

## **The Effects of Profitability and Leverage on Earnings Management, with Institutional Ownership as a Moderator, in Telecommunications Companies Listed on the Indonesia Stock Exchange**

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### **ABSTRACT**

In a company's financial statements, profit is one of the most important pieces of data for all stakeholders; the profit information contained in financial statements serves as key information for both external and internal parties. There is a potential phenomenon of earnings management practices among telecommunications companies in Indonesia, as evidenced by high levels of profit volatility. This study aims to analyze the effects of profitability and leverage on earnings management, moderated by institutional ownership. This study employs a quantitative research method with a causal design. It utilizes secondary data in the form of financial statements from companies in the telecommunications sector that are publicly available and listed on the Indonesia Stock Exchange (IDX). The population selected for this study consists of all 14 telecommunications companies listed on the IDX. The sample was determined using purposive sampling based on several predetermined criteria. This study employs a moderated regression analysis approach using the stepwise regression method (moderated regression analysis) and was conducted using the Eviews 10 software. The results found that, in part, profitability and leverage do not affect earnings management. Regarding institutional ownership as a moderator, it was found that institutional ownership can weaken the effect of profitability on earnings management. However, institutional ownership was found to be unable to weaken the effect of leverage on earnings management.



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## **INTRODUCTION**

Profit is one of the most important pieces of information in financial statements because it serves as the basis for investors in making investment decisions and for management in planning and evaluating company performance. However, profit information does not always reflect the company's actual condition because management has the opportunity to intervene in the financial reporting process. This practice is known as earnings management, which refers to management's actions to influence accounting information through the selection of specific policies or decisions to increase, decrease, or stabilize reported profits (Schipper, 1989). Earnings management practices have the potential to mislead users of financial statements because the information presented does not fully reflect the company's actual condition (Wulandari & Suganda, 2021).

The phenomenon of earnings management is particularly relevant to companies in the telecommunications subsector listed on the Indonesia Stock Exchange. The telecommunications industry faces intense competition, significant investment needs, rapid technological advancements, and the pressure to maintain financial performance. Based on financial statements for the 2018–2022 period, several telecommunications companies showed fairly significant changes in earnings. PT Telkom Indonesia Tbk saw a 38.25% increase in earnings in 2021 and a 40.25% increase in 2022, while PT

Indosat Tbk experienced an 88% increase in 2021 and a 32% increase in 2022, following a 52.03% decline in 2020. On the other hand, PT Link Net Tbk and PT Gihon Telekomunikasi Indonesia saw profit declines of 5.23% and 63.27%, respectively. These fluctuations do not directly prove the existence of earnings management, but they do indicate performance dynamics worth examining in relation to factors that may influence earnings management practices.

One factor suspected of influencing earnings management is profitability. Profitability reflects a company's ability to generate profits through the management of its resources (Kasmir, 2019). Companies with low profitability may be motivated to inflate reported profits to make their performance appear better, while companies with high profitability may engage in earnings management to maintain performance stability. Studies by Lestari and Murtanto (2017), Febria (2020), Kurniawan and Fuad (2022), and Paramitha and Idayati (2020) found that profitability has a positive effect on earnings management. However, Wiyadi et al. (2015) and Umah and Sunarto (2022) found that profitability does not have a significant effect on earnings management. These differing results indicate inconsistencies that require further investigation.

Another factor is leverage, a ratio indicating the proportion of debt used in a company's financing (Sartono, 2014). High leverage can increase pressure on management to maintain financial performance and meet obligations to creditors, thereby encouraging management to engage in earnings management. However, high leverage can also intensify creditor oversight of the company. Research findings on leverage also show inconsistencies. Lestari and Murtanto (2017), Sari and Khafid (2020), and Primalestari and Jin (2022) found a negative effect leverage on earnings management, whereas Hasty and Herawaty (2017) and Christian et al. (2022) found a positive effect. Meanwhile, Wiyadi et al. (2015) and Wirawati et al. (2018) found that leverage had no significant effect on earnings management.

