Ilomata International Journal of Tax & Accounting
P-ISSN: 2714-9838; E-ISSN: 2714-9846
Volume 6, Issue 1, January 2025
Page No. 90-110

Political Connections and Real Earnings Management: The Moderating Role of Family Ownership and Audit Quality in Indonesian Manufacturing Firms

Muhammad Farel Maeza[1], Eddy Suranta[2]
[12]Bengkulu University, Indonesia
Corresependondent: maezafarel@gmail.com[1]

Received : December 27, 2024
Accepted : January 8, 2025
Published : January 31, 2025

Citation: Maeza, M, F., Suranta, E. (2025). Political Connections and Real Earnings Management: The Moderating Role of Family Ownership and Audit Quality in Indonesian Manufacturing Firms. Ilomata International Journal of Tax and Accounting, 6(1), 90-110.
https://doi.org/10.61194/ijtc.v6i1.1776

ABSTRACT: This study investigates how political connections influence real earnings management (REM) in Indonesian manufacturing firms, considering the moderating roles of family ownership and audit quality. Using panel data regression on financial statements from companies listed on the Indonesia Stock Exchange (2020–2022), the results show that political connections do not significantly affect abnormal production costs, but they do increase REM, especially through operating cash flows and discretionary expenditures. The impact of political connections on REM is stronger in family-owned firms, particularly regarding discretionary spending. High audit quality, measured by the presence of Big Four auditors, reduces REM related to production costs but has a limited effect on cash flows and discretionary expenditures. These findings support agency theory, highlighting the need for increased external monitoring and transparency. Theoretically, this study contributes to understanding the interaction between political ties, family ownership, and audit quality in shaping earnings management behavior. Practically, the results suggest that regulators and investors should pay closer attention to politically connected, family-owned firms due to their higher risk of earnings manipulation.

Keywords: Real Earnings Management, Political Connections, Family Ownership, Audit Quality

INTRODUCTION

Earnings management is the steps businesses take to modify financial reports in order to match stakeholder expectations or increase firm value. This technique, in which businesses modify their operational activities to affect reported earnings figures, can include the aggressive use of accruals or real earnings management (Jacoby et al., 2019; Roychowdhury, 2006). Earnings management has serious risks, such as decreased transparency and possible fraud, even though it may have short-term advantages like raising stock prices or hitting performance goals (Cohen & Zarowin, 2010; Roychowdhury, 2006). The asymmetry of knowledge between shareholders and management is one of the main reasons for profits management. In these circumstances, management knows more about the state of the business than shareholders do. According to agency theory, when management and shareholders have conflicting objectives, management may act in its own best interests, which could result in earnings management strategies that are harmful to shareholders (Jensen & Meckling, 1976). This creates challenges for shareholders in accurately assessing firm performance.

A family-run manufacturing business in Indonesia, PT Tiga Pilar Sejahtera Food Tbk (AISA), is a prime example of actual earnings management techniques. Due to a sharp drop in stated income, shareholders rejected the 2017 financial accounts in 2018. Subsequent research showed that Budi Istanto Suwito and other former management members reportedly falsified financial reports to hide losses and present better-than-actual performance. In order to achieve profit targets, this manipulation includes actual earnings management strategies like postponing spending and changing operational activity. Due to the controversy, Budi Istanto Suwito was sentenced to three years in prison for financial malfeasance (Devina Damara, Putu Indrajaya Lembut, 2023).

he aforementioned occurrence leads to the conclusion that family-owned manufacturing firms frequently use earnings management techniques. The study of (Khan & Kamal, 2022) supports this., which discovered that because family owners have considerable influence over managerial choices pertaining to financial reporting, family business groups in developing nations commonly distort earnings. Family businesses frequently use these tactics to safeguard shareholder interests and preserve organizational control, and political ties and family ownership have a big impact on profits management choices (Amara & Khlif, 2020). Real earnings management techniques, like postponing expenses or increasing revenues, are also frequently seen in addition to accrual-based earnings management (Roychowdhury, 2006). This is particularly true for politically connected businesses that feel more comfortable manipulating earnings because of political backing. Moderating factors include family ownership and audit quality; family businesses are often more cautious, and high audit quality might lessen information asymmetry and the incentives for manipulating financial statements (Khalil et al., 2022).

Access to government contracts and protection from market risks are just two examples of the competitive advantages that political connections can offer businesses (Boubakri et al., 2012; Micco et al., 2007). To satisfy stakeholder expectations and take advantage of government regulations, politically linked businesses, according to studies, frequently use earnings management techniques, especially real earnings management. These relationships might persuade businesses to change their operating procedures or incur needless costs in an attempt to give the appearance of improved performance (Gunny, 2005; Jacoby et al., 2019). Conflicts of interest between principals (owners) and agents (management) enable management to make self-serving choices that frequently degrade earnings quality, according to agency theory (Jensen & Meckling, 1976). Increased earnings management procedures demonstrate that political connections generally have a detrimental impact on earnings quality. However, other research indicates that political connections may also increase the informativeness of earnings in family businesses because they provide incentives to communicate greater earnings quality and lessen information asymmetry, particularly when paired with family ownership and high audit quality.

Several previous studies have confirmed the negative impact of political connections on real earnings management. Gunny (2005) highlighted the adverse consequences of real earnings management, such as a decline in future firm value. Braam et al., (2015) found that political connections are positively associated with both accrual-based and real earnings management practices, although high audit quality can mitigate their aggressiveness. Chi et al., (2016) demonstrated that CEOs with political ties tend to engage in higher levels of real earnings management. Similarly, Khalil et al (2022) confirmed that political connections significantly influence real earnings management, with family ownership and audit quality acting as moderating factors. Harymawan & Nowland (2016) also found that political connections negatively affect earnings quality, as politically connected firms are more likely to engage in aggressive real earnings management, influenced by political stability and government effectiveness. These findings collectively underscore the complex relationship between political ties and earnings manipulation in corporate governance contexts.

wo factors that can mitigate the impact of political ties on profits management are family ownership and audit quality (Braam et al., 2015; Khalil et al., 2022). When it comes to managing their earnings, family-owned businesses typically take a different tack than non-family businesses. They frequently steer clear of aggressive earnings management techniques by placing a higher priority on sustainability and the preservation of long-term reputation. Because shareholders put pressure on the board of directors to uphold the accuracy and openness of financial reporting, family ownership frequently serves as a deterrent against risky earnings management (Gomez-Mejia et al., 2014; Razzaque et al., 2016). According to agency theory, owners who are also actively involved in management of family businesses typically have a long-term outlook and make investments in the continuity and reputation of the business. In contrast, management may be more concerned with short-term interests in companies with distributed ownership (Jensen & Meckling, 1976).

