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Does Ownership Structure Play an Important Role in the Banking Industry?

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ABSTRACT : PSAK 71 adopts IFRS 9 to regulate and provide guidance on the recognition and measurement of financial instruments. PSAK 71 regulates changes in classification and measurement, impairment, and hedge accounting. This research aims to determine the role of the banking ownership structure in Indonesia in influencing earnings management during the enactment of PSAK 71. This research analyse quantitative data that has been collected from annual reports of financial services companies in the banking sub-sector listed on the Indonesia Stock Exchange using STATA 14. The results of the research show that concentrated and government ownership has a relationship with earning management practice. This research implies that measuring earnings management must not only be done through abnormal loan loss provision but can also be done using other techniques, namely techniques for managing earnings to report small positive earning.
Keywords: *Banking Industry, Ownership Structure, Earnings Management, PSAK 71*

I. INTRODUCTION

Banking is an industrial sector that has an essential role in the economy. The high flow of money in circulation in the flow of globalization and free trade makes the banking sector the most strategic industry. In carrying out this role, the Bank functions as an intermediation institution, connecting parties needing funds and excess funds. Banks carry out this function by receiving funds in the form of deposits (funding) and channelling these funds for productive businesses in the form of credit loans (lending), thereby increasing people's income and the national income of a country. In distributing credit funds, the Bank first assesses the customer's capabilities. This assessment is the basis the Bank uses to anticipate the amount of profit and loss from lending to customers. If the distribution of credit is deemed profitable, this is not a big problem for the Bank. However, if the Bank has the potential to experience losses, the Bank must anticipate this by calculating reserves for losses due to the distribution of credit.

McNichols [1] presented a technique for identifying earnings management to overcome the shortcomings of the accrual model, called the earnings distribution approach [2]. Burghstahler et al. [3] pioneered this strategy by demonstrating that managers are incentivized to control earnings to reach particular profit thresholds, such as reporting positive profits or avoiding losses and declining profits. According to Degeorge et al. [4], the primary goal of managing earnings is to achieve gains, followed by reporting grater profits. When both standards are reached, managers will adjust earnings to fit projected earnings. This study employs earnings management approaches to minimise losses as another proxy for earnings management procedures, namely to achieve profits.

Earnings management stems from agency problems, specifically from a discrepancy in interests between the owner (principal) and the manager (agent) due to unmet optimal utility for both parties. This discrepancy results in information asymmetry, which then allows management to engage in profit-driven accounting practices to reach certain performance targets. . Agency conflict, which results in opportunistic management actions so that reported profits are artificial, will cause the company's value to decrease in the future [5], [6]. Agency issues that emerge from the division between ownership and control highlight the importance of mechanisms for corporate governance [7]. Lassoued et al. [8] claim that agency difficulties extend beyond the dynamic between concentrated shareholders and owners and managers. In other words, agency issues are linked to conflicts between controlling shareholders and minority investors.

This study adds to our understanding of how ownership structure affects profits management in the context of the banking sector in developing countries. Numerous studies reveal that nations with weak investor protection, such emerging nations, exhibit a greater degree of exploitation of minority shareholders [9]–[11].

Our study's two goals were as follows. This study employs methods for managing earnings to report small positive earnings (SMPOS) to investigate variations in earnings management within the banking industry. Additionally, it explores the potential impact of banks' ownership structures on earnings management. This research has several contributions, including expanding knowledge about earnings management techniques in banking, which generally use abnormal loan loss provisons. This research aims to test alternative methods for understanding earnings management practices in the banking sector. Furthermore,

it extends the existing literature on the impact of ownership structures on earnings management in banks operating in developing countries.

II. LITERATURE REVIEW AND HYPOTHESES DEVELOPMENT

2.1 Agency Theory

According to Scott [12], agency theory is a branch of game theory that examines how contract design can motivate rational agents to act in the best interests of the principal, especially when the agent's interests conflict with those of the principal. Scott [12] also provides an example of agency theory, namely in the form of interactions between company owners as principals and managers as agents who run the company. Both have different interests from each other.

