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The Effect of Political Connections on Earnings Quality with the Moderating Role of Family Ownership: A Study of Manufacturing Firms in Indonesia

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ABSTRACT: This study aims to examine the effect of political links on the quality of earnings in manufacturing companies listed on the Indonesia Stock Exchange (IDX) between 2020 and 2022, utilizing family ownership as a moderating variable. Discretionary accruals based on the Modified Jones Model are used to quantify earnings quality using panel data regression analysis and a quantitative explanatory approach. The findings indicate that neither political connections nor family ownership have a direct effect on earnings quality. However, the quality of earnings is significantly impacted negatively by the combination of family ownership and political connections. This suggests that family ownership amplifies the negative impact of political connections on earnings quality, contrary to the initial assumption that family ownership would enhance internal control. These results support the agency theory perspective, whereby dominant family control combined with political connections exacerbates agency problems and reduces the reliability of financial reporting. This study contributes to the body of information on corporate governance in developing countries and provides stakeholders and regulators with useful advice on how to improve monitoring of companies with significant family ownership and political connections.

Keywords: Political Connections, Family Ownership, Earnings Quality, Discretionary Accruals.

INTRODUCTION

Earnings quality is an important indicator in assessing the credibility and reliability of a company's financial information. High-quality earnings reflect accounting information that is relevant and reliable for economic decision-making. However, earnings management practices remain a serious issue in Indonesia. For example, the case of financial statement manipulation by PT Garuda Indonesia in 2018 demonstrates how earnings can be manipulated for specific interests, thereby misleading stakeholders (Christian et al., 2022). Reports from the Financial Services Authority (OJK, 2022) have also recorded an increase in financial reporting violations among issuers during 2021–2022.

In the context of agency theory, earnings manipulation reflects the existence of conflicts of interest between managers (agents) and owners (principals), in which agents tend to pursue personal interests that are not always aligned with the objectives of the owners (Uliyah et al., 2023). This issue can be exacerbated by political connections, namely relationships between companies and political officials or elites, which are often leveraged to gain access to economic resources such as bank loans, government projects, and regulatory protection (Maulana & Wati, 2020). Several studies indicate that companies with political connections tend to engage in accounting manipulation to maintain these relationships, thereby reducing earnings quality (Darmayanti et al., 2020; Hashmi et al., 2018). However, other studies have found that political connections can enhance financial stability and help maintain earnings quality (Pratiwi & Aligarh, 2021).

Family ownership also plays a crucial role in financial reporting practices. The majority of public companies in Indonesia are still family-controlled (PwC, 2014; Deloitte, 2020). While family ownership may strengthen internal monitoring and reduce agency conflicts, it may also lead to conflicts between majority and minority shareholders (Yeh et al., 2001). Prior studies have shown mixed results, ranging from a positive effect on earnings quality (Jao et al., 2024) to a negative one (Putri Salsabella & Supriyanto, 2023).

Although various studies have examined the effects of political connections or family ownership separately, their findings remain inconclusive and largely focus on non-manufacturing sectors. To date, comprehensive research investigating the combined effects of these two factors on earnings quality in the manufacturing sector is still limited—despite the fact that this sector plays a vital role in the national economy and is often characterized by complex ownership structures intertwined with political influence.

This study offers novelty by examining the effect of political connections on earnings quality with family ownership as a moderating variable, specifically within manufacturing firms listed on the Indonesia Stock Exchange (IDX) during the 2020–2022 period. In addition to providing a post-pandemic context, the study employs a moderating approach to simultaneously address the interaction between ownership structure and political influence—an aspect that remains underexplored in prior literature. Therefore, this research is expected to contribute empirically to the corporate governance literature in developing countries and offer practical implications for regulators, investors, and other stakeholders in understanding the dynamics of political connections and ownership structures in relation to financial reporting transparency.

According to (Uliyah et al., 2023), agency theory explains the conflict between owners (principals) and managers (agents), where managers tend to pursue personal interests that are not aligned with the objectives of the company's owners. This divergence of interests creates agency costs, which can affect the quality of decision-making, including in financial reporting. The involvement of board members or commissioners with political connections can give rise to conflicts of interest, as they may prioritize political interests over those of shareholders (Kesaulya et al., 2023). This situation leads to weak oversight and increases the potential for financial statement manipulation. In the context of family businesses, according to Dharmawan & Wijaya, (2020), the family ownership structure can reduce agency costs through direct control by the owners, who are often also part of the management. The involvement of family members in management contributes to enhanced supervision and decision-making based on long-term values. However, in certain cases, family owners may also abuse their control to maintain personal or political interests, so the risk of agency conflict remains present.

