition, a sense of superiority, and a strong orientation toward personal achievement, can encourage the board of directors to present the company's performance in accordance with desired expectations. Earnings management can be used to maintain reputation, improve market perception of the company's performance, and strengthen the board of directors' self-image as successful leaders. These characteristics cause the board of directors to be more oriented towards achieving short-term goals through earnings manipulation (Cruz et al., 2024). The results support agency theory, which posits that narcissistic individuals tend to prioritize personal interests, potentially increasing opportunistic behavior, such as earnings management. The desire to gain recognition, maintain status, and demonstrate the company's success can encourage the board of directors to intervene in the financial reporting process to make reported earnings appear better than the actual economic conditions. This study's findings are inconsistent with previous research, which found that narcissism negatively impacts earnings management (Shinthia & Arisman, 2023). However, this study supports the findings of Saputra & Primasari (2024), who reported a positive effect.

6. Conclusion

This study aims to examine the effect of board size, board education, board gender, board political connection, and board narcissism on earnings management in State-Owned Enterprises (SOEs) listed on the Indonesia Stock Exchange during the 2021–2023 period. The results indicate that board size, board education, board gender, and board political connection do not significantly affect earnings management. These findings suggest that the board's structural and demographic characteristics are insufficient to explain variations in earnings management practices among SOEs.

In contrast, board narcissism is found to have a positive and significant effect on earnings management. This result indicates that directors with higher narcissistic tendencies are more likely to engage in earnings management practices to maintain their reputation, enhance their image, and meet performance expectations. The finding supports agency theory, which argues that individuals with strong self-interest and personal ambition tend to exhibit opportunistic behavior that may conflict with shareholders' interests.

Theoretically, this study contributes to agency theory and the corporate governance literature by demonstrating that directors' behavioral characteristics, particularly narcissism, have a stronger influence on earnings management than board structural characteristics. In practice, the findings provide important insights for regulators, shareholders, and companies on the need to consider behavioral and psychological factors when selecting and evaluating board members.

This study has several limitations. First, the research only focuses on SOEs listed on the Indonesia Stock Exchange, which may limit the generalizability of the findings to other sectors or non-SOE companies. Second, the model's explanatory power is relatively low, as indicated by an Adjusted R² of 10.9%, suggesting that earnings management is influenced by many other factors not included in this study. Third, board narcissism is measured using the size of directors' photographs in annual reports, which may not fully capture the complexity of narcissistic personality traits. Future studies are recommended to expand the research sample by including non-SOE companies and extending the observation period to obtain more comprehensive results. Researchers are also encouraged to incorporate additional variables that may influence earnings management, such as profitability, leverage, firm size, audit quality, ownership structure, and board independence. Furthermore, future studies may employ alternative measurements of narcissism and other executive behavioral traits to provide a deeper understanding of the relationship between managerial characteristics and earnings management practices.