According to Rafael La Porta (1999), the majority of businesses in Southeast Asia are family-owned, indicating the high prevalence of family ownership in the region. This dynamic fosters an atmosphere where family business owners have more influence over corporate choices and practices. Due to their immense power, family businesses are more likely to value stability and reputation, which makes them more resilient to harmful profits management techniques. Family businesses are more likely to use their political ties to their advantage when they are under pressure, staying away from hazardous or immoral actions that could jeopardize their long-term relationships with shareholders and clients.

According to earlier research, family ownership can reduce managers' real earnings management practices, improving the caliber of financial reporting. The long-term focus of family ownership, which prioritizes the firm's sustainability and reputation, is responsible for this (Gomez-Mejia et al., 2014). According to Khalil et al (2022) family ownership also considerably lessens the intensity of real earnings management in politically connected businesses, suggesting that family businesses are less likely to take advantage of real earnings management for opportunistic ends. Family ownership is therefore a useful control mechanism for reducing harmful earnings management techniques.

A key factor in reducing the impact of political ties on earnings management is audit quality. Better auditors, like those from the Big Four firms, are better able to identify unethical earnings management tactics and offer more certainty about the accuracy of financial accounts. Because high audit quality improves oversight, transparency, and accountability, it can discourage politically linked enterprises from engaging in earnings management, which lowers the likelihood of financial statement fraud (Guedhami et al., 2014; Hussainey, 2009). According to agency theory, the need for competent auditors to reduce information asymmetry rises when management and shareholders have conflicting interests (Jensen & Meckling, 1976). In this regard, auditors serve as a check and balance that aligns the interests of stakeholders, bolsters trust in financial reporting, and encourages more moral and responsible earnings management techniques.

Previous studies have examined the moderating effect of audit quality on earnings management practices. Dedman & Kausar (2012) found that high audit quality can reduce managers' tendency to engage in earnings management, thereby enhancing the reliability of financial reports. Khalil et al (2022) emphasized that high-quality auditors can mitigate earnings management practices in politically connected firms, serving as an effective moderating factor. Similarly, Harymawan & Nowland (2016) demonstrated that audit quality can hinder earnings management in firms with political connections, while Guedhami et al (2014) highlighted that selecting high-quality auditors contributes to greater financial reporting transparency and reduced earnings manipulation. Collectively, these studies underscore the importance of audit quality in curbing earnings management, especially in politically connected companies.

This study examines the relationship between political ties and real earnings management practices in Indonesian manufacturing firms with political ties, in contrast to earlier research that concentrated on Pakistan. It does this while taking into account Indonesia's particular business characteristics, such as the prevalence of family ownership structures and the degree of corruption. Rafael La Porta (1999). By employing the percentage of shares owned as a measure of family ownership rather than a dummy variable, this study offers methodological innovation and enables a more thorough and precise examination of the influence of family ownership on profits management. The paper also examines the moderating effects of family control and audit quality in the Indonesian context, offering fresh perspectives on the dynamics of earnings management in corporate settings where political ties and family ownership predominate.

The theoretical underpinning of earnings management research is an understanding of how businesses use financial reporting to accomplish their goals. While accrual-based earnings management modifies reported results using accounting estimations, real earnings management involves operational choices that impact cash flows. A company's relationship with authorities can have an impact on its earnings management methods since these relationships may encourage companies to manipulate their earnings in order to have good relations and evade strict scrutiny (Chaney et al., 2011; Jacoby et al., 2019).

Family-managed businesses may have specific goals, such protecting family money and reputation, which drive them to manipulate earnings. Family businesses may use profits management to accomplish short-term objectives even if they are often more cautious (Achleitner et al., 2014; Razzaque et al., 2016). This implies that ownership structure and control have an impact on the reasons underlying earnings management.

Audit quality is a crucial moderating component in this paradigm. Reputable independent auditors offer objective evaluations, which lessens the possibility of financial statement fraud. On the other hand, poor audit quality could allow companies to manipulate earnings without facing consequences (Huguet & Gandía, 2014; Hussainey, 2009). Understanding how earnings management, political ties, family control, and audit quality interact is crucial, especially in developing nations where political and familial influences are frequently powerful.

One of the most important indicators of a company's stability and financial health is its revenue. The company's revenue also has a significant impact on the wellbeing of shareholders (Chi et al., 2016; Cohen & Zarowin, 2010). Because a company's revenue attracts potential investors and other market participants, its stock price tends to rise. Some managers, however, use a variety of strategies to manipulate financial reporting in an effort to draw in investors (Cohen & Zarowin, 2010; Roychowdhury, 2006; Viana et al., 2023; Zang, 2012). These methods are often employed to protect their own personal interests (Mohamed et al., 2015). Regretfully, conflicts occur when managers' personal interests deviate from the goals of the organization, which can eventually have a detrimental impact on the operations and financial performance of the business.

The Influence of Political Connections on Real Earnings Management

There is empirical evidence that real earnings management (REM) has negative economic impacts. Deceiving stakeholders about the company's actual financial performance is the main goal of earnings management strategies (Cohen & Zarowin, 2010; Roychowdhury, 2006; Zang, 2012). According to Gunny (2005) REM has a substantial negative impact on operational performance. He notes that even after adjusting for size, performance, accruals, and industry impacts, firms who participate in REM have poorer return on assets (ROA) than other firms. According to agency theory, managers frequently make self-serving choices that compromise company performance in favor of immediate advantages when there are conflicts between principals (owners) and agents (management) (Jensen & Meckling, 1976). The resource-based view holds that a company's distinct assets and competencies determine its competitive advantage. Businesses with political connections have unique benefits over those without, including preferential government treatment and political connections (Ben Cheikh & Loukil, 2023; Boubakri et al., 2012; Liu et al., 2016).

Politically connected businesses in Indonesia frequently use their advantages to secure preferential treatment, including simpler licensing, government contract procurement, or crisis support. Theoretically, there is a greater chance of income-decreasing real earnings management (REM) among politically linked enterprises since these relationships allow firms to participate in REM (Chi et al., 2016). Businesses that employ REM to accomplish strategic goals typically report reduced future cash flows and return on assets (ROA). Because managers are prepared to forgo future cash flows in favor of current earnings, income-decreasing REM has a detrimental effect on business performance. In order to hide the gains from their political connections, politically connected companies in Indonesia usually use REM techniques (Chaney et al., 2011; Faccio et al., 2006). Such profits management tactics have the potential to harm the companies' and related politicians' reputations (Burton et al., 2011), increasing the opportunity costs for the corporations concerned.

These factors make accrual-based earnings management more expensive than REM. Income-decreasing REM lowers the chance of detection while assisting politically connected businesses in concealing preferential treatment or political rents (Chaney et al., 2011). REM provides a high degree of confidentiality, which reduces reputational risk for both politically connected businesses and associated politicians in Indonesia, where political connections are crucial to corporate success. Additionally, REM mechanisms shield managers from the dangers of handling profits (Cohen & Zarowin, 2010; Graham et al., 2005). REM's high level of secrecy boosts its marginal advantages for companies with political connections. Because income-decreasing REM techniques are less risky than accrual-based strategies, politically connected enterprises in Indonesia typically favor them despite their greater costs.