Political Connections and Earnings Quality

According to agency theory, the possibility of conflicts of interest between owners (principals) and managers (agents) explains the correlation between political connections and profits quality. (Supatmi & Putri, 2022). Companies with political connections often gain advantages such as easier access to funding, government projects, and fiscal incentives. However, these benefits can create agency problems, as managers have greater discretion in decision-making that may not always align with shareholder interests. When managerial oversight is weakened due to political protection, the risk of earnings management and financial statement manipulation may increase.

Nevertheless, in situations where external oversight remains strong and major shareholders exercise effective control over management, political connections can also provide financial stability for the company. With certainty in access to funding and strategic projects, companies can reduce financial uncertainty and earnings volatility, which in turn may help maintain earnings quality. Therefore, in the context of agency theory, the impact of political connections on earnings quality largely depends on the oversight mechanisms implemented within the company and how managerial incentives are structured to minimize potential conflicts of interest (Pamuji & Naimah, 2022).

Based on studies by Maulana & Wati, (2020), Pratiwi & Aligarh, (2021), Innayah & Pratama, (2022), dan Wijaya & Merry Susanti, (2024) companies with political connections often enjoy easier access to funding, government projects, and local incentives. Such support contributes to increased financial stability and profitability, thereby helping to maintain earnings quality. Based on the above literature, the first hypothesis to be tested is as follows:

H_1: Companies with political connections have higher earnings quality than companies without political connections

Family Ownership and Earnings Quality

From the perspective of agency theory, In family firms, the likelihood of conflicts between managers and owners is generally lower because owners are often actively involved in the operations of the company. This involvement provides incentives for them to maintain earnings quality in order to preserve both the reputation and the long-term sustainability of the family business. Furthermore, stricter oversight by the family as controlling shareholders serves to minimize the likelihood of detrimental earnings management practices and enhances the transparency of financial reporting.

The hypothesis regarding higher earnings quality in family firms reflects a long-term orientation to ensure ethical and sustainable business continuity, which ultimately contributes to better earnings quality (Fayola et al., 2021). Additionally, because there is less knowledge asymmetry between managers and owners, family businesses typically have more accurate and trustworthy financial accounts. Consequently, family ownership is typically linked to superior profits quality as compared to non-family businesses (Jao et al., 2024).

Researchers who looked into how family ownership affected earnings quality discovered that family ownership had a beneficial impact on earnings quality. According to this research, family businesses are more likely than non-family businesses to have higher earnings quality. Similar results were reported by Jao et al., (2024) who revealed that family ownership plays a positive role in improving earnings quality, which in turn contributes to enhancing firm value. Based on the aforementioned studies, the second hypothesis to be tested is as follows :

H_2: Family Ownership Has a Positive Effect on Earnings Quality

Political Connections, Earnings Quality, and Family Ownership

Within the framework of agency theory, political connections may provide benefits to companies through easier access to funding, government projects, and various fiscal incentives. However, such relationships also have the potential to create conflicts of interest, as managers are afforded greater discretion in decision-making, which may not always be in line with shareholders' interests. (Supatmi & Putri, 2022). Furthermore, family ownership is often characterized by a long-term orientation and greater caution in maintaining the quality of financial reporting, as considerations of reputation and the sustainability of the business across generations are paramount. Therefore, family ownership can enhance earnings quality even in firms with political connections (Hashmi et al., 2018).

