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Earnings management in state-owned enterprises in Indonesia

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Abstract

This research aims to examine the effect of bonus contracts that use financial and non-financial performance measures and examine the impact of implementing AKHLAK culture on earnings management in state-owned enterprises. In addition, this research aims to evaluate the effectiveness of implementing GCG in mitigating earnings management behaviour. To achieve the objectives of this research, we used a sample of 32 state-owned companies from 2017 to 2022 with a total of 178 data points. The analysis uses path examination to measure the influence between variables. We have found that Chief Executive Officer (CEO) career and culture negatively influence earnings management, whereas bonuses have no effect. We have also found that GCG moderates bonuses on earnings management but does not moderate CEO career and culture on earnings management. These findings have demonstrated that CEO bonus contracts based on financial and non-financial performance measures do not motivate CEOs to manage accrual earnings. The results of this research provide input for the government to increase the implementation of AKHLAK culture and appoint career directors in state-owned companies. The results of this research also provide empirical evidence that giving bonuses does not affect earnings management behaviour of the bonus contract is based on financial and non-financial performance. The results of this research are expected to provide advice to shareholders on how to use financial and non-financial measures in bonus contracts simultaneously.

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1. Introduction

How do you minimize profit management in State-Owned Enterprises? The Indonesian government has made efforts to mitigate profit manipulation and improve the performance of State-Owned Enterprises. Some of these initiatives include providing incentives, promoting internal candidates to occupy director positions, and implementing a core value called the "AKHLAK" culture. However, cases of fraudulent financial reporting are still often detected in several state-owned enterprises, such as Garuda Company, Krakatau Steel Company, and Antam Company (Nabilla, 2023). Therefore, this research will test whether giving bonuses, appointing career directors, and implementing a new corporate culture can effectively reduce earnings management or actually increase earnings management in state-owned companies.

Bonus remuneration can improve company performance, but on the other hand, bonuses can motivate management to carry out earnings management to get bonuses. Therefore, we investigate the effect of bonuses in state-owned companies to determine whether they influence earnings management or not. Healy (1985) stated that the company will distribute bonuses if the company's profit target is achieved, but many state-owned enterprises in Indonesia have experienced losses and are still distributing bonuses. This is based on the Minister of State-Owned Enterprises Regulation Number 12 of 2020 Chapter 2 point E.1.d which states that state-owned enterprises can provide bonuses to members of the Board of Directors, Board of Commissioners and Supervisory Board based on the determination of the General Meeting of Shareholders or the Minister in ratifying the annual report, if the company's condition is no longer at a loss compared to the previous year for the company in a loss condition, or the company does not become a loss from before when it was in a profitable condition. These losses do not account for factors outside the Board of Director's control. For example, at Angkasa Pura I company in 2022, the Board of Directors received a bonus even though the company suffered a loss of IDR (Indonesian Rupiah) 744 billion because in 2021 the company experienced a loss of IDR 3 trillion.

The agency contract incorporates bonus remuneration as a means to incentivize or stimulate directors. In his 1985 publication, Healy provides an explanation of how the incentive structure impacts the profits that are shown in financial statements. Harakeh, El-Gammal, and Matar (2019); Lee and Hwang (2019); Almadi and Lazic (2016) and Veronica (2021) have demonstrated a correlation between bonuses and earnings management (EM). Moardi, Salehi, Poursasan, and Molavi (2020) demonstrate that CEO remuneration is not correlated with opportunistic earnings manipulation or other forms of earnings manipulation in the food and pharmaceutical sectors. Prihastomo and Khafid (2018) discovered an inverse correlation between bonuses and earnings manipulation. Tahir, Ibrahim, and Nurullah (2019) demonstrate that the utilization of extended non-financial performance indicators can mitigate the manipulation of earnings. The results of the research above show that the relationship between incentives and earnings management is inconsistent. Previous research used financial performance measures for the bonus contract, whereas this study uses financial and non-financial measures. So, this research will provide empirical evidence that the type of bonus contract will influence earnings management behaviour.We conducted this research on state-owned companies, as they employ bonus contracts that incorporate both financial and non-financial measures simultaneously.