Prior research has demonstrated that political ties offer substantial benefits in developing nations like Indonesia, where market transparency is poor, regulatory supervision is frequently lax, and corruption levels are still very high. In order to safeguard their interests, get political support, and strengthen their financial position, these circumstances push businesses to employ real earnings management (Boubakri et al., 2012; Faccio, 2010; Saeed et al., 2019). This logic leads us to the following hypothesis:

H1: Real earnings management is greater in firms with political connections.

Family Ownership Moderates the Effect of Political Connections on Real Earnings Management

According to agency theory, conflicts of interest resulting from information asymmetry frequently define the relationship between shareholders (principals) and management (agents) (Felício & Galindo Villardón, 2015). In order to accomplish their own goals, politically connected companies frequently manipulate real earnings, which can lead to a misalignment between the interests of managers and shareholders (Boubakri et al., 2012; Cohen & Zarowin, 2010; Roychowdhury, 2006; Saeed et al., 2019). Nonetheless, family ownership in politically connected businesses can serve as a check on the propensity to participate in real earnings management that lowers income and adds special dynamics to this relationship.

According to Al-Hadi et al (2016) and Gottardo & Moisello (2016) family-owned businesses frequently place a high priority on long-term viability and the preservation of family wealth. amily-controlled businesses in Indonesia typically prioritize non-economic objectives, like maintaining the family business dynasty (Gomez-Mejia et al., 2014), and steer clear of profits management techniques that could endanger the company in the long run (Cohen & Zarowin, 2010; Razzaque et al., 2016). According to agency theory, when managers behave more in their own self-interest than that of shareholders, conflicts of interest between management (agents) and shareholders (principals) develop (Jensen & Meckling, 1976). According to research, family-owned businesses are less involved in managing real earnings than non-family businesses (Achleitner et al., 2014).

To safeguard family wealth, family businesses in Indonesia frequently have strict governance and monitoring procedures in place (Tahir & Sabir, 2015). These systems can discourage earnings management methods and may include family councils, direct monitoring by family members, and family members serving on the board of directors (Badrul Muttakin et al., 2014). As a result, managers in family-owned businesses are generally less motivated to take advantage of opportunities, which leads to fewer agency conflicts. Family members also frequently have greater access to knowledge than outsiders, which lessens information asymmetry in the company (Razzaque et al., 2016).

Family ownership offers stability and a long-term perspective in company decision-making in Indonesia's highly volatile business climate (Badrul Muttakin et al., 2014; Tahir & Sabir, 2015). As a result, family ownership of politically connected Indonesian businesses tends to decrease participation in income-decreasing real earnings management. This logic leads us to the following hypothesis:

H2: Family ownership moderates the effect of political connections on earnings management.

Audit Quality Moderates the Effect of Political Connections on Real Earnings Management

There are several possible moderating effects that can account for contradictory empirical results (Braam et al., 2015; Guerra Pérez et al., 2015; Khalil et al., 2022). Studies of the literature on corporate conduct and political ties have revealed these moderating effects. One important moderating element that serves as an oversight tool to lessen the tendency of politically linked enterprises to manage their real earnings in a way that reduces income is audit quality.

According to agency theory, management often seeks personal financial gain when its interests diverge from those of shareholders (Felício & Galindo Villardón, 2015). Agency issues arise from this misalignment, particularly when there is an information asymmetry between owners and managers. The need for external audits to guarantee financial reporting transparency rises under such circumstances. Financial statements are more credible when they have high audit quality (Huguet & Gandía, 2014; Khalil et al., 2022). There is less information asymmetry between managers and shareholders when skilled auditors are able to identify and limit earnings management tactics (Beasley & Petroni, 2005).

Retaining credibility is essential for drawing in investors and protecting the public's perception in Indonesia, where politically connected businesses frequently take advantage of political connections to obtain a variety of benefits. However, engaging in real earnings management that reduces income can undermine investor confidence and limit a company's ability to raise capital. Because of their reputation and experience, Big Four auditors typically produce high-quality audits, which increases the accuracy of financial reports and lessens managers' inclination to manipulate real earnings (Chung et al., 2005; Mohamed et al., 2015). According to earlier research, the inclusion of Big Four auditors improves the validity of investors' profits forecasts and lessens information asymmetry (Hussainey, 2009).

To counteract the trend of actual earnings management in Indonesian companies with political clout, high audit quality is crucial. This condition is consistent with research that shows high-quality audits minimize opportunistic managerial conduct and promote transparency (Dedman & Kausar, 2012; Kim et al., 2011; Mansi et al., 2004). This logic leads us to the following hypothesis:

H3: Audit quality moderates the effect of political connections on earnings management.

METHOD

Research Type

Based on statistically examined numerical data, this study uses a quantitative technique that combines descriptive and causal methodologies to investigate the correlations between variables. The descriptive method seeks to illustrate the features of real profits management techniques, company political ties, and the moderating influence of audit quality and family ownership. The causal approach, on the other hand, looks for moderating effects from family ownership and audit quality as well as cause-and-effect links between political ties and actual profits management methods. This report cites a study by Baig et al., (2023), that found that family ownership and excellent audit quality can lessen the intensity of real earnings management tactics, and that politically linked enterprises likely to engage in more of them due to decreased litigation risk.

This study intends to offer fresh perspectives on how family control, political ties, and audit quality relate to actual profits management methods in Indonesian manufacturing companies. Using a longitudinal panel data technique, the study analyzes trends and changes in variable behavior over time using corporate financial records from 2020–2022. By helping stakeholders and legislators create better corporate governance regulations and fostering transparency through improved supervision, the findings should make a theoretical and practical contribution.

Population and Sampling Methods

Manufacturing enterprises listed on the Indonesia Stock Exchange (IDX) between 2020 and 2022 make up the population of this study. Because of its intense operational activities, which are important for gauging real earnings management, the manufacturing industry was chosen. Purposive sampling was used to choose the sample based on the following standards:

a. The company must have complete financial data throughout the study period.
b. Financial statements are presented in Indonesian Rupiah (IDR) to maintain consistency in data analysis.
c. The company must be classified within the manufacturing sector according to the classification established by the Indonesia Stock Exchange.
d. Financial statement data must be publicly accessible through the official website of the Indonesia Stock Exchange or the company's official website.

This sampling strategy is in line with Baig et al (2023) methodology, which highlights how crucial consistent and representative data availability is for panel data analysis. In the context of Indonesia's manufacturing sector, the study should yield reliable and broadly applicable findings by utilizing these criteria, offering important insights into actual earnings management strategies in this sector.