The inconsistency in these research findings highlights the need to consider corporate governance factors that may influence the relationship between profitability and leverage on earnings management. One relevant oversight mechanism is institutional ownership. Institutional ownership refers to stock ownership by institutions such as insurance companies, banks, pension funds, and investment firms. The presence of institutional investors can enhance oversight of management and limit opportunistic behavior in financial reporting (Rice, 2016). From an agency theory perspective, institutional ownership can reduce conflicts of interest between management and shareholders through more effective oversight (Arianandini & Ramantha, 2018).

Some studies indicate that institutional ownership moderates the relationship between profitability and leverage on earnings management, but other studies have yielded different results. Winarsih et al. (2023) found that institutional ownership moderates the effect of profitability on earnings management, whereas Angelina and Atiningsih (2020) and Mayesti (2017) demonstrated a moderating effect on the relationship between leverage and earnings management. Conversely, Savitri and Priantinah (2019), as well as Putri and Setiawati (2021), found that institutional ownership does not moderate the effect of leverage on earnings management. Based on these phenomena and the inconsistencies in previous research findings, this study was conducted to analyze the effects of profitability and leverage on earnings management, with institutional ownership as a moderating variable, in companies in the telecommunications subsector listed on the Indonesia Stock Exchange. This study is expected to provide empirical evidence regarding the factors that influence earnings management and to clarify the role of institutional ownership in strengthening or weakening these relationships.

## LITERATURE REVIEW

### Agency Theory

Agency theory explains the contractual relationship between the principal the company's owner and the agent the party managing the company (Jensen & Meckling, 1976). In this relationship, there is a potential conflict of interest because each party has different objectives. Shareholders expect improved performance and returns on their investments, while management may have an interest in securing compensation, retaining their positions, or meeting specific targets. These conflicting interests become even more complex due to information asymmetry, as management possesses more information about the company's condition than shareholders do. In the context of this study, agency conflict may drive management to engage in earnings management to influence the reported financial information.

Profitability and leverage can be factors influencing management's incentives to engage in earnings management, while institutional ownership serves as a monitoring mechanism that can curb management's opportunistic behavior. Thus, agency theory provides the foundation for explaining the relationship between profitability and leverage on earnings management, as well as the role of institutional ownership as a moderating variable.

### **Earnings Management**

Earnings management refers to management's actions to influence reported earnings by selecting specific accounting policies or decisions to achieve desired objectives (Scott, 2015). Schipper (1989) explains that earnings management is a deliberate intervention in the financial reporting process aimed at securing specific benefits. This practice can be carried out by increasing, decreasing, or stabilizing reported earnings, so that financial information does not always reflect the company's overall economic condition. In this study, earnings management is measured using discretionary accruals based on the Modified Jones Model developed by Dechow et al. (1995). This model separates total accruals into non-discretionary accruals and discretionary accruals, with discretionary accruals serving as an indicator of earnings management practices.

### **Profitability**

Profitability indicates a company's ability to generate profits through its available resources. According to Kasmir (2019), profitability reflects a company's ability to generate profits while also demonstrating the effectiveness of management in running the company. Profitability levels serve as a key indicator for investors in assessing a company's performance and prospects. Low profitability may prompt management to inflate reported profits to make the company's performance appear better, while high profitability may also encourage profit management to maintain performance stability. In this study, profitability is measured using Return on Assets (ROA), which is the ratio of net income to total assets. A higher ROA indicates that the company is more effective in using its assets to generate profits.

### **Leverage**

Leverage is a ratio that indicates the extent to which a company's activities are financed by debt (Kasmir, 2019). A high leverage ratio indicates a larger proportion of the company's funding comes from debt, thereby increasing the company's obligations to creditors. This situation can increase pressure on management to maintain financial performance and fulfill the company's obligations. From an agency theory perspective, high leverage may encourage management to engage in earnings management to demonstrate the company's ability to meet its obligations. However, high debt levels may also increase creditor oversight of the company, thereby reducing opportunities for management to engage in opportunistic behavior. In this study, leverage is measured using the Debt-to-Equity Ratio (DER), which is the ratio of total debt to total equity.

### **Institutional Ownership**

Institutional ownership refers to the ownership of a company's shares by institutions, such as banks, insurance companies, pension funds, and investment firms (Panda & Leepsa, 2019). Institutional ownership is one of the corporate governance mechanisms that can enhance oversight of management. The greater the institutional ownership, the greater the ability of institutional shareholders to monitor management's decisions and performance. In the context of earnings management, institutional ownership can curb opportunistic behavior by management through more effective oversight. Therefore, institutional ownership is used as a moderating variable that is hypothesized to strengthen or weaken the effects of profitability and leverage on earnings management. Institutional ownership is measured by comparing the number of shares held by institutions to the total number of outstanding shares.