The government has recently introduced the "AKHLAK" culture initiative, which has been in effect since 2020. AKHLAK is an abbreviation that stands for Amanah (reliable), Kompeten (skilled), Harmonis (cooperative), Loyal (faithful), Adaptif (adaptive), and Kolaboratif (collaborative). Multiple cultural studies indicate that culture has a mitigating effect on bribery (Rahman, Bhuiyan, Samaduzzaman, Mia, & Mahmood, 2023). The presence of organizational culture facilitates the development of creativity and innovation(Cheung, Wong, & Lam, 2012). Culture is a determinant that elucidates variations in the extent of manipulation of financial statements in different nations (Gray, Kang, Lin, & Tang, 2015) and the religious beliefs of a CEO have a relationship with the practice of earnings management (Cai, Kim, Li, & Pan, 2019). The research findings above show that culture has a significant influence on earnings management practices. However, the research above was conducted on public companies that appoint directors based on their competence, which is different from state-owned enterprises where the appointment of directors is closely related to political connections (Saleh, 2019). This research provides empirical evidence that the implementation of AKHLAK culture in State-Owned Enterprises will influence earnings management behaviour in accordance with government expectations or that this culture has no effect because of the strong political connections in state-owned enterprises.

The government's next endeavour is to designate directors among the existing personnel of the corporation. The appointment of directors for state-owned enterprises must adhere to the guidelines outlined in Ministerial Regulation No. 11 of 2021. This regulation permits the selection of directors from both internal and external sources. Researchers have conducted an extensive study on career directors. Kuang, Qin, and Wielhouwer (2015) provide evidence that CEOs who are not part of the company's internal management team are more likely to engage in profit misappropriation. Altarawneh, Shafie, Ishak, and Ghaleb (2022) demonstrate that boards of directors comprising external directors are less likely to engage in earnings manipulation. Setyawan and Anggraita (2017) present data showing that there is no correlation between career directors and the behaviour of earnings management. The results of the research above do not consistently show the relationship between career directors and earnings management behaviour. Apart from that, this research was also conducted on State-Owned Enterprises with many cases of director appointments tending to be based on political connections (Saleh, 2019). Based on the conditions outlined above, this study can provide empirical evidence of the influence of career COE on earnings management behaviour in companies, particularly in state-owned enterprises. It is hoped that the research results will provide input to the government in appointing directors.

In addition to establishing new core values for all State-Owned Enterprises, Good Corporate Governance (GCG) evaluations are also carried out to assess the extent to which good governance practices in state-owned enterprises can influence earnings management behaviour in companies. EL Mokrani and Alami (2021) in Morocco conducted a study to examine the influence of GCG on earnings management behaviour, revealing that the number of audit committee members does not significantly influence earnings management. Likewise, the size of the board of directors has no effect on earnings management (Al Azeez, Sukoharsono, Roekhudin, & Andayani, 2019). However, Feviana and Supatmi (2021) show that GCG has a negative effect on EM practices in State-Owned Enterprises in Indonesia. Khlifi and Zouari (2022) show that GCG acts as a moderator in the relationship between CSR and real earnings management (REM). Rizani, Syam, and Lisandri (2022) show that the implementation of GCG mechanisms, namely through managerial and institutional ownership, is effective in mitigating earnings management, thereby improving company performance. The results of the research above show that GCG is a moderating variable and has a direct influence on earnings management.

However, Indonesia's GCG ranking in 2019 among Association of Southeast Asian Nations(ASEAN)countries is still very low, with a score of 70.8, only better than Vietnam (Limanseto, 2021). Even though the score increased by 9.3% in 2021, Indonesia's GCG ranking is still relatively low because only 9 Indonesian companies are included in the ASEAN Asset Class Publicly-Listed Companies (PLCs)category out of 100 public companies assessed (Busthomi, 2023). The appointment of the board of commissioners in state-owned companies is based on political interests without considering expertise (Marsyukrilla, 2021) thus directly affecting the effectiveness of the work of the board of commissioners. The backgrounds of the commissioners of state-owned enterprises are as follows: Bureaucrats: 249 commissioners (51.66%), Professionals: 85 commissioners (17.63%), Politicians: 71 commissioners (14.73%), Military: 29 commissioners (6.02 %), Legal enforcement officers: 28 commissioners (5.81%) and Strategic positions: 20 commissioners (4.15%) (Santika, 2023). This data shows that only 17.63% of commissioners in state-owned enterprises come from professional circles, which proves the low professionalism of the board of commissioners of state-owned enterprises. This condition greatly affects the effectiveness of the supervision carried out by the board of commissioners. Apart from the board of directors, the audit committee is responsible for preventing profit manipulation within the company. The audit committee is very useful in overseeing financial reporting by management. This demonstrates the inadequacy of corporate governance enforcement in Indonesia, particularly, in state-owned enterprises. Therefore it is intriguing to investigate whether the GCG values of Indonesian companies, particularly those that are state-owned enterprises, impact their earnings management practices. It is hoped that the results of this research will be an evaluation of the implementation of GCG in Indonesia, especially in state-owned enterprises.