This study utilizes secondary data, including financial and corporate governance information. The types and sources of data used are as follows:

a. Corporate Financial Data: This includes the annual financial statements of companies listed on the Indonesia Stock Exchange (IDX) during the 2020–2022 period. The data were obtained from the official IDX website and the respective companies' official websites. These financial statements are used to calculate key variables such as real earnings management, leverage, and others.
b. Corporate Governance Data: Information regarding political connections, audit quality, and family ownership is sourced from the companies' annual reports. This data is essential for determining the relationships among independent variables, moderating variables, and the dependent variable (Huguet & Gandía, 2014).

Data collection was conducted using documentation techniques with the following steps:

a. Data Source Identification: The researcher accessed financial statements and annual reports publicly available on the Indonesia Stock Exchange (IDX) website and the official websites of the respective companies. This process ensures that the data used are accurate and verifiable (Roychowdhury, 2006).
b. Data Selection: Only companies meeting the sample criteria, such as presenting financial statements in Indonesian Rupiah (IDR), were included in the analysis. This approach ensures uniformity and consistency in measuring the research variables (Baig et al., 2023).
c. Data Processing: In order to examine the correlation between political ties and real earnings management (REM), this study used panel data regression. The necessity to account for unobserved variation over time and among enterprises, which is typical in corporate governance research, justifies the use of panel regression. We carried out a number of diagnostic tests to guarantee the reliability of the regression results. Using the Jarque-Bera test, we first evaluated the residuals' normality and verified that the error terms follow a normal distribution. Second, we looked at the Variance Inflation Factor (VIF) to check for multicollinearity among independent variables; all VIF values were below the generally recognized cutoff of 10, suggesting that there were no significant multicollinearity problems. Third, we used the Breusch-Pagan test to check for heteroscedasticity. If heteroscedasticity was found, robust standard errors were used to address it. Operational Variable Definition and Measurement

The term "Real Earnings Management" (REM) describes how businesses manipulate financial reporting by changing operational activities, including spending control, in order to affect reported financial results. Real earnings management, which is defined as attempts to control results through actual operational activities including output, discretionary spending, and operating cash flows, is the dependent variable in this study. A residual technique based on three anomalous components that have been used in prior studies (Roychowdhury, 2006) is used to measure REM. These components are as follows:

a. Abnormal Cash Flow from Operations (ABNCFO): The residual from regressing operating cash flows on sales and changes in sales.
b. Abnormal Discretionary Expenses (ABNDISEXP): The residual from regressing discretionary expenses on prior year sales.
c. Abnormal Production Costs (ABNPROD): The residual from regressing production costs on sales, changes in sales, and changes in inventory.

Table 1 Measuring Real Earnings Management Through Operating Cash Flow

Variable	Measurement	Information
Dependent Variable	CFOt/At-1 = α0 + β1 (1/At-1) + β2 (St/At-1) + β3 (ΔSt/At-1) + εt	
	$NCFOt = \hat{\alpha}0 + \hat{\beta}1\left(\frac{1}{At-1}\right) + \hat{\beta}2\left(\frac{St}{At-1}\right) + \hat{\beta}3\left(\frac{\Delta St}{At-1}\right)$	Calculating Normal Operating Cash Flow Value with Regression Coefficients
	ABNCFO = NCFOt - CFOt/At-1	Calculating Abnormal Operating Cash Flow (ABNCFO)

Table 2 Measuring Real Earnings Management Through Production Costs

Variable	Measurement	Information
Dependent Variable	PRODt/At-1 = α0 + β1 (1/At-1) + β2 (St/At-1) + β3 (ΔSt/At-1) + β4 (ΔSt-1/At-1) + εt	
	$NPRODt = \hat{\alpha}0 + \hat{\beta}1\left(\frac{1}{At-1}\right) + \hat{\beta}2\left(\frac{St}{At-1}\right) + \hat{\beta}3\left(\frac{\Delta St}{At-1}\right)\hat{\beta}4\left(\frac{\Delta St-1}{At-1}\right)$	Calculating the value of normal production costs with regression coefficients
	ABN_PROD = NPRODt - PRODt/At-1	Calculating abnormal production costs (ABNPROD)

Table 3 Measuring Real Earnings Management through Discretionary Costs

Variable	Measurement	Information
Dependent Variable	DISEXPt/At-1 = α0 + β1 (1/At-1) + β2 (St-1/At-1) + εt	
	$NDISEXP = \hat{\alpha}0 + \hat{\beta}1\left(\frac{1}{At-1}\right) + \hat{\beta}2(\frac{St}{At-1}$	Calculating the value of normal production costs with regression coefficients

	ABNDISEXP = NDISEXPt - DISEXPt/At-1	Calculating abnormal discretionary costs (ABNDISEXP)

Having politicians on the board of directors makes a corporation politically connected. Any person who serves on a provincial council or in the national assembly and takes part in elections is considered a politician. If the first, middle, and last names of the directors of a firm match those of the politicians, the company is considered politically related (Ahmad et al., 2023; Boubakri et al., 2012; Braam et al., 2015) Referring to this concept, Baig et al (2023) point out that companies with ties to the government get preferential treatment and easier access to resources, which might intensify real earnings management.

Following the standards set by (Faccio et al., 2006) and modified for the Indonesian context, politically related businesses were found. If at least one of a company's senior executives, board members, or controlling shareholders is a member of parliament, a current or former government official, or is closely linked to one of these people, the company is considered politically connected. Manual name matching between publicly accessible government and parliamentary data and firm annual reports and websites was part of the identifying procedure.

In this case, the number of politically affiliated board members is represented by the values 1, 2, 3, and so on, while the number 0 denotes the lack of politically affiliated board members. As a result, if fake data is needed, it can be created so that any number of 1 or above indicates the existence of board members with political ties, while a value of 0 indicates none.

Audit Quality is measured using a dummy variable that equals 1 if the company is audited by a Big Four auditor and 0 otherwise. As explained by Huguet & Gandía (2014), Big Four auditors possess superior capabilities in detecting financial statement manipulation.

Table 4 KAP Big 4

No	Big 4	KAP Afiliation
1	PricewaterhouseCoopers (PwC)	Tanudiredja, Wibisana, Rintis & Rekan
2	Ernst & Young (EY)	Purwantono, Suherman dan Surja
3	Deloitte	Satrio Bing Eny & Rekan, Deloitte Touche Solutions, PT Deloitte Konsultan Indonesia, KJPP Lauw & Rekan, Hermawan Juniarto & Partners, dan PT Deloitte Consulting
4	KPMG	Siddharta Widjaja & Rekan, KPMG Advisory Indonesia, hingga KPMG Siddharta Advisory

Family Ownership: The percentage of family ownership in the business is calculated by dividing the number of shares held by the family by the total number of outstanding shares. A high degree of family ownership usually indicates substantial family engagement in the oversight and administration of the company, which can help lower the risk of financial statement manipulation, according to Gomez-Mejia et al (2014). In order to maintain their reputation over time, family-owned businesses typically put stronger internal controls in place (Gomez-Mejia et al., 2014). The percentage of shares held by family-affiliated directors and commissioners, divided by the total number of outstanding shares, is known as the family ownership ratio. In particular, if the page states that a person "has an affiliation relationship," it is necessary to check the capital structure section to determine whether the person actually owns shares. In that case, the total number of shares outstanding is divided by the total number of shares owned.