Studies by Huang et al., (2014), Braam et al., (2015), AL-Dhamari, (2016), Li et al., (2016) and Lungkang & Muslih, (2020) ndicate that political connections negatively affect earnings quality due to a lack of oversight, heightened conflicts of interest, and increased information asymmetry, all of which create opportunities for earnings management. Conversely, research by Maulana & Wati, (2020), Pratiwi & Aligarh, (2021), Innayah & Pratama, (2022), dan Wijaya & Merry Susanti, (2024) emonstrates that political connections can actually improve financial stability and profitability, thereby maintaining earnings quality. Meanwhile, Dewi, (2017) dan Robert Jao et al, (2024) provide evidence that family ownership enhances earnings quality through stronger internal oversight and a long-term orientation, whereas Masripah et al., (2015) reveal the negative impact that can arise from dominant family interests. Based on previous studies, family ownership can serve as a moderating variable in the relationship between political connections and earnings quality. Although political connections may reduce earnings quality, family ownership has the potential to mitigate this negative effect. Therefore, the following is the third hypothesis in this study:

H_3: Family ownership moderates the effect of political connections on earnings quality.

METHOD

In order to investigate the causal links between independent, dependent, and moderating variables, this study uses a quantitative explanatory approach. This approach was selected because it allows for objective measurement and statistical analysis to test the formulated hypotheses. The analytical method adopted in this research is panel data regression. Because the data utilized are a mix of cross-sectional and time series data, this approach is deemed suitable. Panel regression analysis enables researchers to capture the dynamics of relationships among variables across companies (cross-sectional) over a certain period (time series). In order to investigate the moderating effect of family ownership in the relationship between political connections and earnings quality, this study also uses an interaction test. The research is designed to obtain a deeper understanding of the relationships among variables by considering firm characteristics as control variables.

The study's population consists of all manufacturing firms listed on the Indonesia Stock Exchange (IDX) between 2020 and 2022. The research population consists of 110 active manufacturing companies, covering various subsectors within the industry that possess the data required for this research. The selection of the manufacturing sector is based on the rationale that this sector is a significant contributor to the national economy and exhibits governance characteristics that are relevant for examining political connections and family ownership.

Purposive sampling was used to choose the sample, and the following standards were applied:

1. Companies consistently listed on the IDX from 2020 to 2022;
2. Companies that published complete annual reports during the observation period;
3. The financial statements are presented in Indonesian Rupiah (IDR) in order to maintain consistency in data analysis.
4. Companies that provided complete data related to the dependent, independent, moderating, and control variables.

Based on these criteria, the final sample consisted of manufacturing companies that met the requirements for panel analysis over the three-year observation period. The focus on the manufacturing sector is grounded in its strategic importance as one of the primary contributors to Indonesia's GDP and employment. Manufacturing firms tend to have more complex operational activities, ownership structures, and regulatory exposure, making them particularly susceptible to political influence and agency conflicts. Moreover, the sector is heavily represented on the IDX, making it suitable for empirical generalization.

The observation period of 2020–2022 was selected to capture the post-pandemic financial reporting environment, where corporate governance practices and financial transparency became increasingly critical. The economic disruptions and regulatory changes during this period also provide a unique context for analyzing the interaction between political connections, ownership structures, and earnings quality.

The secondary data used in this study came from documentation and a survey of the literature. The primary sources of data include annual reports, sustainability reports, and financial statements published on the official website of the Indonesia Stock Exchange (www.idx.co.id) as well as the official websites of the respective companies.

Table 1. Measurement of Control Variables

Control Variable	Measurement0	Source
Firm Size (FSIZE)	Total**0**Assets	(Hashmi et al., 2018)
Firm Profitability (FPROF)	Net**0**Income / Total**0**Assets	(Hashmi et al., 2018)
Leverage (LEV)	Total Liabilities/Total Assets	(Hashmi et al., 2018)
Cash Flow from Operations (CFO)	CFO/Beginning**0**Total Assets	(Hashmi et al., 2018)

This study's data analysis methodology starts with descriptive statistical analysis, which uses metrics like mean, median, standard deviation, maximum, and minimum values to show each variable's properties. The Chow test, Hausman test, and Lagrange Multiplier (LM) test are then used to choose the optimal panel regression model among the Common Effect, Fixed Effect, and Random Effect models.This study also employs moderation regression analysis to examine the interaction effect between political connections and family ownership on earnings quality. Prior to regression testing, classical assumption tests are performed, including the normality test (Jarque-Bera), multicollinearity test (correlation among variables), and heteroscedasticity test (Breusch-Pagan test). The F-test is used to determine the overall significance of the model, the t-test is used to determine the partial effect of each variable, and the coefficient of determination (R2 and Adjusted R2) is used to determine the model's explanatory power with respect to the variation in earnings quality.