This research was conducted in state-owned companies because bonuses, the appointment of directors, and work culture, and appointment of board of commissioners are different those in private companies. This causes the behaviour and motivation of earnings management in state-owned enterprises to be different from private companies. We hope that findings of this research will inform supervisory policies in state-owned enterprises. The next contribution to the bonus literature is that this study uses all performance criteria, both financial and non-financial, in CEO bonus contracts. This makes earnings management behaviour different if bonuses are only measured by financial performance.

2. Literature Review

El Diri (2018) defines earnings management (EM) as management's discretion in GAAP over external financial reporting by exploiting several contractual weaknesses, limited stakeholder rationality, and information asymmetry in the market, through several economic decisions, changes in accounting judgement, or other sophisticated methods.

Schipper (1989) defines EM as the deliberate manipulation of the financial reporting process in order to maximize the self-interest of managers. Earnings management techniques refer to opportunistic behaviour or actions undertaken by managers with the aim of maximizing their own gain. EM refers to manager's deliberate intervention in the financial reporting preparation process. Intervention in financial reporting can occur through alterations in accounting standards or processes, as well as adjustments to accounting estimations.

Earnings management refers to the actions taken by management to present a genuine picture of a business, either to create a false impression or to capture the attention of users (Yimenu & Surur, 2019). Earnings management in financial reporting has the intention of deceiving stakeholders about the company's profitability or can influence the outcome of contracts that are based on accounting figures (Putra & Mela, 2019). Intervention in the manager's financial reporting process, as well as intervention in the company's operations, funding, and investment, can also manipulate profits. Manager's intervention in company operations can take the form of accelerating or delaying the recognition of sales or expenses. In terms of funding, managers can postpone financing or carry out funding to reduce the interest costs paid. When the profit fails to meet the target, the manager opts to delay funding to lower interest costs, with the expectation of achieving the profit target. Likewise, with investment policy, the manager chooses to make short-term investments to pursue profit targets and chooses to make long-term investments if the profit target has been achieved. Specifically, the company will increase revenue, overproduce, and delay recognition of asset impairment losses (Chen, Cheng, Hao, & Liu, 2020). Earnings management activities not only occur in private companies but also occur in government-owned companies.

There is a lot of research on earnings management in state-owned enterprises. Fan and Song (2019) have provided empirical evidence that Chinese state-owned enterprises carry out real earnings management to influence gross domestic product (GDP). Chen et al. (2020) also found that local government-owned companies carry out earnings management to influence GDP. Government-owned companies in provinces with a lower GDP than the country's GDP are more likely to carry out earnings management compared to other provinces. Their main goal is to carry out profit management to help the government maintain economic and political stability. Ben (2020) also provided evidence that state-owned enterprises engage in earnings management to increase their borrowing capacity. This shows that government credit guarantees to state-owned enterprises do not eliminate the motivation for borrowing to carryout earnings management. The results of the research above prove that earnings management often occurs in state-owned enterprises.

Watts and Zimmerman (1990) propose that earnings management may be accomplished through three hypotheses, including bonus plan hypothesis, can accomplish earnings management. In this scenario, a company with a bonus plan employs a strategy where the manager selects a specific method, policy, or accounting estimate to manipulate profits. Here are two types of manipulation, the first is transferring profits from the next year to the current year to increase current profits, or upward manipulation (Kliestik, Belas, Valaskova, Nica, & Durana, 2021).The second type is moving profits from the current year to the next year to reduce current profits and recognize these profits in the following year, or downward manipulation. Managers actively pursue previously banned bonuses by engaging in such actions. Hensel and Schöndube (2022) provide evidence that careers motivate CEOs to shift profits backwards, while optimizing contracts to get bonuses motivates CEOs to shift profits forwards or backwards. If CEO's compensation is equity-based, bonus motivation drive them to manage earnings (Bao & Xue, 2023).

