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The influence of real and accrual earnings management on idiosyncratic risk with good corporate governance as a moderating variable

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Abstract

This study investigates the impact of real and accrual earnings management on idiosyncratic risk, with a focus on the moderating role of good corporate governance, proxied by managerial ownership, in manufacturing firms listed on the Indonesia Stock Exchange from 2020 to 2022. Using moderated regression analysis, the findings reveal that both real and accrual earnings management practices negatively affect idiosyncratic risk, suggesting that earnings management may serve as a risk mitigation tool under efficient contracting perspectives. However, managerial ownership exhibits divergent effects: while it strengthens the risk-reducing impact of real earnings management, it unexpectedly amplifies the idiosyncratic risk associated with accrual earnings management, potentially due to managerial motivations to meet financial targets. These results highlight the complex role of corporate governance in earnings management, as it may act as both a stabilizing and risk-amplifying factor depending on the type of earnings management practiced. The study underscores the need for stakeholders to critically evaluate earnings management and corporate governance practices, while encouraging future research to include additional variables to further explain idiosyncratic risk determinants. The study's Adjusted R Square value of 8.1% indicates that other significant factors affecting idiosyncratic risk were not captured in this analysis.

Keywords: Agency Theory; Positive Accounting Theory; Real Earnings Management; Accrual Earnings Management; Idiosyncratic Risk; Good Corporate Governance

1. Introduction

Investment risk is generally classified into two types: systematic risk and unsystematic risk (Triyani et al., 2021). Systematic risk, also known as market risk, is a risk that arises from macroeconomic factors, affects all companies, and cannot be avoided through diversification. On the other hand, unsystematic risk, also called idiosyncratic risk, is specific to a particular company and arises from the policies made by that company (Afriyeni & Marlius, 2019). Idiosyncratic risk, unlike systematic risk, can be eliminated through diversification, which involves investing in several different companies by creating an investment portfolio (Azmi & Fianto, 2019). Investing in multiple companies or forming a portfolio can serve as risk mitigation for investors. Scott, (2015) has a different view, stating that diversification does not eliminate idiosyncratic risk. Diversification or the formation of an investment portfolio can only reduce the likelihood of investor losses, as it is expected that when one company's stock performance declines, it will be offset by the performance of other stocks (Ramadhan et al., 2020).

Several companies in Indonesia have faced issues due to idiosyncratic risk, such as PT Beray Coal Energy Tbk (BRAU), which was delisted from the Indonesia Stock Exchange in 2017 due to declining performance and debt default. PT Siwani Makmur Tbk also had its shares suspended since 2015 due to delays in machine repairs. PT Arpeni Pratama Ocean Line Tbk (APOL) was delisted in 2020 after being declared bankrupt by the Supreme Court. The challenges encountered by these companies were a result of idiosyncratic risk, which stems from internal decision-making within the organization.

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For instance, PT Siwani Makmur Tbk faced a suspension of its shares due to delays in machinery repairs, a clear example of poor internal management. Similarly, bankruptcy is another form of idiosyncratic risk that arises when a company fails to meet its debt obligations, often due to the misallocation of funds or excessive borrowing. Such risks have significant repercussions, not only for the companies themselves but also for the investors who have placed their capital at stake.

According to Agency Theory, within a company, there is a relationship between the manager as the agent and the investor as the principal (Jensen & Meckling, 1976). The manager is the party responsible for running the company's business operations, while the investor provides the company's funding. This relationship may lead agents to adopt certain policies to manage the company's profits. One form of managing profits is engaging in earnings management practices. Earnings management refers to actions taken by managers to choose accounting policies with the intent of influencing profits to achieve specific goals (W. R. Scott, 1997:445). Earnings management can be categorized into two types: accrual earnings management and real earnings management (Darmawan et al., 2019). Accrual earnings management involves manipulating the accrual components of financial statements, while real earnings management involves manipulating business activities, such as delaying product promotion activities or accelerating sales by offering substantial discounts (Majid et al., 2020).