The use of panel data regression in this study is based on its ability to provide a more comprehensive analysis by combining the cross-sectional dimension (across companies) and the time-series dimension. E-Views software is used in this study to do panel data regression analysis. By employing panel data regression, this study is able to generate more valid findings in identifying the effect of Political Connections on Earnings Quality as well as the Moderating Role of Family Ownership in this relationship. This study examines the association between political connections and earnings quality using a discretionary accruals regression model based on the Modified Jones Model. The primary reason for using this model is to ensure the strength, validity, and reliability of the results by adjusting for changes in revenue so that they are not influenced by receivables management (Hashmi et al., 2018). The following is the estimated model for variable measurement:

$$DA\_MJM_{it} = \alpha_1+\alpha_2 PCONN_{it}+\alpha_3 FSIZE_{it}+\alpha_4 FPROF_{it}+\alpha_5 LEV_{it}+\alpha_6 CFO_{it}+_{3it}$$

In panel data regression, there are three main models that can be used: the Common Effect Model (CEM), which assumes that all entities share homogeneous characteristics and thus no individual effect is present; the Fixed Effect Model (FEM), which allows for differences in fixed characteristics across entities by providing different intercepts for each company; and the Random Effect Model (REM), which assumes that the differences in characteristics across entities are random and uncorrelated with the independent variables.

Model selection is performed through three statistical tests. First, the Chow test is used to compare the CEM and FEM. If the probability value is < 0.05, FEM is selected; if > 0.05, CEM is more appropriate. Second, if FEM is selected, the Hausman test is conducted to compare FEM and REM. If the p-value is < 0.05, FEM remains the preferred model; if > 0.05, REM is chosen. Third, if the Chow test previously selected CEM, the Lagrange Multiplier (LM) test is performed to choose between CEM and REM. If the p-value is < 0.05, REM is used; if > 0.05, CEM remains the model of choice.

Because it might look at how family ownership affects the relationship between political connections and the quality of one's income., this study uses moderation regression analysis, empirically controlling for the effects of the moderating variable, and strengthening the study's contribution to agency theory. This approach enables the research to produce deeper and more valid findings regarding the role of family ownership in strengthening or weakening the influence of political connections on a company's earnings quality. Furthermore, according to (Hashmi et al., 2018) The following formula is used to examine the moderating influence of family ownership on the association between political connections and earnings quality:

$$DA\_MJM_{it} = a_1 + a_2PCONN_{it} + a_3FAMOWN_{it} + a_4FAMOWN_{it} * PCONN_{it} + a_5FSIZE_{it} + a_6FPROF_{it} + a_7LEV_{it} + a_8CFO_{it} + _{3it}$$

RESULT AND DISCUSSION

Table 2. Descriptive statistics

	DAC	BPC	FAMOWN	FPROF	FSIZE	LEV	CFO
Mean	0.021650	0.313070	0.172583	0.041148	28.48778	0.508425	0.087074
Median	0.021507	0.000000	0.000000	0.037872	28.28126	0.404632	0.060061
Maximum	2.961661	1.000000	0.997112	2.213789	33.65519	10.45390	3.012012
Minimum	-3.931541	0.000000	0.000000	-1.049839	25.07900	4.81E-07	-0.412601
Std. Dev.	0.332832	0.464449	0.298771	0.179807	1.631154	0.708189	0.200452

Source : E-Views 12, (2025)

For every research variable, descriptive statistics are utilized to give a broad picture of the data features. The dataset consists of 330 observations, including the dependent variable (Discretionary Accruals/DAC), the independent variable (Political Connections/BPC), the moderating variable (Family Ownership/FAMOWN), and the control variables (Profitability/FPROF, Firm Size/FSIZE, Leverage/LEV, and Operating Cash Flow/CFO).

The average value of DAC is 0.0217, indicating that companies tend to engage in income-increasing accrual patterns, although there is considerable fluctuation, with a maximum value of 2.96 and a minimum of -3.93. This suggests that some companies engage in excessive accrual manipulation, both to increase and decrease reported earnings. The BPC variable (political connections) has a mean value of 0.31, indicating that 31% of the companies in the research sample, or 102 observations, have political connections, while the remaining 69% do not have political connections. The family ownership variable (FAMOWN) in this study shows an average value of 0.1726, which means that, on average, 17.26% of the shares in the sampled companies are owned by shareholders who have familial relationships with members of management or the board of directors.