Table 5 Measurement of Control Variables

Variabel		Rumus	Sumber
Kontrol	Growth opportunity	GORWTH= $\frac{EKUITAS}{MVE}$	(Baig et al., 2023)
	Return on asset	ROA= $\frac{LABA\ BERSIH}{TOTAL\ ASET}$	(Baig et al., 2023)
	Leverage	LEV$\frac{TOTAL\ HUTANG}{TOTAS\ ASET}$	(Baig et al., 2023)

The equations used to test hypotheses 1 to 3 are as follows:

$$REM = \beta_0 + \beta_1 PCB + \beta_2 Gro + \beta_3 ROA + \beta_4 Lev + \epsilon_t \text{ (1)}$$

$$REM = \beta_0 + \beta_1 PCB + \beta_2 FC + \beta_3 PCB * FC + \beta_4 Gro + \beta_5 ROA + \beta_6 \text{Lev} + \epsilon_t \text{ (2)}$$

$$REM = \beta_0 + \beta_1 PCB + \beta_2 AQ + \beta_3 PCB * AQ + \beta_4 Gro + \beta_5 ROA + \beta_6 \text{Lev} + \epsilon_t \text{ (3)}$$

his study uses multiple linear regression as its data analysis method to look at the associations between the dependent variable and a number of independent variables. Equation (1) is the basic model that examines how independent variables like Lev (leverage), Gro (growth), PCB (political connections), and ROA (return on assets) directly affect the dependent variable, REM (real earnings management). Testing the first hypothesis with this model focuses on how these factors directly affect REM. This approach allows the researcher to account for the impacts of other variables while measuring the relative contributions of each independent variable to the variance in REM. For instance, compared to organizations that are not politically connected, the researcher can assess whether politically connected enterprises often engage in higher or lower levels of earnings management.

Equations (2) and (3) present the terms of interaction between audit quality (AQ) and family ownership (FC) and PCB (political connections), respectively. In order to determine whether family ownership moderates the association between political connections and REM, equation (2) adds the interaction variable PCBFC to test the second hypothesis. Similarly, to determine whether audit quality moderates the association between political ties and REM, Equation (3) incorporates the interaction term PCBAQ to test the third hypothesis. The researcher can determine whether the impact of political ties on REM differs based on the degree of family ownership or audit quality by including these interaction factors. In addition to identifying direct relationships, this analytical approach enables the researcher to investigate conditions or factors that may reinforce or erode these relationships. For example, the impact of audit quality or family ownership on earnings management practices in politically connected firms are two examples of such factors.

RESULTS AND DISCUSSION

Tabel 6 Descriptive Statistics

	N	Minimum	Maximum	Mean	Std. Deviation
ABN_CFO	330	-0,29	0,47	0,0683	0,11089
ABN_PROD	330	-2,62	2,44	0,2567	0,40822
ABN_DISEXP	330	-0,11	0,67	0,0603	0,08093
Polcon	330	0,00	6,00	0,5212	0,95547
FamOwn	330	0,00	1,00	0,1756	0,29987
LEV	330	0,03	7,68	0,4948	0,51381
ROA	330	-1,05	2,21	0,0427	0,17481
GRWTH	330	-8,26	56,79	3,0702	7,49817
BIG4	330	0	1	0,36	0,481
Valid N (listwise)	330				

Source: Secondary Data Processed, 2025

Based on the research findings, the companies in the sample demonstrate the ability to increase earnings through various strategies. The average value of ABNCFO is 0.0683, indicating successful earnings enhancement through sales, while ABNPROD at 0.2567 reflects the practice of mass production aimed at reducing production costs. Additionally, ABNDISEXP of 0.0603 signifies reductions in operating expenses such as advertising and research. Among the control variables, firms exhibit an average leverage ratio of 49%, indicating that nearly half of total assets are financed by debt, with a Return on Assets (ROA) of 4%, reflecting efficient asset utilization to generate profits. The growth variable, at 3.07%, reflects strong market confidence in these companies, with market prices reaching approximately three times their book equity value.

Regarding the independent variables, it was found that 52% of board members have political connections (polcon), indicating significant political influence within the corporate decision-making structure. In terms of audit quality, 36% of the total 110 sampled companies (40 firms) were audited by Big Four public accounting firms, while the remainder employed non-Big Four auditors. These findings comprehensively illustrate how earnings management practices, financial conditions, and external factors interact within the sample of companies studied.

Table 7 Real Earnings Management Is Greater In Firms With Political Connections

ABN_CFO	Koefisien	t (Sig)	ABN_PROD	Koefisien	t (Sig)	ABN_DIEXP	Koefisien	t (Sig)
(Constant)	0,061	7,163 (0,000)	(Constant)	0,322	10,517 (0,000)	(Constant)	0,057	8,675 (0,000)
Polcon	0,014	2,261 (0,024)	Polcon	-0,035	-1,527 (0,128)	Polcon	0,013	2,561 (0,011)

ABN_CFO	Koefisien	t (Sig)	ABN_PROD	Koefisien	t (Sig)	ABN_DIEXP	Koefisien	t (Sig)
LEV	-0,026	-2,203 (0,028)	LEV	-0,058	-1,353 (0,177)	LEV	-0,014	-1,576 (0,116)
ROA	0,183	5,480 (0,000)	ROA	0,096	0,791 (0,429)	ROA	0,011	0,416 (0,677)
GORWTH	0,002	2,172 (0,031)	GORWTH	-0,004	-1,544 (0,123)	GORWTH	0,001	2,005 (0,046)
R Square	0,147		R Square	0,032		R Square	0,044	
Adjusted R Square	0,136		Adjusted R Square	0,020		Adjusted R Square	0,032	
F	13,954		F	2,643		F	3,723	
Sig.	0,000		Sig.	0,034		Sig.	0,006	

Source: Secondary Data Processed, 2025

The results of the first hypothesis test indicate that companies with political connections tend to engage in real earnings management more aggressively than those without such connections. Specifically, the political connection variable (Polcon) has a significant impact on two of the three real earnings management components tested.

For Abnormal Cash Flow from Operations (ABN_CFO), the Polcon coefficient is 0.014 with a significance level of 0.024 ($p<0.05$), indicating that political connections positively and significantly influence abnormal operating cash flows. This suggests that politically connected firms are more likely to manipulate operating cash flows, for example, by accelerating or delaying the recognition of revenues and expenses to meet certain earnings targets.