To support the roles of each variable outlined in the previous subsections, the researcher presents a conceptual framework illustrated in Figure 2. The conceptual framework provides a guide for assumptions regarding the variables to be studied and assists the researcher in formulating the research

problem namely, the effects of profitability and leverage on earnings management, with institutional ownership serving as a moderator.

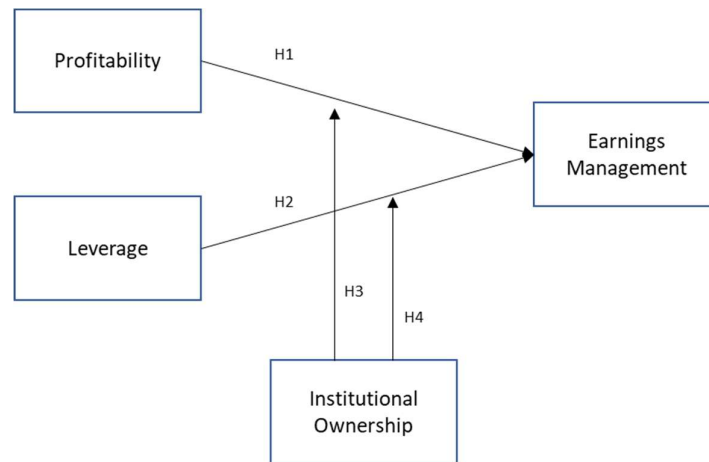


Figure 1. Conceptual Framework

## RESEARCH METHOD

This study employs a quantitative research method with a causal design that is, research that explains the cause-and-effect relationship between independent and dependent variables. The study utilizes secondary data in the form of financial statements from companies in the telecommunications sector that are publicly available and listed on the Indonesia Stock Exchange (IDX). The population selected for this study consists of all 14 telecommunications companies listed on the IDX. The sample was determined using purposive sampling based on predetermined criteria. Data were collected through documentation and literature review of matters and documents related to the research variables. Analysis and interpretation of the research data were conducted using Eviews 10.0 software.

Table 1. Operational Definitions of Variables

| No | Variable                    | Indicator                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                 | Measurement Scale |
|----|-----------------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-------------------|
| 1  | Earnings Management (Y)     | $TAit = Nit - CFOit$<br>Total accruals (TA) estimated using the OLS regression equation:<br>$TAit/Ait-1 = \beta_1(1 / Ait-1) + \beta_2(\Delta Revt / Ait-1) + \beta_3(PPEt / Ait-1) + e$<br>Using the regression coefficients above, the value of non-discretionary accruals (NDA) can be calculated using the following formula:<br>$NDAit = \beta_1(1 / Ait-1) + \beta_2(\Delta Revt / Ait-1 - \Delta Rect / Ait-1) + \beta_3(PPEt / Ait-1)$<br>Furthermore, discretionary accruals (DA) can be calculated as follows:<br>$DAit = TAit / Ait-1 - NDAit$ | Ratio             |
| 2  | Profitability (X2)          | $ROA = \frac{\text{Laba Setelah Pajak}}{\text{Total Aset}}$                                                                                                                                                                                                                                                                                                                                                                                                                                                                                               | Ratio             |
| 3  | Leverage (X3)               | $DER = \frac{\text{Total Liabilitas}}{\text{Total ekuitas}}$                                                                                                                                                                                                                                                                                                                                                                                                                                                                                              | Ratio             |
| 4  | Institutional Ownership (M) | $IOWN = \frac{\text{Jumlah saham yang dimiliki Institusi}}{\text{Jumlah saham yang beredar}}$                                                                                                                                                                                                                                                                                                                                                                                                                                                             | Ratio             |

## RESULTS AND DISCUSSION

### Description of the Research Object

In this study, the data used were secondary data obtained from the financial statements of telecommunications companies listed on the Indonesia Stock Exchange for the period 2018–2022. The sample was selected using purposive sampling, determined based on specific criteria. A summary of the sample selection procedure is presented in the following table:

**Table 2: Sampling Criteria**

| No.                                                        | Description                                                                  | Number         |
|------------------------------------------------------------|------------------------------------------------------------------------------|----------------|
| 1                                                          | Telecommunications companies listed on the IDX                               | 18 Companies   |
| 2                                                          | Telecommunications companies that conducted an IPO after 2018                | (4 companies)  |
| 3                                                          | Companies that published their financial reports during the 2018–2022 period | 14 Companies   |
| <b>Number of Observations (Sample * Observation Years)</b> |                                                                              | <b>70 Data</b> |

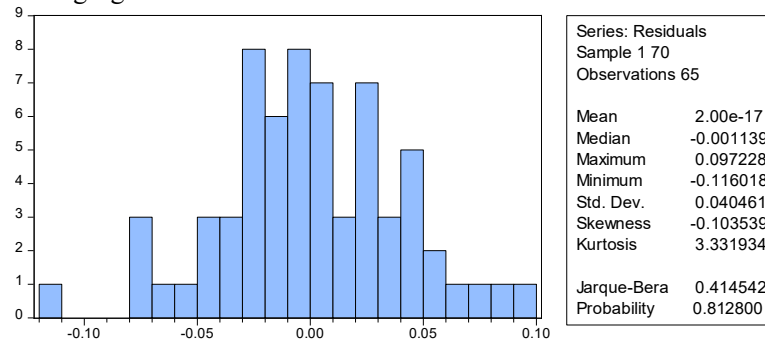
Source: Researcher's Analysis (2026)

### Classical Assumption Tests

The classical assumption test aims to determine the suitability of using a regression model in this study. This test must be conducted to verify whether the data meet the classical assumptions. The classical assumption tests used in this study are as follows:

#### a. Normality Test

In this study, the normality test will be performed using the Jarque-Bera (J-B) test via the EViews statistical software. The data will be considered normally distributed if the probability value (p-value) is greater than the 5% significance level. The results of the normality test in this study can be seen in the following figure.



Source: Data Processing Results with EViews 10 (2026)

**Figure 2: Results of the Normality Test**

As shown in the figure above, the Jarque-Bera value is 0.414542 with a p-value of 0.812800, which is greater than the 0.05 significance level; therefore, it can be concluded that the data are normally distributed.

#### b. Multicollinearity Test

To test for multicollinearity in this study, the tolerance and Variance Inflation Factor (VIF) values were examined. The commonly used cutoff values to indicate the presence of multicollinearity are a tolerance value  $< 0.10$  or a VIF value  $\geq 10$  (Ghozali, 2021). The results of the multicollinearity test in this study are shown in the following table:

**Table 3 Results of the Multicollinearity Test**

Variance Inflation Factors  
Date: 05/07/26 Time: 11:14  
Sample: 1,70  
Included observations: 65

| Variable | Coefficient<br>Variance | Uncentered<br>VIF | Centered<br>VIF |
|----------|-------------------------|-------------------|-----------------|
| C        | 0.000394                | 10.45708          | NA              |
| FD       | 0.002035                | 4.638544          | 1.313148        |
| ROA      | 0.004504                | 1.305061          | 1.295116        |
| LEV      | 1.32E-07                | 1.235941          | 1.172535        |
| IOWN     | 0.000670                | 8.340530          | 1.131692        |

Source: Data Analysis Results Using EViews 10 (2026)

Based on the analysis results in the table above, it can be seen that the VIF values for all variables in the t-model are less than 10. Thus, it can be concluded that all variables are free from multicollinearity because the VIF values are  $< 10$ .

#### c. Heteroscedasticity Test

The presence or absence of heteroscedasticity is determined through the White test. Based on the test results, a decision is made: if the significance level is 0.05 (, Ghozali, 2013, p :143) at a 95% confidence level, then there is no heteroscedasticity. The results of the heteroscedasticity test are shown in the following table:

**Table 4 Results of the Heteroscedasticity Test**

|                                |          |                       |        |
|--------------------------------|----------|-----------------------|--------|
| Heteroscedasticity Test: White |          |                       |        |
| F-statistic                    | 2.207508 | Prob. F(14,50)        | 0.0206 |
| Obs*R-squared                  | 24.82948 | Prob. Chi-Square (14) | 0.0363 |
| Scaled Explained SS            | 44.17347 | Prob. Chi-Square (14) | 0.0001 |

Source: Data Analysis Results using Eviews 10 (2026)

Based on the results of the heteroscedasticity test, the Prob. Obs\*R-Squared value was 0.0363. This result leads to the conclusion that the model suffers from heteroscedasticity because the Prob. Obs\*R-Squared value is  $< 0.05$ .