In the context of this research, agency problems are related to two different parties, namely concentrated shareholders and minority shareholders. Bebchuk et al. [13] argue that dominant minority structures can potentially create large agency costs. Minority structures combine the agency problems of firms controlled by insiders who own a small portion of the equity [14] with the agency problems of firms regulated by insiders isolated from the influence of other shareholders and market control of the firm [15]. Thus, minority shareholders can also control the company.

The issue of management opportunism is made worse by the dispersion of firm ownership. Owners who are dispersed lack the means and the drive to correct misbehaving managers [16]. Conversely, concentrated owners possess the ability and rationale to impose discipline on managers through the use of concentrated voting rights to threaten their jobs. Concentrated owners can enhance the firm's resource base by utilising their resources and expertise. [17]. Concentrated owner resources may be beneficial for firms operating in less hospitable environments [18] or when the firm size is not very large [17].

Despite the aforementioned benefits, concentrated ownership can have negative consequences. For instance, majority shareholders might exploit resources to the detriment of minority shareholders [16].

2.2 Earnings Management

The issue of earnings management has been investigated globally, revealing that banks engage in such practices [19]–[22]. Due to their high leverage and the incentives for managers to assume greater risks by relying on depositors for funding and central banks as lenders of last resort, earnings management in banks presents more significant challenges compared to non-financial enterprises.. Economic loss may result from this overabundance of risk-taking [23].

Apart from the typical reasons for earnings management that have been found for non-financial companies, banks also find the practice to be significant. In order to adhere to the regulatory standards for banking operations, banks control their income. According to Beatty et al. [19] the fact that earning management are the foundation of regulator monitoring makes incentives for profits management tangible. As a result, banks falsify their reported figures to authorities in order to appear less risky and to have adequate capital [21], [24], [25].

It is generally acknowledged that abnormal loan loss provisions is the primary tool for managing bank revenues [8]. To identify earnings management, further methods might be employed. One of them was proposed by McNichols [1], who stated that to overcome the weaknesses of the accrual model by using a profit distribution approach. This approach was first introduced by Burgstahler and Dichev [3]. According to Burgstahler and Dichev [3] managers are driven to control earnings in order to reach predetermined income criteria. For example, they may report positive profits or steer clear of losses and reduce profits. In their research, Degeorge et al. [4] also state that earnings management has the main objective of gaining profits, followed by the need to report increased profits, and then profits are manipulated by managers to meet analysts' estimates. The primary objective of earnings management practices is to achieve profits, and this research employs the reporting of small positive earnings (SMPOS) as an alternative proxy for earnings management.

2.3 Ownership Structure

2.3.1 Concentrated Ownership

Effective governance mechanisms, represented by controlling shareholders, diminish agency costs by enhancing oversight and protecting the interests of all shareholders [26]. Consequently, it is anticipated that major shareholders will preserve managerial discretion, including the capacity for managerial opportunism, to partake in fraudulent financial reporting [27]. In other words, major shareholders who are integral to the power ownership structure play a crucial role in preventing adverse practices that might be executed by management.

2.3.2 Institutional Ownership

Institutional ownership pertains to the holding of company shares by entities like insurance companies, banks, pension funds, investment firms, and other institutional investors [28]. Due to their expertise, professionalism, and substantial resources, institutional investors possess greater awareness and information compared to other shareholders, which enhances their ability to monitor the company effectively [8]Consequently, large institutional investors may be incentivized to restrict management's engagement in earnings management [29].

2.3.3 Foreign Ownership

Foreign parties, both individuals and institutions, in company shares in Indonesia [30]. The entry of foreign banks causes the profitability of domestic banks to decrease due to the presence of new competitors. Then, it reduces market prices to obtain funding to build market share in a country's market [31]. Berger, Hasan, and Zhou [32] stated that banks with foreign ownership have greater efficiency. So, to continue operating efficiently and build a country's market share, banks with foreign ownership are incentivized to manage their profits.