FPROF has an average value of 0.0411, indicating that, on average, companies generate net income equivalent to 4.11% of their total assets. Firm size (FSIZE) has an average value of 28.48. This figure is calculated based on the natural logarithm of total assets, reflecting that the entities in the sample are generally classified as large-scale companies. The average leverage value is 0.5084, indicating that approximately 50.84% of the total assets of the sample companies are financed by debt, while the very high maximum value suggests that there are companies financing all, or even more than all, of their assets with debt. CFO (operating cash flow) has an average value of 0.0871, indicating that, on average, 8.71% of the companies' total assets are able to generate operating cash flows.

Table 3. Model Selection Test

Types of Tests	Statistics	Probability	Selected Model
Chow (Model 1)	Cross-section F = 0.8296	0.8622	CEM
LM (Model 1)	Breusch-Pagan = 2.9732	0.0847	CEM
Chow (Model 2)	Cross-section F = 0.8195	0.8771	CEM
LM (Model 2)	Breusch-Pagan = 3.065	0.0800	CEM

Source : E-Views 12, (2025)

In this study, the model selection tests presented in Table 3 were conducted to determine the most appropriate panel regression model among the Common0Effect0Model (CEM), Fixed Effect0Model0 (FEM), and Random0Effect0Model0 (REM). The Chow test findings show that the CEM is more suited than the FEM because the The significance level is higher than 0.05. Additionally, significant values greater than 0.05 are also shown by the LM test., suggesting that the CEM is preferable to the REM. Therefore, this study employs the Common Effect Model (CEM) in the panel regression analysis.

Table 4. Normality Test

Model	JB Stat	Probability	Conclusion
1	4.7587	0.1358	Normal
2	4.4093	0.1425	Normal

Source : E-Views 12, (2025)

In this study, the normality test was conducted using the Jarque-Bera method. The results in Table 4 show probability values of 0.1358 for the base model and 0.1425 for the moderation model, both of which are greater greater than the 0.05 criterion of significance. Consequently, it may be said that the normalcy assumption is met and the residuals are normally distributed. This is important because the normal distribution of residuals ensures the inferential validity of the regression hypothesis testing.

Multicolliniearity Test

Table 5. Multicollinierity Test Model 1

	BPC	FPROF	FSIZE	LEV	CFO
BPC	1.000000	0.120378	0.296525	0.103713	0.096690
FPROF	0.120378	1.000000	0.152361	-0.177754	0.256041
FSIZE	0.296525	0.152361	1.000000	-0.122148	0.075869
LEV	0.103713	-0.177754	-0.122148	1.000000	-0.023721
CFO	0.096690	0.256041	0.075869	-0.023721	1.000000

Source : E-Views 12, (2025)

Table 6. Multicollinieriity Test Model 2

	BPC	FAMOWN	INTERAKSI	FPROF	FSIZE	LEV	CFO
BPC	1.000000	-0.120086	0.313261	0.113125	0.304751	0.111385	0.101090
FAMOWN	-0.120086	1.000000	0.458738	-0.013396	0.020719	-0.046768	0.007766
INTERAKSI	0.313261	0.458738	1.000000	0.084684	0.213074	-0.008420	0.050627
FPROF	0.113125	-0.013396	0.084684	1.000000	0.151517	-0.174445	0.261368
FSIZE	0.304751	0.020719	0.213074	0.151517	1.000000	-0.118953	0.080765
LEV	0.111385	-0.046768	-0.008420	-0.174445	-0.118953	1.000000	-0.022585
CFO	0.101090	0.007766	0.050627	0.261368	0.080765	-0.022585	1.000000

Source : E-Views 12, (2025)

To find out if there are strong correlations between the independent variables in the model, the multicollinearity test is used, which may cause distortion in the estimation of regression coefficients. The test is performed by examining the correlation values among the independent variables through the correlation matrix. The results presented in Tables 5 and 6 show that all correlation values among the variables are below 0.85, both in the base model and in the moderation model. Therefore, no serious multicollinearity symptoms are found in this regression model. This condition is important to ensure that each independent variable can make a unique contribution to the model without statistical overlap.