Earnings management practices can increase idiosyncratic risk by reporting misleading financial conditions through earnings reporting. According to Fathussalmi et al. (2019), high-quality financial reporting can enhance investor confidence, facilitate sound investment assessments, and ultimately reduce idiosyncratic risk. Quality earnings reflect the actual condition of a company and are free from earnings management (Vionita & Asyik, 2020).

Several studies have examined the relationship between earnings management and idiosyncratic risk. Firmansyah & Suhanda (2021), found that both accrual and real earnings management positively influence idiosyncratic risk. This finding is based on the idea that managers have the authority to select accounting policies in reporting financial information, which ultimately affects earnings quality. Accounting standards allow managers to choose accounting policies, thereby creating the potential for earnings manipulation. Another study by Wijoyo & Firmansyah (2021), found that accrual earnings management negatively affects idiosyncratic risk, whereas real earnings management has a positive effect on idiosyncratic risk. Chen et al. (2012) stated that companies with poorer quality information are more likely to experience idiosyncratic risk. Prakosa et al. (2022) found that both accrual and real earnings management positively influence idiosyncratic risk. (Geno et al. (2022), concluded that earnings management does not affect idiosyncratic risk.

The inconsistent findings regarding the relationship between real and accrual earnings management and idiosyncratic risk may be attributed to the presence of other factors that either strengthen or weaken this relationship. To address this issue, the present study incorporates a moderating variable. Specifically, good corporate governance, represented by managerial ownership, is used as the moderating factor. Good corporate governance refers to the principles that guide and control a company, ensuring accountability to stakeholders (Nasiroh & Priyadi, 2018).

This study examines the relationship between real and accrual earnings management and idiosyncratic risk, addressing inconsistent findings by incorporating good corporate governance, represented by managerial ownership, as a moderating variable. Idiosyncratic risk, which arises from internal company factors and is influenced by management behavior and policies, can be controlled (Firmansyah et al., 2023; Kanari & Fauzie, 2023). The research focuses on manufacturing companies listed on the Indonesia Stock Exchange from 2020 to 2022, analyzing idiosyncratic risk during the COVID-19 pandemic, prior to the issuance of Presidential Decree No. 17 of 2023, which marked the pandemic's end in Indonesia.

Good Corporate Governance serves as a supervisory mechanism aimed at aligning the interests of management with those of investors (Cahyadi & Mertha, 2019), while also monitoring and preventing detrimental managerial actions (Puspitawati et al., 2019). Managerial ownership, used as a proxy for Good Corporate Governance, is expected to curb opportunistic behavior by management (Olipyantari & Wirakusuma, 2024). Several studies, including those by Aryanti et al. (2017), Purnama (2017), Arthawan & Wirasedana (2018), Cahyadi & Mertha (2019), and Ayem & Ongirwalu (2020), have found a negative relationship between managerial ownership and earnings management. In contrast, research by Muiz & Ningsih (2018) and Janrosl & Lim (2019) reported a positive relationship. Additionally, other studies found no significant effect of managerial ownership on earnings management (Febria, 2020; Kusumawardana & Haryanto, 2019; Tamara et al., 2022; Tanudjaja & Susanti, 2022). These inconsistencies suggest the need for further investigation, particularly regarding its impact on idiosyncratic risk.

This study focuses on manufacturing companies listed on the Indonesia Stock Exchange. The primary reason for choosing the manufacturing sector is its substantial number of large companies compared to other sectors. Specifically, it comprises the basic and chemical industry sector, with 8 sub-sectors and 73 companies; the miscellaneous industry sector, with 6 sub-sectors and 48 companies; and the consumer goods industry sector, with 5 sub-sectors and 51 companies. Moreover, manufacturing companies have longer and more complex operational activities than those in other sectors, making them more vulnerable to real earnings management practices, which could potentially heighten corporate risk (Arlita et al., 2019). As highlighted by Samsiah et al. (2022), managers may engage in earnings management by offering significant discounts to boost sales or by producing in excess to reduce the cost of goods sold, thereby inflating profits. Given these opportunities for earnings manipulation, this study focuses on the manufacturing sector, as increased earnings management is suspected to elevate idiosyncratic risk.