Bonuses are one of the CEO's motivations for earnings management. Several studies have proven a positive relationship between bonuses and earnings management (Almadi & Lazic, 2016; Harakeh et al., 2019; Lee & Hwang, 2019; Veronica, 2021). However, other research proves that bonuses actually reduce earnings management (Prihastomo & Khafid, 2018; Tahir et al., 2019).

Apart from having the motivation to carry out earnings management, company owners can also reduce earnings management behaviour in their company by appointing the right directors, implementing a good company culture, and implementing GCG principles. Qawasmeh and Azzam (2020) prove that CEOs carry out higher EM in the early years of their tenure compared with later years, and CEOs who receive stock bonuses will carry out EM to maximize their bonus compensation. Zwageri, Roekhudin, and Rahman (2020) prove that CEO knowledge and tenure have a negative influence on earnings management. Wan Mohammad and Wasiuzzaman (2020) provide evidence that corporate governance is more effective in family firms in developing countries due to the long history of family reputation and the importance of institutional cultural factors. Independent commissioners moderate the relationship between financial distress and earnings management (Tannaya & Lasdi, 2021).

Yahaya (2022) proves that CEO duality can reduce earnings management. This proves that the CEO, as principal and agent, tends to avoid earnings management. CEOs with political connections, on the other hand, exhibit a positive correlation with earnings management, indicating that they are more likely to engage in earnings management due to their perception of political protection for their positions. However, Bouaziz, Salhi, and Jarboui (2020) provide contrary evidence that duality has a positive effect on earnings management. Dyreng, Hillegeist, and Penalva (2022) have proven that company owners will approve of the company's earnings management if the company is at high risk of violating credit agreements. Lenders use earnings management to confirm the company's ability to meet contract terms.

3. Research Hypothesis

3.1. Bonuses and Earnings Management

The company owner grants bonuses to management as recognition for successful achieving or surpassing the owner's established objectives. The bonus sum, typically substantial, serves as a distinct incentive for directors or management to attain set milestones. However, they do not always achieve these objectives with integrity. Frequently, management engages in profit manipulation or oversees profit regulation in order to ensure they may reap the benefits during their tenure and receive a bonus. This endeavour entails strategically positioning earnings within a range defined by the lower and upper limits in each period (Healy, 1985).

Bonus has used dummy variables: 1 if the company provides bonus and 0 otherwise. Meanwhile, earnings management has implemented a modified Jones model. The research findings show that bonus compensation has an effect on earnings management. Previously, Harakeh et al. (2019) researched using data from the UK FTSE (Financial Times Stock Exchange) 350 between 2007 and 2015. The results of their research provide evidence of a positive correlation between CEO bonuses and EM. Lee and Hwang (2019) conducted research using South Korean bank data. Senior executives measure bonuses by dividing their compensation by the total bonus compensation. Bonuses are associated with various variables that determine the bonus. The research results show that all bonus variables can increase earnings management behaviour. Almadi and Lazic (2016) show that there is a positive relationship between EM behaviour and CEO compensation. Veronica (2021) also examines the effect of bonus compensation on EM. Bonuses are measured using the amount of financial and non-financial benefits received by the CEO, while earnings management is measured using modified Jones. The research findings demonstrate that executive compensation has a significant impact on EM.

However, research by Prihastomo and Khafid (2018) actually found a negative effect of bonuses on earnings management. Tahir et al. (2019) show that long-term non-financial performance criteria in granting bonuses can reduce earnings management.

The explanation above reveals inconsistent results, but primarily demonstrate a positive relationship. However, non-financial performance criteria in providing bonuses to state-owned enterprises in Indonesia resulted in the following hypothesis formulation:

H_1: Bonuses have a negative correlation with EM.

3.2. Culture and Earnings Management

This research refers to AHKLAK culture. AKHLAK is an acronym for trustworthy (Amanah), competent (Kompeten), harmonic (Harmonis), loyal (Loyal), adaptive (Adaptif), and collaborative (Kolaboratif). AKHLAK culture can be explained by the trust given, continuing to develop capabilities, caring for and respecting differences, prioritizing the interests of the nation, continuing to innovate, and driving or building synergistic cooperation. Several studies on culture demonstrate that culture can reduce fraudulent behaviour in companies. Rahman et al. (2023) researched Bangladesh using 460 organizations. Culture is measured in two aspects: a results-oriented culture and a culture that guarantees employee work. The research results show that these two cultures can reduce fraudulent behaviour and bribery within the company.