#### d. Autocorrelation Test

One test that can be used to detect autocorrelation is the Breusch-Godfrey test, also known as the Lagrange Multiplier test. The Durbin-Watson (DW) test can detect the presence of autocorrelation. It can be concluded that there is no autocorrelation if the DW value falls between  $-du$  and  $4-du$ . The results of the autocorrelation test are shown in the following table:

**Table 5: Autocorrelation Test Results**

| N<br>(K = 3) | Calculated<br>DW | 4-dU  | 4-dL  | DW Lower<br>Limit Table<br>(dl) | DW Upper<br>Limit Table<br>(du) | Conclusion                                  |
|--------------|------------------|-------|-------|---------------------------------|---------------------------------|---------------------------------------------|
| 70           | 1.997            | 2,506 | 2,265 | 1,735                           | 1,494                           | No autocorrelation,<br>positive or negative |

Source: Data Analysis Results using Eviews 10 (2026)

Based on the table above, the results of the autocorrelation test using the first-order Durbin-Watson model show that the calculated DW value is 1.997. This value is compared with the table values at a 5% significance level, with a sample size (n) of 70 and three independent variables (k=3), yielding the Durbin-Watson table values of  $dL = 1.735$  and  $du = 1.494$ . From the Durbin-Watson value of 1.997, it can be concluded that  $du < d < 4 - du$ , with the values  $1.494 < 1.997 < 2.506$ . Therefore, it can be stated that there is no autocorrelation, neither positive nor negative.

### Panel Data Regression Model

In this section, tests will be conducted to determine the model that best fits this study. There are three models that can be used for panel data: the common-effects model, the fixed-effects model, and the random-effects model.

#### a. Chow Test

The Chow test is used to select the appropriate model whether to use the common-effects model or the fixed-effects model. This test is conducted using the F-test or the chi-square test with the following hypotheses:

Ho: The model follows the common-effects model

H1: The model follows the fixed-effects model

Alpha: 5%

Condition: Reject Ho if the F-test or chi-square value is less than alpha

The following are the results obtained from the Chow test conducted using EViews 10 software:

**Table 6 Results of the Chow Test**

Redundant Fixed Effects Tests  
Equation: Untitled  
Cross-Section Fixed Effects Test

| Effects Test             | Statistic | d.f.    | Prob.  |
|--------------------------|-----------|---------|--------|
| Cross-Section F          | 7.244836  | (13.44) | 0.0000 |
| Cross-section Chi-square | 74.385239 | 13      | 0.0000 |

Source: Data Analysis Results using Eviews 10 (2026)

Based on the Chow test results above, it can be seen that the F-test probability value of 0.0000 is less than 0.05 and the chi-square value of 0.0000 is less than 0.05. Thus, H0 is rejected and H1 is accepted. This means that the model estimation approach follows the fixed-effects model. In other words, the fixed-effects model is better than the common-effects model.

#### b. Hausman Test

The Hausman test is conducted to determine which model is better: the fixed-effects model or the random-effects model. The hypotheses in the Hausman test are as follows:

Ho: The model follows the random-effects model

H1: The model follows the fixed-effects model

Alpha = 5%

Condition: Reject Ho if the p-value is less than alpha

The following are the results obtained from the Hausman test conducted using EViews 10 software:

**Table 7: Results of the Hausman Test**

Correlated Random Effects - Hausman Test  
Equation: Untitled  
Test of cross-sectional random effects

| Test Summary         | Chi-Sq. Statistic | Chi-Sq. d.f. | Prob.  |
|----------------------|-------------------|--------------|--------|
| Cross-Section Random | 8.292187          | 7            | 0.3075 |

Source: Data Analysis Results Using EViews 10 (2026)

Based on the results of the Hausman test in the table above, it can be seen that the probability value for the cross-section random test is 0.3075, which means it is more significant than the 95% confidence level (significance level) ( $\alpha = 5\%$ ). Therefore, the decision made in this Hausman test is to reject H1 and accept Ho. In other words, the model follows the random-effects model. It can also be concluded that the random-effects model is superior to the fixed-effects model.