2. Literature Review and Hypothesis Development

2.1. Agency Theory

Jensen & Meckling (1976), formulated that within a company, there exists a set of contracts where one or more individuals (principals) direct others (agents) to perform tasks on behalf of the principals. Agency theory assumes that agents have more information about the company compared to principals, creating an information gap known as information asymmetry, which can lead to agency problems. Agency conflict arises from differing interests between principals, who expect swift returns from the company, and agents, who may act in their own self-interest (opportunistically) within the company.

2.2. Positive Accounting Theory (PAT)

Positive Accounting Theory (PAT) fundamentally assumes that the purpose of accounting theory is to explain and predict accounting practices. In other words, PAT aims to explain and predict the consequences that occur when managers make certain choices. PAT's explanation is based on contracts or agency relationships between managers and other parties, such as stakeholders. It is grounded in the assumption that individuals always act out of personal motives (self-seeking motives) and strive to maximize their own benefits.

2.3. Idiosyncratic Risk

Idiosyncratic risk is an internal company risk that arises from the policies taken by the company. It is the most appropriate measure for explaining internal company risk, as it originates from specific company decisions (Firmansyah & Suhanda, 2021). Unlike systematic risk, idiosyncratic risk can be reduced through diversification. According toZhou et al. (2016), exploring idiosyncratic risk is essential because investors aim to diversify their portfolios to minimize risk. However, investors may struggle to create a well-diversified portfolio due to inaccurate information. Unlike systematic risk, idiosyncratic risk stems from internal company factors—in other words, it is linked to company management's actions in running the business.

2.4. Earnings Management

Earnings management is the action taken by managers to select accounting policies to influence earnings in order to achieve specific objectives (W. R. Scott, 1997: 445). Earnings management can be classified into two types: accrual earnings management and real earnings management (Darmawan et al., 2019). Accrual earnings management involves manipulating accrual components in financial statements, as accruals are easy to manipulate according to personal interests. Real earnings management refers to manipulating earnings figures through activities that are part of normal business operations, such as delaying product promotions or accelerating sales by offering significant discounts (Majid et al., 2020).

2.4.1. Real Earnings Management

Since the adoption of International Financial Reporting Standards (IFRS) into Indonesia's Financial Accounting Standards on January 1, 2012, all public companies listed on the Indonesia Stock Exchange have been required to prepare their financial statements in compliance with IFRS. According to Firmansyah & Irawan (2018), this transition has shifted earnings management practices from accrual-based manipulation to real earnings management. This change is not only a result of standardized financial reporting due to IFRS adoption but also because accrual earnings management is more easily detected by auditors. As a result, managers have sought alternative methods to manage earnings when accrual manipulations become more apparent to financial statement users (Firmansyah & Suhanda, 2021).

The use of real earnings management as an alternative to accrual earnings management still poses significant internal risks that can harm the company in the future. Ratmono (2010), describes one such real earnings management practice, where managers produce more than is needed under the assumption that a higher production level will lower the fixed cost per unit, thus reducing the cost of goods sold and boosting operating profit. However, this overproduction can increase corporate risk, as excess inventory that is not matched by sales can lead to potential losses. The discrepancy between the actual business condition and what is reported is a major concern for investors. Studies by Firmansyah & Suhanda (2021), Wijoyo & Firmansyah (2021), and Prakosa et al. (2022) indicate that real earnings management has a positive impact on idiosyncratic risk. Based on these findings, the first hypothesis of this study is:

- **H1:** Real earnings management positively affects idiosyncratic risk.