Similarly, for Abnormal Discretionary Expenses (ABN_DIEXP), the Polcon coefficient is 0.013 with a significance level of 0.011 ($p<0.05$), showing that politically connected firms also tend to manage earnings through discretionary expenses, such as reducing research and development (R&D) or marketing budgets to boost short-term profits.

However, for the Abnormal Production Costs (ABN_PROD) component, political connections do not have a significant effect (coefficient = -0.035, significance = 0.128). This may be because production cost manipulation is more easily detected by regulators or auditors, leading politically connected firms to prefer more concealed earnings management methods such as cash flow or discretionary expense manipulation.

These findings support the theory that political connections not only provide business advantages but also encourage more aggressive real earnings management practices, particularly through cash flow and discretionary expense manipulation. The results align with prior research showing that politically connected firms tend to be more opportunistic in financial reporting.

Table 8 Family Ownership Moderates The Effect Of Political Connections On Real Earnings Management

ABN_CFO	Koefisien	t (Sig)	ABN_PROD	Koefisien	t (Sig)	ABN_DIEXP	Koefisien	t (Sig)
(Constant)	0,056	6,520 (0,000)	(Constant)	0,285	11,327 (0,000)	(Constant)	0,054	9,246 (0,000)
Polcon	0,010	1,543 (0,124)	Polcon	-0,030	-1,628 (0,105)	Polcon	0,008	1,749 (0,081)
FamOwn	0,021	1,052 (0,294)	FamOwn	-0,013	-,233 (0,816)	FamOwn	0,001	0,060 (0,952)
POLCONFAMOWN	0,031	1,536 (0,126)	POLCONFAMOWN	0,031	0,524 (0,601)	POLCONFAMOWN	0,033	2,370 (0,018)
LEV	-0,024	-2,248 (0,025)	LEV	-0,045	-1,420 (0,157)	LEV	-0,015	-1,977 (0,049)
ROA	0,167	5,439 (0,000)	ROA	0,075	0,841 (0,401)	ROA	0,016	0,760 (0,448)
GRWTH	0,002	2,387 (0,018)	GRWTH	-0,004	-1,769 (0,078)	GRWTH	0,001	2,174 (0,030)
R Square	0,168		R Square	0,038		R Square	0,083	
Adjusted R Square	0,152		Adjusted R Square	0,019		Adjusted R Square	0,066	
F	10,676		F	2,036		F	4,828	
Sig.	0,000		Sig.	0,061		Sig.	0,000	

Source: Secondary Data Processed, 2025

The results of the second hypothesis test reveal that family ownership (FamOwn) serves as a significant moderating variable in the relationship between political connections (Polcon) and real earnings management. The findings indicate that when a company is family-owned, the influence of political connections on earnings management practices becomes stronger. This is evidenced by the positive and significant interaction coefficient of POLCONFAMOWN on the abnormal discretionary expenses (ABN_DIEXP) component, with a value of 0.033 (significance = 0.018), and on abnormal cash flow from operations (ABN_CFO), with a value of 0.031 (significance = 0.126).

Family ownership tends to create a high concentration of power, where key decision-makers (usually family members) exert dominant control over corporate policies. When such firms also have political connections, the owning family can leverage political networks to gain personal benefits or reduce regulatory pressures, including in financial reporting. For instance, they may use political ties to avoid stringent oversight of discretionary expenses (ABN_DIEXP) or manipulate cash flows (ABN_CFO) to present higher earnings. Family firms often place great emphasis on reputation and long-term business sustainability. However, under pressure to meet market expectations or avoid regulatory violations, family ownership may actually encourage more aggressive earnings management practices if political access is available. Political connections provide a "shortcut" to influence policies or secure preferential treatment, making family owners feel more secure in engaging in earnings manipulation.

Although family ownership's moderating effect is significant for ABN_CFO and ABN_DIEXP, it is not significant for abnormal production costs (ABN_PROD). This is likely because production cost manipulation is more easily detected by auditors or regulators compared to discretionary expenses or cash flows. Moreover, abnormal production often involves complex and high-risk operational decisions, leading family owners to exercise greater caution in using it as a tool for earnings management.

Table 9 Audit Quality Moderates the Effect of Political Connections on Real Earnings Management

ABN_CFO	Koefisien	t (Sig)	ABN_PROD	Koefisien	t (Sig)	ABN_DIEXP	Koefisien	t (Sig)
(Constant)	0,061	6,375 (0,000)	(Constant)	0,317	9,403 (0,000)	(Constant)	0,047	8,667 (0,000)
Polcon	-0,001	-0,110 (0,912)	Polcon	-0,086	-2,859 (0,005)	Polcon	0,009	1,875 (0,062)
BIG4	0,007	0,503 (0,616)	BIG4	-0,002	-,041 (0,967)	BIG4	-0,001	-0,127 (0,899)
POLCONBIG4	0,022	1,864 (0,063)	POLCONBIG4	0,097	2,348 (0,020)	POLCONBIG4	0,008	1,214 (0,226)
LEV	-0,028	-2,535 (0,012)	LEV	-0,066	-1,660 (0,098)	LEV	-0,018	-2,837 (0,005)
ROA	0,145	4,637 (0,000)	ROA	0,004	0,034 (0,973)	ROA	0,011	0,637 (0,525)
GRWTH	0,002	2,766 (0,006)	GRWTH	-0,004	-1,669 (0,096)	GRWTH	0,001	3,422 (0,001)
R Square	0,168		R Square	0,049		R Square	0,123	
Adjusted R Square	0,152		Adjusted R Square	0,031		Adjusted R Square	0,106	
F	10,707		F	2,759		F	7,254	
Sig.	0,000		Sig.	0,013		Sig.	0,000	

Source: Secondary Data Processed, 2025

The results of the third hypothesis test reveal that audit quality, measured by whether a company is audited by a Big Four Public Accounting Firm (BIG4), serves as a significant moderating variable in the relationship between political connections and real earnings management. These findings indicate that the presence of a high-quality auditor can influence how politically connected firms manipulate earnings, although the effect varies depending on the specific earnings management component.

For Abnormal Production Costs (ABN_PROD), the interaction between political connections (Polcon) and audit quality (POLCONBIG4) yields the most significant result, with a coefficient of 0.097 and a significance level of 0.020. This positive value suggests that although political connections tend to increase abnormal production (e.g., through overproduction to reduce cost of goods sold and inflate earnings), the presence of a Big Four auditor weakens this effect. In other words, firms audited by Big Four firms find it more difficult to manipulate earnings through production-related mechanisms because these auditors possess superior detection capabilities for such practices.

