Does Multiple Blockholder Prevent Audit Committee’s Power to Restrain Earnings Management? Evidence from Indonesia

Resti Rachma Hidagusti ¹, Astrid Rudyanto²*
¹,²Trisakti School of Management, Jl. Kyai Tapa No 20, 11440, Jakarta, Indonesia

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ABSTRACT

Previous literature argues that the power of audit committee should be bigger than management to control earnings management. However, in the context of Indonesia where concentrated ownership structure is prevalent, multiple blockholders can play significant role in earnings management. If multiple blockholders enjoy the private benefits of control through earnings management, the audit committee’s power over management would be useless. The purpose of this study is to analyze the impact of power status of audit committees and multiple blockholders on accrual earnings management. In this research, manufacturing companies were used as samples listed on the Indonesia Stock Exchange with a total 4 years ranging from the period of 2018 – 2021. This research used multiple regression with fixed effect driscoll-kraay standard error. The result of this research shows that multiple blockholder has a positive impact on accrual earnings management while power status of audit committee has no impact on accrual and real earnings management. It can be implied that in Indonesia, multiple blockholders play significant role in increasing earnings management and audit committees’ power cannot reduce earnings management in the presence of multiple blockholders.

Keywords: Earnings Management; power status of audit committee; multiple blockholder; monitoring; ownership.