Table 7. Heteroscedasticity Test

Model	Prob. Chi-Square	Conclusion
1	0.2048	No heteroscedasticity
2	0.1341	No heteroscedasticity

Source : E-Views 12, (2025)

The heteroscedasticity test is used to determine whether the variance of the residuals is constant (homoscedastic) or not (heteroscedastic). The presence of heteroscedasticity would render the regression model inefficient due to unstable error variances. In this study, the heteroscedasticity test, as presented in Table 7, was conducted using the Breusch-Pagan approach, with Chi-Square probabilities of 0.2048 for the base model and 0.1341 for the moderation model. These values are greater than 0.05, indicating that there is no evidence of heteroscedasticity. With this assumption fulfilled, the coefficient estimates in the regression model are considered efficient and reliable.

Table 8. Panel Data Regression Results

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	-0.046656	0.016687	-2.795896	0.0056
BPC	-0.001234	0.001914	-0.644625	0.5198
FPROF	-1.057830	0.010770	-98.22155	0.0000
FSIZE	0.001500	0.000587	2.556816	0.0112
LEV	0.010529	0.001251	8.418092	0.0000
CFO	1.017324	0.004094	248.4907	0.0000

Statistik Model	
R^2	**0.9965**

Adjusted R^2	**0.9964**
F-Statistic	**12770.82**
Prob(F)	**0.0000**

Source : 0E-Views 12, (2025)

Table 9. Moderation Regression Results

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	-0.046117	0.016528	-2.790313	0.0057
BPC	-0.001158	0.002058	-0.562905	0.5741
FAMOWN	0.001069	0.003668	0.291447	0.7710
INTERAKSI	-0.019004	0.007017	-2.708385	0.0073
FPROF	-1.079982	0.010825	-99.76746	0.0000
FSIZE	0.001537	0.000581	2.646288	0.0087
LEV	0.010011	0.001227	8.161974	0.0000
CFO	1.017157	0.004018	253.1438	0.0000

Statistik Model	
R^2	**0.09963**
Adjusted R^2	**0.9961**
F-Statistic	**9456.528**
Prob(F)	**0.0000**

Source: E-Views 12, (2025)

The F-statistic values for the first model 12770.82 and the moderation model 9456.528, both with p-values of 0.0000, indicate that the models are statistically significant overall. This means that all independent and control variables jointly have a significant effect on earnings quality. The Adjusted R^2 value of 0.9964 in the moderation model demonstrates that 99.64% of the variation in the dependent variable can be explained by the model, with the remaining 0.39% explained by other factors. Political Connections (BPC) show a p-value of 0.9480 in the first model. Since this value is far above the 0.05 significance level, it can be concluded that political connections do not have a significant effect on earnings quality (as measured by discretionary accruals). Thus, hypothesis H_1 is not supported by the empirical data. Family Ownership (FAMOWN) in the moderation model has a p-value of 0.8035, indicating that family ownership also does not have a significant direct effect on earnings quality. Therefore, hypothesis H_2 is not statistically supported. The interaction term between Political Connections and Family Ownership (INTERACTION) has a p-value of 0.6698, indicating that family ownership does not significantly moderate the effect of political connections on earnings quality. Consequently, hypothesis H_3 is also not supported. Based on the results of the panel data regression and moderation regression analyses, the following regression equations are obtained:

Panel Data Regression Equation:

DA_{it} = −0,046656−0,001234·BPCit−1,057830·FPROFit+0,001500·FSIZEit+0,010529·LEVit +1,017324·CFOit

Moderation Regression Equation:

$DA_{it} = -0{,}046117 - 0{,}001158 \cdot BPCit + 0{,}001069 \cdot FAMOWNit - 0{,}019004 \cdot (BPC \times FAMOWN)it - 1{,}079982 \cdot FPROFit + 0{,}001537 \cdot FSIZEit + 0{,}010011 \cdot LEVit + 1{,}017157 \cdot CFOit$

Firms with Political Connections Have Higher Earnings Quality than Firms without Political Connections

According to the study's first premise, companies with political connections generate higher-quality earnings than companies without such connections. The hypothesis was tested using a t-test in the panel regression model, and the results show that the political connections variable (BPC) has a significance value of 0.9480 in the base model and 0.9472 in the moderation model. Both values are far above the 5% significance threshold ($\alpha = 0.05$). Therefore, **the first hypothesis (H_1) is rejected** or not supported by the empirical data in this study.