2.3.4 Government Ownership

Government ownership refers to the proportion of a company's shares owned by the government [33]. Compared to private banks, state-owned banks operate under a more specific set of conditions [8]. Primarily, the lending policies of state-owned banks might prioritize social objectives over financial ones. For instance, these banks might fund projects that are not profitable financially but serve significant social purposes, similar to the operations of state-owned enterprises [34]. Consequently, state-owned banks play a role in financing projects that are high in social and political value but may have low profitability. To conceal such priorities, managers might be prompted to manipulate their financial reporting.

2.4 Hypothesis Development

2.4.1 Concentrated Ownership and Earnings Management

Shleifer and Vishny [35] articulate that concentrated shareholders play a pivotal role in monitoring company performance, as these shareholders are motivated to bear costs to gather information for effective oversight [36]. According to Dempsey et al. [37], concentrated ownership correlates with more effective governance, leading to a reduction in earnings management. They posit that higher ownership concentration enhances the supervisory function of company management, thereby reducing the potential for managerial opportunism in manipulating accounting profits [27]. In firms with concentrated ownership, the agency problem shifts from primarily being between shareholders and managers to between controlling shareholders and minority shareholders [8]. In such situations, controlling shareholders may prioritize maximizing their own benefits at the expense of minority shareholders [38], indicating that internal governance mechanisms are less effective in a concentrated ownership structure [39], [40]. Taktak and Mbarki's study of 10 Tunisian Islamic banks found that concentrated ownership increases the likelihood of earnings management [41]. Similarly, Tran et al. [42] observed that concentrated ownership positively affects earnings management in Vietnamese commercial banks. This observation leads to the formulation of the first hypothesis.

Hypothesis 1: Concentrated ownership is positively related to earnings management.

2.4.2 Government Ownership and Earnings Management

State-owned banks demonstrate distinct performance metrics compared to private banks. Initially, the lending policies of state-owned banks may prioritize social objectives over financial objectives. For instance, these banks might fund non-profitable projects exclusively for social reasons, a practice typically associated with state-owned enterprises [34]. Furthermore, state-owned banks are intricately linked to political dynamics [43], [44]. Political affiliates, often lacking the expertise to manage banks effectively, may pursue personal agendas over societal benefits, such as channeling resources to their allies [45]. Consequently, state-owned banks engage in financing projects that serve high social and political aims but are likely unprofitable. To obscure such practices, managers may resort to earnings management [8]. Research in emerging markets, particularly focusing on Chinese banks, explores the impact of state ownership on earnings management, yielding mixed findings—some studies report positive impacts [46], while others indicate negative effects [47]. It appears that state-owned banks manipulate profits to maintain requisite capital adequacy ratios. Hence, we propose that heightened state ownership prompts earnings management. This observation leads to the formulation of the second hypothesis as follows:

Hypothesis 2: Government ownership is positively related to earnings management.

2.4.3 Institutional Ownership and Earnings Management

Jensen and Meckling [26] stated that institutional ownership is crucial in minimizing agency conflicts between shareholders and managers. According to Lassoued et al. [8], institutional investors possess greater knowledge about a company's condition compared to other shareholders, owing to their expertise, professionalism, and resources, which enhance their monitoring capabilities. As a result, institutional ownership has an incentive to limit corporate earnings management practices [29]. Duggal & Millar [48] contend that institutional investors exhibit passivity and tend to liquidate their holdings rather than invest resources to monitoring when a company underperforms. Klai and Omri [49] provide evidence that institutional ownership positively and significantly impacts quality of financial reporting. Hessayri & Saihi [50] determine that institutional investors restrict earnings management in developing countries. This aligns with research by Sharma [51], which indicates that high institutional ownership leads to a reduction in fraud in company financial reports. Siregar and Utama [52] assert that the presence of institutional investors can restrain managers from engaging in earnings management. Bauwhede and Willekens [53] also discovered that institutional ownership can reduce the occurrence of earnings management in companies. Banks are known to have high levels of institutional ownership [54]. Thus, institutional ownership serves as an effective anticipatory mechanism that monitors and mitigates earnings management. This leads to the formulation of the third hypothesis as follows:

Hypothesis 3: Institutional ownership has a negative correlation with earnings management.