References

- Andira, M. H., & Ratnadi, N. M. D. (2022). Latar pendidikan dewan direksi, dewan komisaris, komite audit, dan praktik manajemen laba riil. *E-Jurnal Akuntansi*, 32(1), 3468.
- Azevedo, Y. G. P., Silva, M. C. G. e., & Nakao, S. H. (2024). The moderating role of duality split on the relationship between CEO narcissism and earnings management. *Corporate Governance: The International Journal of Business in Society*, 24(6), 1237–1262.
- Budhyarto, D. S. (2023). Pengaruh gender diversity, board ethnicity, board education, dan tenure terhadap manajemen laba. *Jurnal Ekonomi Trisakti*, 3(1), 341–354.
- Cruz, N. G. da, Takamatsu, R. T., & Cordeiro, F. A. (2024). Narcissism and earnings management. *Revista Brasileira de Gestão de Negócios*, 26(2), e20230174.
- Darmayanti, Y., Rifa, D., & Khairia, I. (2021). Pengaruh corporate governance terhadap hubungan keterlibatan dewan di bidang politik dan manajemen laba. *Jurnal Akademi Akuntansi*, 4(2), 138–151.
- Fitroni, N. A., & Feliana, Y. K. (2022). Pengaruh keragaman gender pada dewan komisaris, dewan direksi, dan komite audit terhadap manajemen laba. *Akuntansi Dan Teknologi Informasi*, 15(1), 8–21.
- Gbadebo, A. D., Adekunle, A. O., & Akande, J. O. (2023). The estimation and power of alternative discretionary accruals models. *Journal of Governance Risk Management Compliance and Sustainability*, 3(1), 74–90.
- Githaiga, P. N., Muturi Kabete, P., & Caroline Bonareri, T. (2022). Board characteristics and earnings management. Does firm size matter? *Cogent Business & Management*, 9(1), 2088573.
- Habib, A., Ranasinghe, D., Wu, J. Y., Biswas, P. K., & Ahmad, F. (2022). Real earnings management: A review of the international literature. *Accounting & Finance*, 62(4), 4279–4344.
- Hasan, I., & Rani, P. (2024). Pengaruh struktur GCG terhadap manajemen laba dengan koneksi politik sebagai variabel moderasi. *AKURASI: Jurnal Riset Akuntansi Dan Keuangan*, 6(2), 85–102.
- Jamadar, Y., Ong, T. S., Abdullah, A. A., & Kamarudin, F. (2022). Earnings and discretionary accruals. *Managerial and Decision Economics*, 43(2), 431–439.
- Jensen, C., & Meckling, H. (1976). *Theory of the Firm: Managerial Behavior, Agency Costs and Ownership Structure I. Introduction and summary. In this paper, we draw on recent progress in the theory of (1) property rights, firm. 3, 305–360.*