2.4.2. Accrual Earnings Management

According to agency theory by Jensen & Meckling (1976), the presence of information asymmetry between managers (agents) and shareholders (principals) creates an opportunity for managers to manipulate financial information. This is done through accrual earnings management, exploiting the gaps allowed by financial accounting standards. Managers have the authority to choose accounting policies when reporting financial information, and whichever accounting policy is selected by the manager will affect the quality of earnings.

One way managers engage in accrual earnings management is by changing the depreciation method or reporting the useful life of an asset (Imelda & Palauw, 2012). For example, a manager could switch from the sum-of-the-years-digits method to the straight-line method, resulting in different depreciation expenses and potentially increasing profit. Another method a manager might use is reducing the recognition of bad debt expenses. While this approach can impact reported earnings, it also exposes the company to risk, as higher uncollectible receivables than those recorded could negatively affect the company's cash flow. Research by Firmansyah & Suhanda (2021) and Prakosa et al. (2022) found that accrual earnings management has a positive effect on idiosyncratic risk. Based on these findings, the following hypothesis can be formulated:

- H2: Accrual earnings management positively affects idiosyncratic risk.

2.5. Good Corporate Governance

Good Corporate Governance is a mechanism for overseeing internal company activities to align the interests of management with those of investors (Cahyadi & Mertha, 2019). Good corporate governance emphasizes two key aspects: the owners' right to receive precise information and the management's responsibility to provide accurate reporting (Maysani & Suaryana, 2019).Managerial ownership is one of the proxies for good corporate governance. According to Janrosl & Lim (2019), managerial ownership is the percentage of shares actively held by management. Managerial ownership can help reduce agency problems between managers and shareholders (Febria, 2020). It can also improve the quality of financial reporting, as managers with a stake in the company are more likely to act in the same interests as shareholders (Kusumawardana & Haryanto, 2019).

Differences in the goals of agents and principals can lead to conflicts, and these differing interests may cause management to act opportunistically by implementing policies for personal gain. Managerial ownership, as a form of management holding a certain number of company shares, can reduce opportunistic actions by managers aimed at personal benefit through earnings management. Theoretically, managers who hold a percentage of company shares will act more like stakeholders (Arthawan & Wirasedana, 2018). This different motivation, resulting from managerial ownership, can reduce management's personal interests, thereby lowering the idiosyncratic risk that may arise from earnings management. Studies by Aryanti et al. (2017) and (Arthawan & Wirasedana, 2018) found that managerial ownership negatively impacts earnings management. Drawing from these findings, the following hypothesis can be proposed:

- **H3:** Good corporate governance weakens the relationship between real earnings management and idiosyncratic risk.

Earnings management, which can be reduced due to managerial ownership, will also decrease idiosyncratic risk, as managers will report financial information accurately according to the actual conditions. Studies by Purnama (2017) and Ayem & Ongirwalu, (2020), found that managerial ownership negatively affects earnings management. Based on these findings, the following hypothesis can be proposed:

- **H4:** Good corporate governance weakens the relationship between accrual earnings management and idiosyncratic risk.