2.4.4 Foreign Ownership and Earnings Management

In recent years, there has been a notable increase in foreign ownership across numerous companies in Indonesia. Companies with substantial foreign ownership often encounter challenges related to information asymmetry, primarily due to geographic and language barriers [55]. Such conditions expose these companies to political risks, asymmetric information, and issues with legal protection [16]. Chibber & Majumdar [56] observed that foreign ownership positively influences corporate performance in India. This improvement in performance is attributed to the superior management systems, technology, innovation, expertise, and marketing strategies that foreign investors bring to the table. As foreign ownership escalates, there is a trend towards appointing foreign nationals to the boards of commissioners or directors, thereby aligning management practices with the goal of maximizing company performance. In the banking sector, Claessens et al. [57] studied the impact of foreign banks on the domestic banking markets in developing countries, finding that foreign banks often achieve higher profits than their local counterparts. This advantage stems from factors such as economies of scale and scope, managerial expertise, technological advancements, financial stability, and competitive dynamics in the domestic market. Consequently, it can be inferred that banking performance is likely to improve with an increase in the proportion of foreign ownership. This greater degree of foreign ownership is also expected to reduce management's incentives to engage in earnings management. This leads to the formulation of the fourth hypothesis as follows:

Hypothesis 4: Foreign ownership has a negative correlation with earnings management.

III. RESEARCH METHODOLOGY

3.1. Data and Sample

In this study, data will be collected from the annual reports of financial services companies within the banking sub-sector listed on the Indonesia Stock Exchange. The sample includes 43 banks listed on the Indonesia Stock Exchange, covering a period of seven years, from 2015 to 2021. The selection of this particular time frame is informed by regulatory changes stemming from the adoption of the IFRS 9 standard, which necessitated early preparatory measures by banks due to the significant implications of the standard's introduction. As in the survey conducted by Deloitte [58] regarding the impact of implementing this standard on banking, banks need at least three years of preparation to move to IFRS 9 (PSAK 71). Even in Europe, it requires five years of preparation time [59]. The change in concept from incurred loss to expected loss causes banks to make large reserves related to possible losses in lending. These large reserves increase the possibility of banks carrying out earnings management practices, where banks can accumulate as many loss reserves as possible and use them to take profits. The data source comes from the Indonesia Stock Exchange website.

3.2. Research Model

This research uses the regression specifications described in Zainuddin and Lui [2]. This research examines the level of earnings management from managing earnings to report small positive earning or SMPOS The research looks at the perspective of profit before tax divided by initial total assets.

So, the research model is:

$$SMPOS = \beta_0 + \beta_1 CON + \beta_2 GOV + \beta_3 INT + \beta_4 GOV + \beta_5 SIZE + \beta_6 GROWTH + \beta_7 EQUITY + \beta_8 RISK + \beta_9 AGE + \varepsilon_{it}$$

This study employs a scaled income histogram approach, where net profit before tax divided by total assets is plotted with a histogram interval width of 0.005, covering a range from -0.05 to +0.10 [3]. Burgstahler and Dichev [3] suggest that, in the absence of earnings management, the distribution of income should be symmetric around 0.015. Based on this premise, the study introduces the SMPOS indicator variable. This variable is assigned a value of one if, in any given year, the bank's EBT (net profit before tax divided by total assets) falls within the interval from 0 to 0.015, and a value of zero otherwise. This metric is used to assess the presence of earnings management behaviors among the banks in the sample.