Gray et al. (2015) examined earnings management behaviour in European countries after implementing IFRS standards and how the culture of each country influenced earnings manipulation behaviour. The research findings have proven that culture is a factor that explains the differences in the magnitude of EM in various nations. Cai et al. (2019) investigated the level of top management religiosity in relation to earnings management practices. The church affiliation and educational background of top management serve as indicators of their religiosity. Research results have proven that religious CEOs avoid earnings management compared to non-religious CEOs. These results prove that religiosity influences earnings manipulation.

The research above shows that culture influences earnings management behaviour. So, it is interesting to research whether AKHLAK culture can influence state-owned enterprise earnings management behaviour in Indonesia. The government hopes that after implementing the AKHLAK culture in State-Owned Enterprises, it can reduce earnings management behaviour and improve company performance. Therefore, the research proposes the following hypothesis:

H_2: Culture has a negative correlation on EM.

3.3. CEO Career and Earnings Management

An appointed CEO serves as a director of the company. CEO Career has good knowledge of company operations and finances. In addition, the CEO has emotional ties to the company. Therefore, we hope that the CEO's career won't involve any earnings manipulation that could harm the company.

Much research has been conducted regarding CEO careers to examine how CEO careers influence earnings manipulation behaviour. Kuang et al. (2015) conducted research on earnings management for outside directors with director careers on short-term and long-term tenure. Earnings management in this research uses discretionary accruals. This study aims to determine whether earnings management is different between the two directors. The findings of this research indicate that earnings management behaviour is more frequently carried out by outside directors at the beginning of their tenure compared to a director's career. However, in the long term, earnings management behaviour no longer makes any difference. The findings of this research show that outside directors are motivated to increase or decrease profit in order to maintain their position. However, Altarawneh et al. (2022) prove that boards of directors that have outside directors tend not to be involved in earnings management. In this research, earnings management has used discretionary accruals. Setyawan and Anggraita (2017) provide evidence that there is no relationship between director careers and earnings management behaviour. The research proposes the following hypothesis:

H_3: CEO Career has a negative correlation on EM.

3.4. GCG as a Moderating Variable

Researchers have extensively studied GCG mechanisms in relation to earnings management and performance. GCG mechanisms such as independent commissioners and audit committees generally influence earnings management and performance. The GCG mechanism is a mechanism to ensure company management runs well through supervision by the board of directors assisted by the audit committee. Putri and Sujana (2018) examined GCG as a moderating variable and showed that GCG cannot be a moderating variable in the effect between bid-ask spread and EM. Gerged, Albitar, and Al-Haddad (2023) prove that the GCG mechanism is a moderating variable in the relationship between corporate environmental disclosure and earnings management. However, research by Harahap (2017) shows different results where GCG is able to moderate the effect of information asymmetry on EM behaviour. Chen, Elder, and Hsieh (2007) stated that the implementation of GCG best practices has reduced profit management. Research by Molina, Subiyanto, and Wilestari (2022) shows evidence that GCG mechanisms have a negative effect on earnings quality. So, the hypothesis in the research is formulated as follows:

H_4: GCG moderates the effect of bonuses on earnings management.

H_5: GCG moderates the effect of culture on earnings management.

H_6: GCG moderates the effect of CEO career earnings management.

4. Research Methods

This study used data from Indonesian state-owned enterprises, and the samples taken were 32 companies from 2017 to 2022 with 178 total data points. The EM variable in this study uses the modified Jones model. Bonuses, CEO careers, and culture are the independent variables. Bonus data uses the number of bonuses paid in one year by the company. Career directors use a dummy variable, 1 if the CEO is from within the company and 0 if otherwise. Culture also employs a dummy variable, with 1 indicating the implementation of AKHLAK Culture, and 0 in the absence of it. Meanwhile, the moderating variable is GCG, which uses GCG assessment values reported by the company every year. Analysis was carried out using path analysis using SmartPLS (*Partial Least Square*). In this research, we employ path analysis to establish the casual relationship between variables. Path analysis is more appropriate because researchers want to know more deeply about the factors that influence earnings management behaviour in state-owned enterprises, and the model is as follows;

$$EM = \alpha + \beta_1 BNS + \beta_2 CLTR + \beta_3 DRK + \beta_4 GCG + \beta_5 GCG * BNS + \beta_6 GCG * CLTR + \beta_7 GCG * DRK + \varepsilon$$

Where:
EM: Earnings Management.
α:EM-intercept.
β:Slope.
BNS: Bonuses.
CLRT: Culture.
DRK: CEO Career.
GCG: Good Corporate Governance.
ε: Residual.