These findings indicate that firms with political connections do not necessarily exhibit higher earnings quality compared to those without political connections. A decline in earnings quality is one of the consequences of increased agency costs, suggesting that existing political connections may not be sufficiently strong, active, or optimally utilized. One manifestation of declining earnings quality is earnings management, where agents deliberately manipulate profit figures to achieve personal objectives rather than the overall goals of the company.

From the standpoint of agency theory, political connections should theoretically intensify conflicts of interest between managers (agents) and owners (principals), as managers with political connections tend to have greater discretion in decision-making without adequate oversight (Kesaulya et al., 2023). This situation may lead to lower earnings quality due to incentives to manipulate information in order to maintain political relationships. However, the lack of a significant effect of political connections in these findings may be interpreted as an indication that the sampled firms, particularly in the manufacturing sector, continue to consistently implement good corporate governance principles. Oversight from regulators such as the Financial Services Authority (OJK) and the Indonesia Stock Exchange (IDX), as well as pressure from institutional shareholders, may serve to neutralize the effects of political connections in financial reporting practices.

These findings also align with those of Putri Salsabella & Supriyanto, (2023), who also discovered that political connections in Indonesia had no appreciable effect on the standard of wages. The fact that different research have shown inconsistent results regarding the impact of political connections on profits quality indicates that this relationship is complicated and heavily reliant on institutional context, the efficiency of oversight, and corporate governance structure.. Thus, although political connections theoretically have the potential to increase firm stability and support earnings quality, the empirical results of this study indicate that there is no significant difference in earnings quality between politically connected and non-connected firms. This underscores the importance of robust oversight and regulatory systems in maintaining the integrity of corporate financial reporting.

These results can be explained by several contextual factors. First, the manufacturing sector tends to have a more standardized operational and regulatory structure compared to other sectors, such as finance or mining, thereby limiting the scope for political connections to be used for earnings manipulation. Second, during the 2020–2022 period, companies faced significant pressure due to the COVID-19 pandemic, which compelled management to shift their focus toward operational efficiency and business continuity, rather than leveraging political connections. Third, the tightened oversight by the Financial Services Authority (OJK) and the Indonesia Stock Exchange (IDX) during the pandemic may have further reduced the influence of political connections on financial reporting.

Family Ownership Has a Positive Effect on Earnings Quality

A partial test of the family ownership variable (FAMOWN) in the moderation model produced a significance value of 0.8035, indicating that this variable does not have a significant effect on earnings quality. Accordingly, the **second hypothesis (H_2) is rejected**, which posits that family ownership has a positive effect on earnings quality, is not statistically supported and is therefore rejected..

This finding contrasts with a number of earlier research that indicated family ownership had a favorable impact on earnings quality. (Dewi, 2017; Jao et al., 2024). This inconsistency can be explained from two perspectives. First, although agency theory suggests that family ownership can reduce agency costs by enhancing internal monitoring (Dharmawan & Wijaya, 2020). excessive family dominance may also create an entrenchment effect, namely a tendency to protect personal interests and neglect minority shareholders (Putri & Setiawati, 2022). Second, the opportunistic nature of family firms may not always align with the principles of transparency, especially when the control structure is overly centralized.

As noted by (Hashmi et al., 2018), under certain conditionsInstead of enhancing the caliber of financial reporting, family businesses may use managerial control to manipulate earnings in order to hold onto power. As a result, family ownership's effect on earnings quality is very contextual and contingent upon the governance framework and cultural norms that the company has established.

Contextual explanations for this insignificance also warrant consideration. Although family ownership is expected to enhance internal monitoring, in practice, the dominance of families in management can lead to protective or opaque decision-making. In the manufacturing sector, which typically features a hierarchical and capital-intensive organizational structure, strategic decisions depend not only on ownership structures but also on the firm's ability to adapt to market and technological dynamics. In the post-pandemic context, these factors have become more decisive than the influence of ownership structure.