In this study, four independent variables are analyzed for their influence on bank financial performance. CON represents the concentration of ownership, measured as the percentage of total shares held by major shareholders with over 5% ownership [2]. GOV indicates the level of government ownership, defined as the percentage of shares owned by the government exceeding 5% [2]. INT signifies institutional ownership, calculated as the percentage of shares held by institutions that own more than 5% [8]. FOREIGN represents the extent of foreign ownership, shown by the percentage of shares held by foreign investors with over 5% ownership [2]. Several control variables are included for a comprehensive analysis: SIZE is the natural logarithm of the bank's total assets; GROWTH is the annual change in total assets, adjusted by the assets at the beginning of the year; EQUITY is the total equity as a percentage of initial total assets; RISK is the total risk-weighted assets as a fraction of initial total assets; and AGE is the number of years since the bank was established. These control variables are incorporated to control for external factors that might affect the results, ensuring a robust investigation framework.

IV. RESULTS AND DISCUSSION

4.1. *Descriptive Statistics Results*

In the results and discussion section, this research will test a previously determined model using logistic analysis.

The first step that will be taken before logistic analysis is to carry out descriptive analysis to present concise and clear information regarding the variables involved in this research. The descriptive analysis includes the mean, minimum, maximum, and standard deviation for each variable. The outcomes of the descriptive analysis for each research variable are displayed in

Table 1. Descriptive Statistics

Variable	Mean	Standard Deviation	Min	Max
SMPOS	0.445993	0.4979429	0	1
CON	0.5640845	0.2378618	0	0.99
GOV	0.1040368	0.2358657	0	0.8723
INT	0.4329988	0.3325052	0	0.99
FOREIGN	0.3495072	0.3450314	0	0.99
SIZE	31.246	1.811809	27.22256	35.08436
GROWTH	0.2252106	1.39330308	-0.3979573	23.0118
EQUITY	0.2042561	0.3102034	0.313082	4.963536
RISK	0.6751161	0.2521654	7.35e-07	2.054578
AGE	38.1777	23.52189	0	112

Table 1 reports the results of descriptive statistics for all variables.
The definitions of the variables are provided in research model.

Table 1.

Table 1 above results from a descriptive analysis of 41 banking samples for seven years. The table above shows the SMPOS variable. Zainuldin et al. [2] state that this SMPOS sees the earnings management technique through the amount of profit reported by the company; the smaller the amount of profit reported, indicating banks make earnings management. From the analysis above, the average value of SMPOS was 44.60%. Of the 287 observations, 128 obtained a value of 1, and the remaining 159 obtained a value of 0. This indicates that almost half of the total banking observations make earnings management with this technique.

The following variable is ownership. This recitation uses four ownership variables: concentrated, government, institutional, and foreign ownership. First, from the analysis results, the CON (concentrated) variable obtained an average

value of 56.40% of banking ownership in Indonesia is owned by concentrated. This further proves that share ownership in Indonesia is not spread and concentrated on certain parties, unlike ownership in developed countries. From this average value, a maximum value of 99% is obtained, the highest value of all types of ownership. Second, the GOV variable (government) received an average of 10.40% from the analysis results. So, from research observations, as many as 10.40% of banks are owned by the Indonesian government. Third, the INT (institutional) variable, from the analysis results obtained, other institutions or companies own an average value of 43.30% of banking in Indonesia. The highest value of this result indicates domestic institutions own a sufficient number of companies in Indonesia. Fourth, from the analysis results, the Foreign (foreign) obtained an average value of 34.95% owned by the foreign side. This result is not much different from institutional ownership; this indicates that banks in Indonesia are, on average, owned by institutional institutions at home and abroad or by foreign individuals.

4.2. Logistic Analysis Results

The logistic regression analysis used in this research was a logistic regression with robust standard error. This was done because the model indicated an outlier. So, analysis with robust standard error correction is better to use. Significance testing is used to test hypotheses regarding whether or not there is an influence of the independent variable on the dependent variable. Significance testing can be seen through the summary in Table 2. Based on the results in Table 2, it can be seen that the variables CON, GOV, and SIZE significantly influence earnings management.