5. Result

Table 1 shows the descriptive statistics for each variable. The earnings management value shows the behaviour of reducing profits with value of -0.365 and increasing profits with value of 0.637.

Table 1. Descriptive statistics.

Variables	Mean	Min.	Max.	Standard deviation
Bonus	21.355	0	28.44	8.622
Culture	0.461	0	1	0.498
CEO career	0.253	0	1	0.435
GCG	90.261	80	98.73	4.184
EM	0.088	-0.365	0.637	0.122

Table 2 presents the model quality criteria, or R test. The R test results show an adjusted R square value of 46.2%. This demonstrates that the bonus, CEO career, and culture variable each influence the dependent variable by 46.2%.Meanwhile, 53.8% is influenced by other variables.

Table 2. R test results.

Variable	R square	R square adjusted
EM	0.4833	0.4620

Table 3. Path coefficients for hypothesis testing.

Hypothesis	Path	B	t-value	p-value<0.05	Decision
H1	BNS -> EM	-0.006	0.092	0.927	Not supported
H2	CLTR -> EM	-0.328	4.501	0.000*	Supported
H3	DKR -> EM	-0.144	3.140	0.002*	Supported
H4	GCG*BNS -> EM	0.326	3.250	0.001*	Supported
H5	GCG*CLTR -> EM	-0.117	1.191	0.234	Not supported
H6	GCG*DKR-> EM	0.059	0.730	0.465	Not supported

Note: * significant at the 5% level.

Where:
EM: Earnings Management.
BNS: Bonuses.
CLRT: Culture.
DRK: CEO Career.
GCG: Good Corporate Governance.

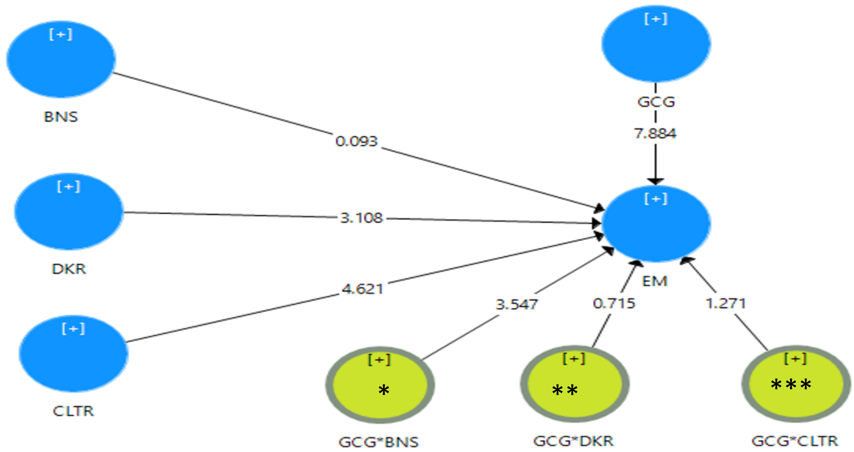

Figure 1. Path-analysis result for hypothesis testing.

Note: * GCG interaction with bonuses;
** GCG interaction with CEO career,
*** GCG interaction with culture.

Figure 1 Illustrates Path-analysis result for hypothesis testing.

Table 3 shows that bonuses have a negative but not significant effect, so hypothesis 1 is not supported. Hypotheses 2 and 3 are supported by a significant negative influence, which means that CEO career and culture have a negative influence on EM. Meanwhile, we also support hypothesis 4, indicating that GCG moderates the relationship between bonuses and EM. However, hypotheses 5 and 6 are not supported, which means that GCG does not moderate the effect of culture and CEO career on EM.

6. Discussion

This research shows that bonuses have no correlation with EM practices in the context of state-owned enterprises in Indonesia. This result is different from the bonus plan hypothesis because bonus contracts in state-owned enterprises use financial and non-financial performance criteria. These results have shown that the use of financial and non-financial performance criteria in bonus contracts will not provide incentives to CEOs of state-owned enterprises to carry out accrual earnings management (AEM). However, this may encourage management to engage in real earnings management (REM). The result of this study diverges from the research conducted by Harakeh et al. (2019). The study conducted by Lee and Hwang (2019); Almadi and Lazic (2016) and Veronica (2021) focused solely on the correlation between bonuses and financial success. The findings of this study diverge from those of Prihastomo and Khafid (2018); Bao and Xue (2023) and Tahir et al. (2019) as they demonstrated a detrimental impact, but this study found no discernible effect.