Figure 1 shows the proposed research model in this study

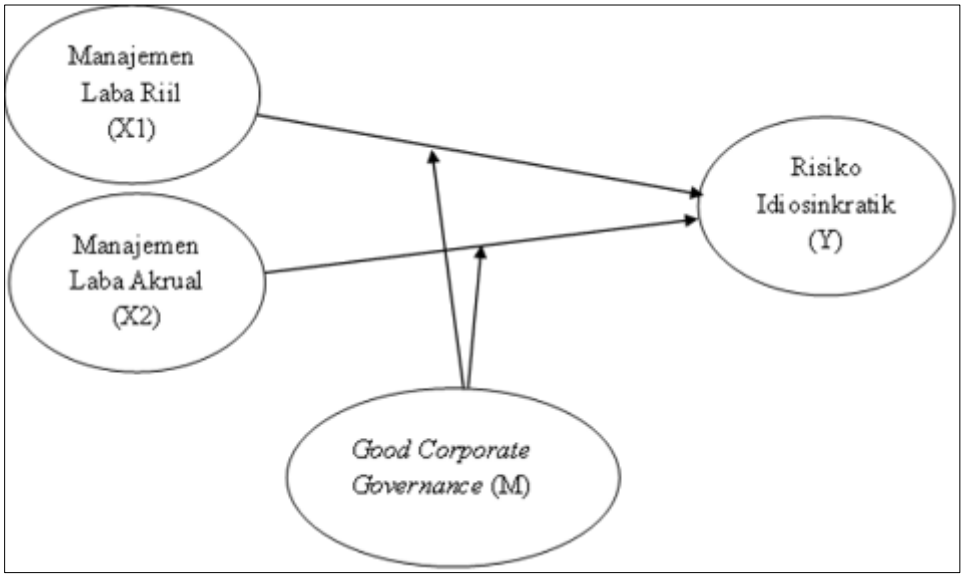

Figure 1 Research Model

3. Results and discussion

3.1. Method

This research utilizes quantitative data, specifically secondary data gathered from the financial statements of manufacturing companies in the basic and chemical industries, miscellaneous industries, and consumer goods industries listed on the Indonesia Stock Exchange (IDX) from 2020 to 2022. The data was accessed via the official IDX website, www.idx.co.id. The focus of this study is the idiosyncratic risk faced by companies, analyzed through accrual and real earnings management, with good corporate governance serving as a moderating variable. The purposive sampling technique was employed, targeting manufacturing companies listed on the Indonesia Stock Exchange from 2020 to 2022 that met specific criteria. The criteria for purposive sampling included:

- Manufacturing companies continuously listed on the Indonesia Stock Exchange from 2020 to 2022.
- Manufacturing companies that published annual reports on the Indonesia Stock Exchange throughout the 2020 to 2022 period.
- Manufacturing companies that provided the necessary data for research variables.

Using these criteria, a total of 128 manufacturing companies were initially selected for analysis. After removing 42 outlier companies with excessively large data distributions, 86 companies were retained, resulting in 258 observations across three years (Table 1). This adjustment ensured compliance with the Classical Assumption Test. The observation period was chosen to examine the impact of earnings management on idiosyncratic risk during the COVID-19 pandemic, which began in early 2020 and concluded with the issuance of Presidential Decree No. 17 of 2023, declaring the pandemic's end. Moderated regression analysis was applied to evaluate the relationships among the variables.

Table 1 Results of Purposive Sampling

NO	Criteria for Determining the Research Sample	Number of Companies
1	Total manufacturing companies listed on the Indonesia Stock Exchange for the 2020-2022 period	172
2	Manufacturing companies not listed on the Indonesia Stock Exchange consecutively from 2020 to 2022	(0)
3	Manufacturing companies that failed to issue annual reports on the Indonesia Stock Exchange consistently from 2020 to 2022.	(44)
4	Manufacturing companies that did not provide data for the research variables Outlier	(0)
5		(42)
	Total Sample = 86 companies x 3 years: 258 samples	

3.2. Data Description of Research Results

Table 2 Descriptive Statistics

	N	Minimum	Maximum	Mean	Std. Deviation
X1	258	0.032	1.271	0.219	0.361
X2	258	-0.650	0.004	-0.460	0.244
X1_M	258	0.003	0.068	0.030	0.018
X2_M	258	-0.733	0.000	-0.359	0.299
Y	258	0.762	1.640	1.076	0.290
Valid N (listwise)	258				