**c. Lagrange Multiplier Test**

This test is used to determine the model between the common-effects model (CEM) and the random-effects model (REM). The null hypothesis of the LM test is as follows:

Ho: The model follows the common effects model (CEM)

H1: The model follows the random effects model (REM)

Alpha: 5%

Condition: Reject Ho if the Chi-Square probability is less than alpha 0.05

The following are the results obtained from the Lagrange multiplier test conducted using EViews 10 software:

**Table 8 Results of the Lagrange Multiplier Test**

Breusch-Godfrey Serial Correlation LM Test:

|               |          |                            |        |
|---------------|----------|----------------------------|--------|
| F-statistic   | 3.690268 | Prob. F(2,55)              | 0.0313 |
| Obs*R-squared | 7.690458 | Chi-Square Probability (2) | 0.0214 |

Source: Data Analysis Results using Eviews 10 (2026)

Based on the results of the LM test, it is known that the Chi-Square Probability value of 0.0214 is smaller than the alpha level of 0.05. Thus, H0 is rejected and H1 is accepted. This means that the model estimation approach follows the random effects model. In other words, the random effects model is better than the common effects model.

**d. Recommendations for Selecting the Best Model**

From the panel data regression model selection test that has been conducted, the results can be summarized in the table below.

**Table 9 Results of Panel Data Regression Model Selection**

| Test Name                | Description | Result               |
|--------------------------|-------------|----------------------|
| Chow Test                | CEM vs. FEM | Fixed-Effects Model  |
| Hausman Test             | REM vs. FEM | Random Effects Model |
| Lagrange Multiplier Test | CEM vs. REM | Random Effects Model |

Source: Researcher's Analysis (2026)

The results of the panel data regression model selection in the table above show differing outcomes. The Chow test results indicate that the best model is the fixed-effects model compared to the fixed-effects model. Furthermore, the results of the Hausman test show that the random-effects model is superior to the fixed-effects model, and the Lagrange multiplier test indicates that the random-effects model is better than the common-effects model. Based on the Chow test, Hausman test, and Lagrange multiplier test, it can be concluded that the best model for the regression equation is the random-effects model.

**Multiple Linear Regression Analysis**

Based on the results of the panel data selection test that has been conducted, the best panel data regression model in this study is the random-effects model. The following table presents the results obtained using the random-effects model.

**Table 10 Results of the Random Effects Model Regression**

Dependent Variable: ML  
Method: Panel EGLS (Cross-section random effects)  
Date: 05/07/26 Time: 11:01  
Sample: 2018–2022  
Periods included: 5  
Cross-sections included: 14  
Total panel (unbalanced) observations: 65  
Swamy and Arora estimator of component variances

| Variable | Coefficient | Standard Error | t-Statistic | Prob.  |
|----------|-------------|----------------|-------------|--------|
| C        | -0.022985   | 0.019512       | -1.178031   | 0.2437 |
| ROA      | -0.117572   | 0.239806       | -0.490281   | 0.6258 |
| LEV      | 0.000375    | 0.000254       | 1.474973    | 0.1457 |
| IOWN     | 0.096527    | 0.034542       | 2.794470    | 0.0071 |
| ROA_IOWN | -0.801996   | 0.257475       | -3.114851   | 0.0029 |
| LEV_IOWN | -0.000408   | 0.000242       | -1.687133   | 0.0970 |

Source: Researcher's Analysis (2026)

The regression equation used in this study based on the above test is as follows:

$$ML = -0.022985 - 0.117572ROA + 0.000375LEV + 0.096527IOWN - 0.801996ROA*IOWN - 0.000408LEVIOWN + \varepsilon$$