- Karina, K., & Sutarti, S. (2021). Pengaruh Ukuran perusahaan dan corporate governance terhadap manajemen laba di industri perbankan Indonesia: studi kasus pada industri perbankan yang terdaftar di BEI pada tahun 2016-2018. *Jurnal Ilmiah Akuntansi Kesatuan*, 9(1), 121–136.
- Kasbar, M. S. H., Tsitsianis, N., Triantafylli, A., & Haslam, C. (2023). An empirical evaluation of the impact of agency conflicts on the association between corporate governance and firm financial performance. *Journal of Applied Accounting Research*, 24(2), 235–259.
- Kesaulya, F. A., & Putri, W. (2023). Pengaruh koneksi politik terhadap tingkat real earnings management di Indonesia. *Perspektif Akuntansi*, 6(1), 1–14.
- Kurniasih, F., Wati, L. N., & Rajati, T. (2022). Pengaruh size, beta, price to book value, dan koneksi politik terhadap return saham pada perusahaan yang tergabung dalam Indeks LQ-45 di Bursa Efek Indonesia periode 2014-2019. *Jurnal Ilmiah Universitas Batanghari Jambi*, 22(1), 70–77.
- Lestari, R., Junjuran, M. I., Jannah, B. S., & Nufaisa, N. (2022). Pengaruh ukuran dewan pengawas syariah, kompensasi bonus, komposisi gender, dan pendidikan dewan direksi terhadap manajemen laba. *Journal of Accounting and Financial Issue*, 3(2), 1–15.
- Megawati, Y., & Sulfitri, V. (2023). Pengaruh asimetri informasi, financial distress, tingkat pendidikan dewan direksi, keberagaman gender dewan direksi terhadap manajemen laba. *Postgraduate Management Journal*, 3(1), 61–72.
- Money.kompas.com. (2023). *Geger Dugaan Wika dan Waskita Manipulasi Laporan Keuangan*. <https://money.kompas.com/read/2023/06/07/091635026/geger-dugaan-wika-dan-waskita-manipulasi-laporan-keuangan>
- Muhammad, R., & Pribadi, P. (2020). Pengaruh Kompensasi Bonus, Pendidikan dan Komposisi Gender Dewan Direksi Terhadap Manajemen Laba pada Bank Syariah di Indonesia. *Jurnal Ilmiah Ekonomi Islam*, 6(1), 53–69. <https://doi.org/10.29040/jiei.v6i1.601>
- Putri, K. J. (2023). Implications of good corporate governance (GCG) on financial statement integrity. *International Journal of Asian Business and Management*, 2(3), 179–192.
- Putri, N. K. W., Rustiarini, N. W., & Dewi, N. P. S. (2021). Board characteristics and financial restatement. *Jurnal Keuangan Dan Perbankan*, 25(3), 492–507. <https://doi.org/10.26905/jkdp.v25i3.5883>
- Refi, D., Maryati, U., & Ahmad, A. W. (2022). Pengaruh ukuran perusahaan, kepemilikan institusional, pinjaman dana dan latar belakang pendidikan direktur utama terhadap manajemen laba pada perusahaan pertambangan subsektor batubara yang terdaftar di Bursa Efek Indonesia periode 2018-2020. *Jurnal Akuntansi, Bisnis Dan Ekonomi Indonesia (JABEI)*, 1(2), 1–8.
- Rinta, M. (2021). Board of directors size, audit committee activities, and audit committee size toward earnings management. *Journal of Accounting Science*, 5(1), 85–99.
- Rustiarini, N. W., Gama, A. W. S., & Werastuti, D. N. S. (2021). Board of director characteristics, institutional ownership, and accounting conservatism. *The Indonesian Journal of Accounting Research*, 24(2), 289–320. <https://doi.org/10.33312/ijar.535>
- Rustiarini, N. W., & Sudiartana, I. M. (2021). Board political connection and tax avoidance: Ownership structure as a moderating variable. *Jurnal Dinamika Akuntansi Dan Bisnis*, 8(2), 128–148. <https://doi.org/10.24815/jdab.v8i2.20760>
- Saputra, M. B., & Primasari, D. (2024). Pengaruh CEO narcissism terhadap manajemen laba dengan koneksi politik sebagai variabel moderasi. *Jurnal Ilmiah Global Education*, 5(1), 646–660.
- Sari, N. N. I. P., Rustiarini, N. W., & Dewi, N. P. S. (2021). Corporate governance, political connections, and earnings management. *AFEBI Accounting Review*, 6(2), 78–87.
- Shinthia, M., & Arisman, A. (2023). Pengaruh narsisme CEO, leverage, dan ukuran perusahaan terhadap manajemen laba. *Publikasi Riset Mahasiswa Akuntansi*, 4(1), 62–71.
- Shogren, K. A., & Raley, S. K. (2022). Causal agency theory: Autonomy-supportive environments and interventions. In *Self-determination and causal agency theory: Integrating research into practice* (pp. 53–60). Springer.
- Supatmi, S., & Handayani, L. (2022). Koneksi politik dan praktik manajemen laba riil: Studi pada industri keuangan di Indonesia. *Jurnal Akademi Akuntansi*, 5(1), 121–134.
- Tarus, D. K., & Korir, F. J. (2024). Does CEO narcissism matter? An examination of the relationship between board structure and earnings management in Kenya. *PSU Research Review*, 8(3), 845–871.
- Usman, K., Rahman, S. U., Fazlullah, H. Y., & Ullah, A. (2024). Effect of the board of directors on earnings management with the moderating role of firm size. *International Journal of Contemporary Issues in Social Sciences*, 3(1), 2292–2306.
- Wulandari, R., & Jaya, A. K. (2023). Pengaruh jumlah dewan direksi, persentase saham publik, leverage

dan ukuran perusahaan terhadap manajemen laba. *JMediasi : Jurnal Media Akuntansi*, 6(1), 151–164.

Yudistira, I. B. I., Saitri, P. W., & Rustiarini, N. W. (2025). Pengaruh Manajemen Laba, Good Corporate Governance, dan Corporate Social Responsibility terhadap Tax Avoidance. *Kumpulan Hasil Riset Mahasiswa Akuntansi (Kharisma)*, 7(1), 122–141.