4.3. Partial Hypothesis Testing Results

Table 2. Significance Test Results

Variable	Coef.	Std. Err. Robust
CON	-2.488644***	0.7409473
GOV	-1.418764*	0.81643
INT	-0.1603702	0.5536357
FOREIGN	0.6004463	0.4991125
SIZE	-0.2054707**	0.0939842
GROWTH	-0.865877	0.0605695
EQUITY	0.1585905	0.3149833
RISK	-0.733847	0.4963037
AGE	0.006731	2.888939

*,**,*** denote an estimate that is significantly different from 0 at the 10%, 5%, or 1% level, respectively.

Table 3 explains that only one hypothesis was accepted of the four hypotheses. However, significantly, the results of the hypothesis provide the opposite of the predictions of the hypothesis formed in this research.

The marginal effect value of the CON variable is -0.5346739 (negative), which means that if the percentage of concentrated ownership increases by 1 percent, it tends to reduce earnings management by 53.46%. The marginal effect value of the gov variable is -0.304815 (negative), which means that if the government ownership percentage increases by 1 percent, earnings management will decrease by 30.48%.

4.3. Discussions

Hypothesis 1 states that concentrated ownership would positively impact earnings management. However, the findings presented in Table 3 contradict this expectation, demonstrating that concentrated ownership actually has a negative effect on earnings management. This suggests that higher levels of ownership lead to enhanced financial reporting quality due to more effective oversight from shareholders, which in turn helps to mitigate earnings management practices. Shleifer and Vishny

Table 3. Marginal Effect Results

Variable	Hypotheses	Prediction	Results	Marginal Effect
CON	H1	+	X	-0.5346739***
GOV	H2	+	X	-0.304815*
INT	H3	-	✓	-0.0344548
FOREIGN	H4	-	X	0.1290031
SIZE				-0.441444**
GROWTH				-0.018603
EQUITY				0.0340724
RISK				-0.1576637
AGE				0.0014461

*,**,*** denote an estimate that is significantly different from 0 at the 10%, 5%, or 1% level, respectively.

[60] support this observation through their assertion that concentrated shareholders have strong incentives to actively monitor and influence company management in order to safeguard their substantial investments, a principle known as the efficient monitoring hypothesis. Consequently, a higher concentration of ownership is likely to reduce agency costs and curb earnings management, aligning the interests of owners and managers towards maintaining the integrity of financial reporting.

Hypothesis 2 states that government ownership has a negative effect on earnings management. However, the results in Table 3 show the opposite result, namely that government ownership negatively influences earnings management. A large

share of ownership by governments in developing countries will further increase monitoring efforts to be more efficient. In Indonesia, banks with government ownership still dominate large-capacity banks. Banks with government ownership have more social responsibility regarding community service, which will be monitored in the bank's performance. Government ownership in a bank has a good impact because the use of funds collected or circulating can be maximized. Government banks have two important roles as regulators and owners so that supervision and implementation of regulations are more supervised. Thus, government-owned banks have a good impression, increasing public trust [61].

Hypothesis 3 states that institutional ownership would negatively impact earnings management, suggesting that an increase in institutional shareholding would lead to a reduction in such practices. Contrary to this hypothesis, the results of the study revealed no significant relationship between institutional ownership and earnings management. This indicates that simply increasing the shares held by institutional investors does not necessarily curb earnings management activities. Cornett et al. [62] discuss a potential explanation for this finding, suggesting that institutional ownership might pressure managers to meet specific profit targets set by investors, which could motivate earnings manipulation regardless of whether institutional ownership levels increase or decrease. Furthermore, Kristanti [63] critiques the role of institutional investors, arguing that they often do not fulfill their responsibilities as sophisticated investors capable of overseeing management performance to prevent earnings management. Instead, these investors may act as transient shareholders, primarily interested in short-term gains rather than long-term stability, thereby failing to provide effective oversight of management practices. Consequently, the anticipated effect of institutional ownership in enhancing the monitoring of management and reducing earnings management does not materialize, as institutional investors do not consistently engage in the active supervision necessary to deter such practices.