The descriptive statistics in Table 2 indicate that real earnings management ranges from 0.032 to 1.271, with a mean of 0.219, which is less than its standard deviation of 0.361, suggesting considerable variation in practices across different companies. Accrual earnings management ranges from -0.650 to 0.004, with a mean of -0.460, also lower than its standard deviation of 0.244, implying a general reduction in earnings with some degree of variability. The interaction between real earnings management and good corporate governance ranges from 0.003 to 0.068, with a mean of 0.030, which is slightly above the standard deviation of 0.018, indicating that governance has a relatively stable effect on real earnings management. The interaction between accrual earnings management and good corporate governance ranges from -0.733 to 0.000, with a mean of -0.359, which is lower than the standard deviation of 0.299, highlighting considerable variability. Finally, idiosyncratic risk ranges from 0.762 to 1.640, with a mean of 1.076, which exceeds the standard deviation of 0.290, reflecting a moderate level of risk that remains consistent across companies. Overall, these statistics indicate significant differences in the extent of earnings management practices and their relationship with corporate governance, ultimately influencing company risk profiles.

Subsequently, a classical assumption test was performed. This test is essential to ensure that the regression equation derived is accurate in its estimation, free from bias, and demonstrates consistency. The classical assumption test consists of: the normality test, heteroscedasticity test, multicollinearity test, and autocorrelation test, which are explained in the following section.

3.3. Normality Test

The normality test is used to assess whether the data follows a normal distribution. This test is performed using the One Sample Kolmogorov-Smirnov Test, applied to the residuals from the regression analysis. The data is considered normally distributed if the significance level of the residuals exceeds α (0.05). The results of the normality test for the regression model are shown in Table 3.

Table 3 Normality Test Results

		Unstandardized Residual
N		258
Normal Parameters	Mean	0.017
	Std. Deviation	0.150
Most Extreme Differences	Absolute	0.054
	Positive	0.053
	Negative	-0.054
Test Statistic		0.054
Asymp. Sig. (2-tailed)[c]		0.061

Based on the results of the normality test in Table 3, the asymp. sig. value is 0.061. This value is greater than the significance level of 0.05 (5%), indicating that the tested data is normally distributed.

3.3.1. Heteroscedasticity Test

The Glejser test is used in this study to detect the presence of heteroscedasticity in the regression model. The regression model is considered free from heteroscedasticity if the significance level is above 0.05.

Table 4 Heteroscedasticity Test Results

Model	**t**	**Sig.**
(Constant)	-3,618	0.000
X1	1,918	0.056
X2	0,076	0.939
X1_M	1,487	0.138
X2_M	-0,180	0.858

Based on the test results in Table 4, the significance values for the variables of real earnings management, accrual earnings management, the interaction between real earnings management and good corporate governance, and the interaction between accrual earnings management and good corporate governance are all greater than 0.05. Therefore, the model developed in this study does not contain heteroscedasticity.

3.3.2. Multicollinearity Test

The multicollinearity test is used to assess whether there is a correlation among independent variables in a regression model. This test is conducted by evaluating the variance inflation factor (VIF). A model is considered to be free from multicollinearity if the tolerance value exceeds 0.1 and the VIF is below 10. According to the test results in Table 5, the tolerance values for each variable are above 0.1, and the VIF values are below 10. This suggests that the regression model does not have multicollinearity problems.

Table 5 Multicollinearity Test Results

Coefficients		
Model	**Collinearity Statistics**	
	Tolerance	**VIF**
X1	0.297	3.365
X2	0.238	4.196
X1_M	0.689	1.452
X2_M	0.463	2.158

3.3.3. Autocorrelation Test

A regression model is considered good when it is free from autocorrelation. Autocorrelation can be detected using the Durbin-Watson test (Ghozali, 2018:112).

Table 6 Autocorrelation Test Result

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Durbin-Watson
1	0.857	0.734	0.730	0.379	2.160

Referring to the test results presented in Table 6, the Durbin-Watson statistic is 2.160. For a sample size of 258 with three independent variables, the dU value is 1.81223, and the dL value is 1.78125. Since the dU value of 1.81223 is less than the DW value of 2.160 and also less than 4-dU (which is 2.18777), it indicates that the regression model does not exhibit autocorrelation.