Family Ownership as a Moderator of the Effect of Political Connections on Earnings Quality

The findings of the t-test on the variable that examines the relationship between family ownership and political connections (INTERACTION) show a coefficient value of -0.019004 with a significance level (p-value) of 0.0073, which is below the 5% significance threshold ($\alpha = 0.05$). This finding statistically indicates that family ownership significantly moderates the relationship between political connections and earnings quality, thereby supporting Hypothesis Three (H_3). The negative coefficient suggests that in firms with political connections, the presence of family ownership further deteriorates earnings quality. In other words, a higher proportion of family ownership strengthens the adverse effect of political connections on earnings quality.

This result contradicts the initial assumption that family ownership serves as an internal monitoring mechanism that helps reduce agency costs. On the contrary, the findings are consistent with

Hashmi et al., (2018) who argue that in certain contexts, family-controlled firms may abuse internal control mechanisms to reinforce political connections for private gain, including through earnings manipulation. This aligns with the entrenchment effect in agency theory, which posits that managers or controlling owners may exploit their authority to maintain control and protect their private interests, even at the expense of financial reporting quality (Braam et al., 2015).

In the manufacturing sector, where firms tend to have capital-intensive structures and high supply chain complexity, strategic decision-making is often centralized within the core management team, which frequently includes members of the controlling family. When political connections are leveraged alongside family dominance, the potential for collusion among internal parties increases. In such a context, controlling families may utilize political power not to promote operational efficiency or accountability, but rather to maintain control and pursue private benefits, including through earnings reporting practices.

Furthermore, during the 2020–2022 period, the economic pressures brought on by the pandemic encouraged firms to adopt a more conservative approach in managing their financial image. Families directly involved in management may have chosen to use political influence as a means of maintaining external stability while engaging in opportunistic practices behind the scenes, ultimately leading to a decline in earnings quality. This suggests that when two forms of power—political and familial—converge within a single entity, control mechanisms may be weakened rather than strengthened.

From an agency theory perspective, these results suggest that family ownership structure does not always function as an effective mechanism to mitigate agency conflicts. Instead, when combined with political connections, family control may facilitate collusion between agents (managers) and dominant owners (families), thereby increasing the likelihood of accounting information distortion. Thus, the simultaneous presence of political connections and family ownership does not reduce, but rather exacerbates agency costs and undermines earnings quality.

CONCLUSION

This study aims to examine the effect of political connections on earnings quality and the moderating role of family ownership in manufacturing firms listed on the Indonesia Stock Exchange (IDX) during the 2020–2022 period. Based on the results of regression analysis, political connections were found to have no significant effect on earnings quality. This finding indicates that the presence of political connections within a company does not necessarily enhance or diminish earnings quality directly. Similarly, family ownership was also found to have no direct effect on earnings quality. Accordingly, the first and second hypotheses of this study are not supported by the empirical data. However, Family ownership and political connections have a substantial detrimental impact on the quality of earnings.. In this case, the higher the proportion of family ownership in politically connected firms, the lower the resulting earnings quality. This finding supports the third hypothesis and illustrates the presence of an entrenchment effect, wherein dominant family control amplifies the adverse impact of political connections on financial reporting.

The implications of this study offer a significant contribution to the development of agency theory in the context of developing countries, particularly in understanding the complex interplay between political power and family ownership structures in relation to financial reporting transparency.

Practically, the findings suggest the need for improved corporate governance mechanisms that are more adaptive to internal power dynamics. For regulators such as the Financial Services Authority (OJK) and the Indonesia Stock Exchange (IDX), this study provides a basis for formulating more targeted oversight policies for firms with concentrated ownership structures and political affiliations. For instance, by requiring more detailed disclosures regarding the political backgrounds of owners and board members, and by strengthening reporting systems that can detect potential accrual manipulation.

For company management, it is essential to establish independent internal control systems, even in the presence of political connections or family ownership structures. The application of governance principles grounded in transparency and accountability remains a key element in maintaining the quality of financial information. This study, however, is subject to several limitations. First, the observation period spans only three years (2020–2022), which represents a transitional phase following the pandemic and may not fully capture long-term structural conditions. Second, the political connection variable is measured using a binary dummy approach, which does not reflect the intensity or specific forms of political ties. In light of these limitations, future research is encouraged to extend the observation period in order to capture a more comprehensive picture of the dynamics among variables. Subsequent studies may also consider incorporating additional dimensions, such as board effectiveness, institutional ownership, or audit quality, as relevant variables influencing earnings quality.

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