Hypothesis 4 states that foreign ownership would have a negative impact on earnings management, implying that an increase in foreign shareholding would lead to a decrease in such practices. However, the study's findings indicate that there is no significant relationship between foreign ownership and earnings management. This suggests that even when foreign ownership increases, it does not necessarily mitigate earnings management activities. The study highlights that the effectiveness of foreign ownership in controlling earnings management is largely dependent on the robustness of organizational governance. Good governance practices are crucial in mitigating earnings management and reducing the risk of opportunistic behaviors by managers, such as committing fraud [64]. However, one of the challenges with foreign ownership is that often, governance structures and risk management practices may not be adequately adapted to local contexts [65], [66]. This lack of local adaptation can create gaps in oversight and control, which might allow earnings management practices to persist or even flourish. Thus, the assumption that foreign ownership inherently improves governance and reduces earnings management may not hold true without considering the effectiveness of governance adaptations to local conditions.

Meanwhile, the findings from the control variables in the study reveal significant results, specifically indicating a negative effect of SIZE on earnings management through the SMPOS measure. This suggests that the practice of earnings management is substantially influenced by the size of the company; larger companies tend to engage less in earnings management compared to smaller ones.The rationale behind this trend is that larger companies typically face greater scrutiny from shareholders, regulatory bodies, and other external parties [67], [68]. This heightened oversight likely acts as a deterrent against the manipulation of financial statements, as larger firms are under constant observation and the consequences of such actions can be more severe, including legal repercussions and damage to reputation. Therefore, the incentives to engage in earnings management are reduced in larger companies, where transparency and adherence to higher governance standards are more rigorously enforced.

V. CONCLUSIONS

This study aims to explore the relationship between bank ownership structures and earnings management practices. It specifically examines the use of small positive earnings (SMPOS) as an indicator of earnings management. The ownership structures considered include concentrated ownership, government ownership, institutional ownership, and foreign ownership. Using quantitative methods, the research analyzes secondary data from the annual reports of financial services companies in the banking sub-sector listed on the Indonesia Stock Exchange from 2015 to 2021. This method enables a thorough investigation of how various ownership configurations might impact banks' tendencies to engage in earnings management.

This research investigates the prevalence of earnings management practices in banking institutions, focusing on the use of small positive earnings (SMPOS). It evaluates the impact of four distinct ownership structures in the banking sector: concentrated ownership, government ownership, institutional ownership, and foreign ownership. The findings indicate that only concentrated and government ownership have a significant relationship with earnings management.

The study reveals a negative correlation between concentrated ownership and earnings management, suggesting that higher levels of concentrated ownership are linked to a decrease in earnings management practices. This implies that concentrated owners possess both the resources and the incentive to closely oversee management activities, thus deterring manipulative financial reporting. Similarly, government ownership is also negatively correlated with earnings management. This indicates that banks with government ownership are less prone to engage in earnings management, likely due to the stricter oversight and regulatory compliance pressures commonly associated with government involvement.

These results underscore the role of ownership structure in influencing corporate governance and ethical financial reporting practices within banks. Both concentrated and government ownership appear to serve as effective mechanisms in curbing earnings management, contributing to more transparent and reliable financial reporting in the banking sector.

This research has several limitations, including the lack of analysis on the impact of PSAK 71 implementation on earnings management and banking ownership. Future studies could explore this area further, as well as extend comparisons to include different countries to understand how diverse ownership structures influence earnings management across various regulatory environments. Additionally, employing alternative metrics such as abnormal loan loss provisions or gains and losses on securities could provide deeper insights into earnings management tactics. Comparing conventional and Sharia banking could also reveal distinct financial reporting challenges and practices, enhancing our understanding of the sector's dynamics.

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