3.4. Moderated Regression Analysis (MRA)/ Hypothesis Testing

Table 7 shows that the coefficient of determination (R^2) is 0.081, as indicated by the Adjusted R Square value. This means that idiosyncratic risk (Y) is explained by the variables of real earnings management, accrual earnings management, and good corporate governance by 8.1%, while the remaining 91.9% is explained by other factors outside the regression model.

Table 7 Coefficient of Determination Results

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	0.308	0.095	0.081	0.278

Based on the test results in Table 8, the F-value is 6.651 with a significance level of 0.000, which is smaller than the significance level (α) of 0.05. A significance value smaller than 0.005 indicates that the model in this study is capable of explaining the idiosyncratic risk variable.

Table 8 Model Feasibility Test Results

Model	F	Sig.
Regression	6.651	0.000
Residual		
Total		

Table 9 Results of Moderated Regression Analysis (MRA)

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	1.169	0.039		30.127	0.000
	X1	-0.899	0.270	-1.118	-3.324	0.001
	X2	-1.805	0.461	-1.520	-3.914	0.000
	X1_M	-5.357	2.027	-0.324	-2.643	0.009
	X2_M	1.575	0.468	1.625	3.366	0.001

From Table 9, the regression equation can be constructed as follows:

$$Y = 1{,}169-0{,}899X1-1{,}805X2-5{,}357X1\_M+1{,}575X2\_M+ e$$

Hypothesis testing conclusions are drawn based on the significance of the t-value. If the significance probability is less than or equal to the significance level of 0.05 (Sig. ≤ 0.05), the independent variable significantly affects the dependent variable, whereas a value greater than 0.05 (Sig. > 0.05) indicates no significant effect. Table 9 indicates that real earnings management has a t-value of -3.324 with a significance level of 0.001, demonstrating a negative and significant effect on idiosyncratic risk. Similarly, accrual earnings management shows a t-value of -3.3914 with a significance level of 0.000, also indicating a negative and significant effect. The interaction between good corporate governance and real earnings management has a t-value of -2.643 with a significance level of 0.009, suggesting that good corporate governance moderates the relationship between real earnings management and idiosyncratic risk. Furthermore, the interaction between good corporate governance and accrual earnings management, with a t-value of 3.366 and a significance level of 0.001, indicates that good corporate governance also moderates the relationship between accrual earnings management and idiosyncratic risk.

3.4.1. Relationship Between Real Earnings Management and Idiosyncratic Risk

The results of the first hypothesis test indicating a negative relationship between real earnings management and idiosyncratic risk, as demonstrated by a coefficient of -0.899 and a t-value of -3.324 with a significance of 0.001 (Table 9). This suggests that higher real earnings management is associated with lower idiosyncratic risk. These findings contradict the initial hypothesis that real earnings management has a positive effect on idiosyncratic risk, as well as prior studies by ,Firmansyah & Suhanda (2021), Prakosa et al. (2022); and Wijoyo & Firmansyah (2021), that reported a positive effect. The negative relationship found in this study may explain by the fact that earnings management is not always an opportunistic action for personal gain but can also be an efficient contracting mechanism aimed at benefiting the company(Priantinah, 2016). From an efficient contracting perspective, managers may use earnings management to minimize risks that could harm the company, which aligns with the debt covenant hypothesis in positive accounting theory—suggesting that the higher the risk of debt covenant violation, the more likely managers are to manage earnings, often to facilitate debt restructuring. Therefore, the first hypothesis is rejected.

3.4.2. Relationship Between Accrual Earnings Management and Idiosyncratic Risk

The results of the second hypothesis test were rejected, indicating a negative relationship between accrual earnings management and idiosyncratic risk, with a coefficient of -1.805 and a t-value of -3.914 with a significance level of 0.000 (Table 9). This suggests that higher accrual earnings management is associated with a decrease in idiosyncratic risk. These findings contradict the initial hypothesis that accrual earnings management has a positive effect on idiosyncratic risk. The negative effect found may be due to the efficient contracting perspective, where managers engage in earnings management for the benefit of the company rather than for personal gain. This result aligns with the study by Wijoyo & Firmansyah (2021), which also found that accrual earnings management negatively affects idiosyncratic risk, suggesting that managerial actions are driven by efficient contracts aimed at minimizing risks and aligning managerial goals with those of investors to achieve business returns.