The results further indicate that culture has a significant negative correlation with state-owned enterprises AEM in Indonesia. This aligns with the government's expectations as the company owner in implementing the core value called AKHLAK. AKHLAK culture will make all employees of state-owned enterprises behave honestly and trustworthy in preparing financial reports and avoid profit manipulation to achieve targets in their employment contracts. This result is in line with the trust value, which upholds the trust given, and the value of loyalty, which prioritizes the interests of the state. The results of this research are also in line with previous research conducted by Rahman et al. (2023); Gray et al. (2015) and Cai et al. (2019) which shows that culture has a negative effect on earnings management.

The next result of this research is that CEO career has a negative correlation on accrual earnings management. CEO Career can reduce AEM behaviour because career directors understand well the operational and financial aspects of the company. Therefore, CEO Careers are not motivated to implement AEM in order to enhance company performance and demonstrate their expertise. These results support the research by Kuang et al. (2015) which shows that outside CEOs are more interested in AEM at the beginning of their tenure. These results do not conclude that CEO Career does not carry out earnings management because it is possible that CEO Career carries out REM. Therefore, further research needs to be done using REM.

The results further show that GCG moderates the effect of bonuses on EM. This shows that GCG can influence the relationship between bonuses and AEM. Table 2 shows the results that GCG can strengthen the influence of bonuses on EM, which means that GCG makes bonuses reduce accrual earnings management behaviour in State-Owned Enterprises in Indonesia. These results prove that governance in State-Owned Enterprises can prevent directors from carrying out accrual earnings management to get bonuses expected in the bonus contract. Meanwhile, hypotheses 5 and 6 of GCG moderating the effect between culture and CEO career and earnings management are not proven. This indicates that the CEO Career has negative impact on accrual earnings management behaviour, regardless of whether the governance environment is good pr poor. CEO Career can prove their capacity to manage the company even without good GCG in the company. The same apply to the company's culture; it encourages employees to perform well in their work, ensuring that a successful implementation of GCG does not negatively impact the relationship with earnings management. AKHLAK culture guides employees to carry out actions and behaviours that are in accordance with the objectives of implementing GCG, so the existence of GCG is not important if the implementation of AKHLAK culture is in accordance with the guidelines.

7. Conclusion and Research Limitation

7.1. Conclusion

Bonuses cannot influence accrual earnings management behaviour if financial and non-financial performance criteria simultaneously exist in the bonus contract. However, the implementation of good governance, or GCG, can moderate the relationship between bonuses and earnings management so that bonuses can reduce accrual earnings management behaviour in companies. Therefore, we suggest enhancing the criteria for bonus payments to deter management from engaging in earnings manipulation.

AKHLAK culture can reduce accrual earnings management behaviour. This proves that culture can reduce accrued earnings management behaviour. However, GCG cannot moderate the effect of culture on EM, this shows that culture can be effective in good or bad GCG conditions. Based on these results, it is recommended that the implementation of AKHLAK culture be expanded to all state-owned enterprises and their subsidiaries. In addition, we recommend that private companies and the government adopt AKHLAK culture to reduce manipulation.

CEO careers can reduce accrual earnings management behaviour. This shows that CEO careers avoid carrying out accrual earnings management to prove their competence. However, GCG cannot moderate its relationship with accrual earnings management. This shows that career CEOs will avoid earnings management not because of good corporate governance (GCG) mechanisms but because of the career CEO's competence. Therefore, the appointment of CEOs to state-owned enterprises is very important to reduce earnings management behaviour and reduce political connections in CEO appointments.

7.2. Research Limitations

This study employs accrual earnings management, making it impossible to fully prove the impact of bonuses, CEO career, and culture on EM, due to high likelihood of REM. Therefore, it is recommended to conduct further research using REM in addition to AEM to test the influence of bonuses, CEO career, and culture on EM. Another limitation of this research is that the data we use uses company data during the COVID-19 period, which affects the company's financial reports. So, it is recommended to use data that is not affected by COVID-19 conditions.

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