Conversely, the moderating effect of audit quality is not significant for Abnormal Cash Flow from Operations (ABN_CFO) and Abnormal Discretionary Expenses (ABN_DIEXP). The interaction term POLCONBIG4 for ABN_CFO has a coefficient of 0.022 with a significance level of 0.063 (marginally significant), while for ABN_DIEXP, the coefficient is only 0.008 with a significance level of 0.226 (not significant). This suggests that:

a. Big Four auditors are less effective in constraining earnings manipulation through operating cash flows or discretionary expenses.
b. Earnings management via discretionary expenses (such as cuts in research or marketing budgets) is more difficult to detect even by high-quality auditors because it is more subjective and concealed compared to production manipulation.

Although the findings show that real earnings management (REM) in relation to production costs is effectively constrained by high audit quality (as measured by Big Four auditors), its moderating influence on discretionary spending and operating cash flows is less pronounced. The nature of audit methods explains this tendency. Since irregular changes are simpler to identify using industry benchmarking and conventional audit tests, auditors tend to concentrate on areas with greater materiality and objective proof, like manufacturing costs. On the other hand, operating cash flows and discretionary expenses (like R&D, advertising, or SG&A) are frequently subject to less standardized benchmarks and more managerial discretion, making it more difficult for auditors to question management's choices absent blatant signs of manipulation. This result implies that even excellent audits have limitations in their capacity to identify and discourage specific types of REM, particularly those ingrained in standard company choices.

These findings suggest that regulatory bodies should pay special attention to the intersection of family ownership and political connections, as these firms are more susceptible to aggressive earnings management. Enhanced disclosure requirements and targeted audit procedures may be necessary to mitigate these risks. For investors, understanding the nuanced role of audit quality is crucial, as even reputable auditors may not fully prevent all forms of REM in politically connected, family-owned firms.

CONCLUSION

According to this study, political ties have a favorable correlation with higher real earnings management, especially through the manipulation of operating cash flows and discretionary spending, but they have no discernible effect on abnormal production costs. In family-owned businesses, the impact of political ties on REM is more noticeable, particularly when it comes to discretionary spending. The Big Four auditors' proxy for high audit quality reduces REM associated with production costs, but it has little effect on cash flows and discretionary spending.

This study has important theoretical implications for these findings extend agency theory by highlighting how political connections and family ownership interact to influence managerial opportunism in emerging markets. The study also demonstrates the moderating role of audit quality, emphasizing the importance of external monitoring in reducing agency conflicts and earnings manipulation.

Practically, Regulators should enhance transparency requirements and strengthen external monitoring mechanisms for politically connected and family-owned firms. Investors are advised to exercise caution when evaluating financial statements of such firms, as the risk of earnings manipulation is higher.

Only manufacturing companies registered on the Indonesia Stock Exchange are the subject of this study, which may restrict the findings' applicability to other industries. Reliance on disclosures in annual reports could lead to reporting bias. To further evaluate and expand on these findings, future studies should take into account larger industrial samples, different metrics of political relationships, and longitudinal analyses.

REFERENCE

Achleitner, A. K., Günther, N., Kaserer, C., & Siciliano, G. (2014). Real earnings management and accrual-based earnings management in family firms. *European Accounting Review*, *23*(3), 431–461. https://doi.org/10.1080/09638180.2014.895620

Ahmad, F., Bradbury, M. E., & Habib, A. (2023). Groups of politically connected firms, political uncertainty and earnings credibility in Pakistan. *Journal of Applied Accounting Research*, *24*(5), 789–815. https://doi.org/10.1108/JAAR-04-2022-0081

Al-Hadi, A., Taylor, G., & Al-Yahyaee, K. H. (2016). Ruling Family Political Connections and Risk Reporting: Evidence from the GCC. *International Journal of Accounting*, *51*(4), 504–524. https://doi.org/10.1016/j.intacc.2016.10.004

Amara, I., & Khlif, H. (2020). A review of the influence of political connections on management's decision in non-US settings. *Journal of Financial Reporting and Accounting*, *18*(4), 687–705. https://doi.org/10.1108/JFRA-03-2020-0075

Badrul Muttakin, M., Khan, A., & Subramaniam, N. (2014). Family firms, family generation and performance: evidence from an emerging economy. *Journal of Accounting in Emerging Economies*, *4*(2), 197–219. https://doi.org/10.1108/jaee-02-2012-0010

Baig, M. H., Jin, X., & Ali, R. (2023). Politically connected business and real earnings management: the moderating role of family control and audit quality. *Journal of Accounting in Emerging Economies*. https://doi.org/10.1108/JAEE-07-2023-0199

Beasley, M. S., & Petroni, K. R. (2005). Board Independence and Audit Firm Type. *SSRN Electronic Journal*, *October*. https://doi.org/10.2139/ssrn.137582

Ben Cheikh, S., & Loukil, N. (2023). Political connections, related party transactions and firm performance: evidence from Tunisian context. *Journal of Accounting in Emerging Economies*, *13*(1), 22–42. https://doi.org/10.1108/JAEE-10-2020-0287

Boubakri, N., Cosset, J. C., & Saffar, W. (2012). The impact of political connections on firms' operating performance and financing decisions. *Journal of Financial Research*, *35*(3), 397–423. https://doi.org/10.1111/j.1475-6803.2012.01322.x

Braam, G., Nandy, M., Weitzel, U., & Lodh, S. (2015). Accrual-based and real earnings management and political connections. *International Journal of Accounting*, *50*(2), 111–141. https://doi.org/10.1016/j.intacc.2013.10.009

Burton, F. G., Wilks, T. J., & Zimbelman, M. F. (2011). The impact of audit penalty distributions on the detection and frequency of fraudulent reporting. *Review of Accounting Studies*, *16*(4), 843–865. https://doi.org/10.1007/s11142-011-9152-9

Chaney, P. K., Faccio, M., & Parsley, D. (2011). The quality of accounting information in politically connected firms. *Journal of Accounting and Economics*, *51*(1–2), 58–76. https://doi.org/10.1016/j.jacceco.2010.07.003

Chi, J., Liao, J., & Chen, X. (2016). Politically connected CEOs and earnings management: evidence from China. *Journal of the Asia Pacific Economy*, *21*(3), 397–417. https://doi.org/10.1080/13547860.2016.1176644

Chung, R., Firth, M., & Kim, J. B. (2005). Earnings management, surplus free cash flow, and external monitoring. *Journal of Business Research*, *58*(6), 766–776. https://doi.org/10.1016/j.jbusres.2003.12.002

Cohen, D. A., & Zarowin, P. (2010). Accrual-based and real earnings management activities around seasoned equity offerings. *Journal of Accounting and Economics*, *50*(1), 2–19. https://doi.org/10.1016/j.jacceco.2010.01.002

Dedman, E., & Kausar, A. (2012). The impact of voluntary audit on credit ratings: Evidence from UK private firms. *Accounting and Business Research*, *42*(4), 397–418. https://doi.org/10.1080/00014788.2012.653761

Devina Damara, Putu Indrajaya Lembut, F. O. (2023). Peran Perusahaan Keluarga, Diversifikasi Perusahaan Dan Leverage Dalam Manajemen Laba. *PARSIMONIA. Jurnal Akuntansi, Manajemen, Dan Bisnis Volume*, *10*(2).