**Table 11 Results of the t-Test**

| Relationship Between Variables        |   |                     | $\beta$   | Sig    | Conclusion  |
|---------------------------------------|---|---------------------|-----------|--------|-------------|
| Profitability                         | → | Earnings Management | -0.117572 | 0.6258 | No Effect   |
| Leverage                              | → | Earnings Management | 0.000375  | 0.1457 | No Effect   |
| Profitability*Institutional Ownership | → | Earnings Management | -0.801996 | 0.0029 | Significant |
| Leverage*Institutional Ownership      | → | Earnings Management | -0.000408 | 0.0970 | No Effect   |

Source: Researcher's Analysis (2026)

## Discussion

### The Effect of Profitability on Earnings Management

The research results indicate that profitability does not have a significant effect on earnings management in telecommunications companies listed on the Indonesia Stock Exchange during the 2018–2022 period. This indicates that a company's ability to generate high or low profits does not directly determine management's tendency to engage in earnings management, as such practices may be more influenced by specific incentives, such as meeting performance targets, market expectations, or the company's contractual interests. When profitability is high, management does not always have an incentive to manipulate earnings because the company's performance already reflects favorable conditions; conversely, under conditions of low profitability, the risk of arousing investor suspicion may also limit such practices.

### The Effect of Leverage on Earnings Management

The research results indicate that leverage does not have a significant effect on earnings management in telecommunications companies listed on the Indonesia Stock Exchange during the 2018–2022 period. This finding suggests that the level of a company's debt does not directly drive management to engage in earnings manipulation, as companies with high leverage levels generally face stricter oversight from creditors. Such oversight can limit management's leeway to engage in opportunistic actions, meaning that financial risks stemming from high debt are not always addressed through earnings management

practices. These results align with the studies by Astriah et al. (2021) and by Wijaya and Hendriyeni (2021), which also found that leverage does not affect earnings management.

#### **Institutional Ownership Moderates the Effect of Profitability on Earnings Management**

The results of the study indicate that institutional ownership weakens the effect of profitability on earnings management in telecommunications companies listed on the Indonesia Stock Exchange during the 2018–2022 period. This finding indicates that the presence of institutional investors can strengthen oversight of management, thereby reducing the likelihood of opportunistic behavior in earnings reporting, regardless of the company's profitability level. From an agency theory perspective, effective oversight by institutional shareholders can reduce conflicts of interest between management and shareholders and promote better corporate governance.

#### **Institutional Ownership Moderates the Effect of Leverage on Earnings Management**

The results of this study indicate that institutional ownership does not moderate the effect of leverage on earnings management in telecommunications companies listed on the Indonesia Stock Exchange during the 2018–2022 period. These findings suggest that the presence of institutional shareholders does not necessarily limit the influence of debt structure on management's tendency to engage in earnings management. This situation may arise because institutional ownership and leverage have different focuses: institutional investors tend to focus on a company's performance and profits, whereas leverage relates to a company's ability to meet its long-term financial obligations. Thus, institutional oversight may not be effective in controlling management actions related to pressures arising from a company's debt structure. These results are consistent with those of Putri and Setiawati (2021) as well as Putri et al. (2022).

### **CONCLUSION AND RECOMMENDATIONS**

Based on the results of this study on telecommunications companies listed on the Indonesia Stock Exchange from 2018 to 2022, it can be concluded that profitability and leverage do not have a significant effect on earnings management. However, institutional ownership was found to mitigate the influence of profitability on earnings management, indicating that the presence of institutional investors can serve as a monitoring mechanism to reduce the likelihood of opportunistic management actions. Conversely, institutional ownership does not mitigate the effect of leverage on earnings management. Overall, the study's findings indicate that profitability and leverage do not directly determine earnings management practices, whereas institutional ownership plays a crucial role in strengthening corporate oversight, particularly in the relationship between profitability and earnings management.

For companies, it is necessary to strengthen governance mechanisms, internal oversight, transparency, and integrity in financial reporting to minimize earnings management practices and optimize the role of institutional ownership as a monitoring mechanism against management actions. For investors, institutional ownership can be considered as one aspect in evaluating a company's governance quality and transparency, accompanied by a comprehensive analysis of profitability, leverage, and financial statements before making investment decisions. Meanwhile, future research is recommended to expand the scope of corporate sectors, extend the observation period by using more recent data, and consider other factors that could potentially influence earnings management to gain a more comprehensive understanding of the determinants of earnings management practices in Indonesia.

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