3.4.3. The Relationship Between Real Earnings Management and Idiosyncratic Risk with Good Corporate Governance as a Moderator

Based on the regression test results shown in Table 9, the relationship between real earnings management and idiosyncratic risk with good corporate governance as moderator (represented by managerial ownership) has a coefficient of -5.357 and a t-value of -2.643 with a significance level of 0.009, indicating a negative relationship. This negative coefficient suggests that as managerial ownership (a proxy for good corporate governance) increases, the impact of real earnings management on idiosyncratic risk decreases. In other words, higher levels of managerial ownership may help mitigate the risks associated with real earnings management. These findings align with the hypothesis that good corporate governance weakens the impact of real earnings management on idiosyncratic risk, and they are consistent with previous research which reported a negative relationship between managerial ownership and earnings management (Arthawan & Wirasedana, 2018; Aryanti et al., 2017; Ayem & Ongirwalu, 2020; Cahyadi & Mertha, 2019; Purnama, 2017). The results of the third hypothesis test were accepted.

3.4.4. The Relationship Between Accrual Earnings Management and Idiosyncratic Risk with Good Corporate Governance as a Moderator

The results of the fourth hypothesis test were rejected, showing a positive relationship between the interaction of accrual earnings management and good corporate governance to idiosyncratic risk, with a coefficient of 1.575, a t-value of 3.366 and a significance level of 0.001 (Table 9). The findings indicate that as managerial ownership increases, the impact of accrual earnings management on idiosyncratic risk also increases. This positive coefficient suggests that higher managerial ownership, instead of mitigating, may actually amplify the idiosyncratic risk associated with accrual earnings management practices, contrary to the hypothesis that good corporate governance weakens the effect of accrual earnings management on idiosyncratic risk. However, this finding is consistent with the research of Muiz & Ningsih (2018) and Janrosl & Lim (2019), which found a positive relationship between managerial ownership and earnings management. Managerial ownership, from an efficient contracting perspective, leads managers to take actions to protect the company from risks, including managing earnings to meet certain objectives, such as debt restructuring. According to the debt covenant hypothesis in positive accounting theory, companies close to breaching debt covenants are more likely to manage earnings to improve their financial position and demonstrate their ability to continue operations and meet creditor obligations, thereby avoiding default. The fourth hypothesis was rejected

4. Conclusion

This study concludes that real and accrual earnings management practices both have significant, negative impacts on idiosyncratic risk, implying that managers may use earnings management as a tool to stabilize and mitigate firm-specific risks, supporting efficient contracting perspectives. However, when moderated by good corporate governance (proxied by managerial ownership), these effects diverge: managerial ownership further reduces idiosyncratic risk in the context of real earnings management, reinforcing the risk-mitigation effect, while it unexpectedly increases idiosyncratic risk in accrual earnings management. This suggests that managerial ownership may encourage more aggressive accrual management strategies aimed at achieving specific financial targets, potentially raising unique firm risks, especially when facing covenant constraints. Thus, good corporate governance exhibits a complex influence on earnings management's impact on risk, acting as both a stabilizing and, at times, risk-amplifying factor depending on the type of earnings management involved. Stakeholders are advised not to assume that companies with high levels of earnings management are more prone to idiosyncratic risk or that those practicing good corporate governance are free from such risk. Future researchers are encouraged to build on these findings by including additional and more suitable variables, as the current study's Adjusted R Square value is relatively low at 8.1 percent, indicating that other significant variables influencing idiosyncratic risk were not included in this study.

Compliance with ethical standards

Disclosure of conflict of interest

No conflict of interest to be disclosed.

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