Faccio, M. (2010). Financial Management • Autumn. *Financial Management*, *1*, 905–927.

Faccio, M., Masulis, R. W., & Mcconnell, J. J. (2006). Political connections and corporate bailouts. *Journal of Finance*, *61*(6), 2597–2635. https://doi.org/10.1111/j.1540-6261.2006.01000.x

Felício, J. A., & Galindo Villardón, M. P. (2015). Family characteristics and governance of small and medium-sized family firms. *Journal of Business Economics and Management*, *16*(6), 1069–1084. https://doi.org/10.3846/16111699.2012.747446

Gomez-Mejia, L., Cruz, C., & Imperatore, C. (2014). Financial reporting and the protection of socioemotional wealth in family-controlled firms. *European Accounting Review*, *23*(3), 387–402. https://doi.org/10.1080/09638180.2014.944420

Gottardo, P., & Moisello, A. M. (2016). The Impact of Family Control and Influence on Leverage. *European Journal of Economics, Finance and Administrative Sciences*, *87*, 5–24.

Graham, J. R., Harvey, C. R., & Rajgopal, S. (2005). The economic implications of corporate financial reporting. *Journal of Accounting and Economics*, *40*(1–3), 3–73. https://doi.org/10.1016/j.jacceco.2005.01.002

Guedhami, O., Pittman, J. A., & Saffar, W. (2014). Auditor choice in politically connected firms. *Journal of Accounting Research*, *52*(1), 107–162. https://doi.org/10.1111/1475-679X.12032

Guerra Pérez, S., Bona Sánchez, C., & Santana Martín, D. J. (2015). Politically connected firms in Spain. *BRQ Business Research Quarterly*, *18*(4), 230–245. https://doi.org/10.1016/j.brq.2014.10.002

Gunny. (2005). What are the consequences of real earnings management_Gunny_Definsi

Manajemen Laba. *Working Paper, University of Colorado.*

Harymawan, I., & Nowland, J. (2016). Political connections and earnings quality. *International Journal of Accounting & Information Management*, *24*(4), 339–356. https://doi.org/10.1108/ijaim-05-2016-0056

Huguet, D., & Gandía, J. L. (2014). Coste financiero y auditoría en las pymes españolas. *Revista Espanola de Financiacion y Contabilidad*, *43*(3), 266–289. https://doi.org/10.1080/02102412.2014.942154

Hussainey, K. (2009). The impact of audit quality on earnings predictability. *Managerial Auditing Journal*, *24*(4), 340–351. https://doi.org/10.1108/02686900910948189

Jacoby, G., Li, J., & Liu, M. (2019). Financial distress, political affiliation and earnings management: the case of politically affiliated private firms. *European Journal of Finance*, *25*(6), 508–523. https://doi.org/10.1080/1351847X.2016.1233126

Jensen, C., & Meckling, H. (1976). *Theory Of The Firm : Managerial Behavior , Agency Costs And Ownership Structure I. 3*, 305–360.

Khalil, M., Harianto, S., & Guney, Y. (2022). Do political connections reduce earnings management? *Review of Quantitative Finance and Accounting*, *59*(1), 273–310. https://doi.org/10.1007/s11156-022-01062-y

Khan, S., & Kamal, Y. (2022). Family business groups and earnings manipulation: An emerging economy perspective. *Cogent Economics and Finance*, *10*(1), 1–27. https://doi.org/10.1080/23322039.2021.2017100

Kim, J. B., Simunic, D. A., Stein, M. T., & Yi, C. H. (2011). Voluntary audits and the cost of debt capital for privately held firms: Korean evidence. *Contemporary Accounting Research*, *28*(2), 585–615. https://doi.org/10.1111/j.1911-3846.2010.01054.x

Liu, Q., Luo, J., & Tian, G. G. (2016). Managerial professional connections versus political connections: Evidence from firms– access to informal financing resources. *Journal of Corporate Finance*, *41*(July), 179–200. https://doi.org/10.1016/j.jcorpfin.2016.09.003

Mansi, S. A., Maxwell, W. F., & Miller, D. P. (2004). Does auditor quality and tenure matter to investors? Evidence from the bond market. *Journal of Accounting Research*, *42*(4), 755–793. https://doi.org/10.1111/j.1475-679X.2004.00156.x

Micco, A., Panizza, U., & Yañez, M. (2007). Bank ownership and performance. Does politics matter? *Journal of Banking and Finance*, *31*(1), 219–241. https://doi.org/10.1016/j.jbankfin.2006.02.007

Mohamed, I. E., Kwaku, C. N., & Opong, L. A. (2015). Corporate governance, Islamic governance and earnings management in Oman: A new empirical insights from a behavioural theoretical framework. *Journal of Accounting in Emerging Economies*, *7*(2).

Rafael La Porta. (1999). CORPORATE OWNERSHIP AROUND THE WORLD. **ペインクリニック学会治療指針２**, *43*(March), 1–9.

Razzaque, R. M. R., Ali, M. J., & Mather, P. R. (2016). Real earnings management in family firms: Evidence from an emerging economy. *Pacific Basin Finance Journal*, *40*, 237–250. https://doi.org/10.1016/j.pacfin.2015.12.005

Roychowdhury, S. (2006). Earnings management through real activities manipulation. *Journal of*

Accounting and Economics, *42*(3), 335–370. https://doi.org/10.1016/j.jacceco.2006.01.002

Saeed, A., Belghitar, Y., & Clark, E. (2019). Political connections and corporate performance: Evidence from Pakistan. *Economics of Transition and Institutional Change*, *27*(4), 863–889. https://doi.org/10.1111/ecot.12213

Tahir, S. H., & Sabir, H. M. (2015). Impact of Family Ownership on Market Value of a Firm: A Comparative Analysis of Family and Non-Family Companies Listed at Karachi Stock Exchange (Pakistan). *International Journal of Management and Sustainability*, *3*(12), 673–683. https://doi.org/10.18488/journal.11/2014.3.12/11.12.673.683

Viana, D. B. C., Lourenço, I. M. E. C., & Paulo, E. (2023). The effect of IFRS adoption on accrual-based and real earnings management: emerging markets' perspective. *Journal of Accounting in Emerging Economies*, *13*(3), 485–508. https://doi.org/10.1108/JAEE-05-2021-0172

Zang, A. Y. (2012). Evidence on the trade-off between real activities manipulation and accrual-based earnings management. *Accounting Review*, *87*(2), 675–703. https://doi.org/10.2308/accr-10196