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BLOCKHOLDERS AND DEBTHOLDERS PRESSURE ON EARNINGS MANAGEMENT: EVIDENCE FROM INDONESIA

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ABSTRACT

This study investigates the effect of blockholders and debtholders pressure on earnings management behavior. Both have potential conflicts of interest. Blockholders want dividends, and debtholders want payments and interest on their receivables. This study uses multiple linear regression to analyze 1,665 firm-year observations from the Indonesia Stock Exchange for the period 2013-2019. We find that blockholders have a significant positive effect on earnings management, indicating that blockholders tend to encourage management to manipulate earnings so that the company's performance looks good and the right to dividends will be better. Otherwise, debtholders have a significant negative effect on earnings management. It indicates that debtholders do not want earnings manipulation because, through debt covenants, they are safe with certainty in paying debts and interest. Meanwhile, for blockholders, debt covenants are a pressure because they have limited dividend payments. This study has complemented the previous perspective, where conflicts occur between blockholders and management, blockholders and minorities. This study shows that conflicts occur between blockholders and debtholders.

KEYWORDS: Blockholders; Debtholders; Debt Covenants; Earnings Management.

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INTRODUCTION

Earnings manipulation is still a concern among researchers. In 2019, the public was shocked by an overstated profit of USD 239.94 million in Garuda, an Indonesian airline company (Ahalik, 2019). Similarly, Jiwasraya inflated its 2017 profit by not allocating the $ 574.71 million loss allowance (Ulya, 2020). Such manipulation of accounting numbers is conceivably just a reflection of conflicts between parties within the companies, i.e., shareholders (principals), managers (agents), and creditors (debtholders) (Becker & Stromberg, 2012; Jensen & Meckling, 1976). The management is expected to adopt financial policies that benefit shareholders and debtholders through dividend and leverage policies. However, potential conflicts can occur when the company experiences financial difficulties (Keswani et al., 2020) around dividend policy (Jensen & Meckling, 1976) and debt payment. Paying too high dividends can reduce assets for debt repayment (Ardison et al., 2012), thus placing the position of debtholders at a loss. Debtholders prioritize paying off debt and limiting dividend payments on the profits generated by the company after the loan is granted. Debtholders prioritize paying off debt and limiting dividend payments on the profits generated by the company after the loan is granted (Brigham & Houston, 2011).

Jensen (1986) suggested that leverage increases restrictive opportunistic behavior for several reasons. The first, leverage is required to repay debt, thereby reducing the cash available to management for non-optimal spending. Second, when a company uses debt financing, it is supervised by lenders and often subject to spending restrictions by lenders. However, many studies have investigated the debt covenant hypothesis that managers make accounting choices to reduce accounting-based debt covenant violations. However, research in this area proves that this hypothesis remains primarily mixed (Dichev & Skinner, 2002).

On the other hand, the monitoring role of large block shareholders (blockholders) can minimize agency problems (Jensen, 1993; Klein, 2002; Gillan & Starks, 2003; Demiralp et al., 2011; Korkmaz et al., 2017; Reyna, 2018). Conversely, other literature shows, controlling shareholders can pressure managers to act opportunistically and use the company for personal gain from the minority shareholders when their interests exceed a certain threshold (Shleifer & Vishny, 1997; La Porta et al., 1999)

This study tested the conflict between blockholders and debt holders on incentives to manage earnings. Debtholders may put restrictions for the management to use cash for dividends, an incentive that conflicts with the blockholders. Few studies have focused on the interplay between blockholders and debtholders in earnings management. Therefore, this research is expected to give a new perspective on the involvement of blockholders and debt holders concurrently in earnings management.

Hypothesis Development

The emergence of concentrated or blockholders ownership is indicated by the dominance of shareholders in controlling the company and influencing organizational goals (Thomsen & Pedersen, 2000). They are considered a sign of strong corporate governance by either internal or external blockholders (Korkmaz et al., 2017). However, external blockholders are considered an effective control mechanism because they can influence management activities with their shareholdings (Klein, 2002; Gillan & Starks, 2003; Demiralp et al., 2011; Reyna, 2018). They can intervene in operational activities or threaten to leave with voting rights by selling shares (Edmans, 2009).

According to Holderness (2003), the emergence of blockholders is motivated by: (1) shared benefit of control, where they have incentives and opportunities to increase the expected cash flow for all shareholders; (2) private benefits of control, where they have incentives and opportunities to consume benefits for themselves. So that in the literature, two perspectives explain the effect of concentrated ownership (blockholders) on earnings management: the alignment of interest and entrenchment (Lassoued et al., 2018). The alignment of interest states that blockholders have a strong incentive to monitor efficiently and influence company management to protect their interests. They are an effective control mechanism in the financial reports (Bedard et al., 2004; Bos & Donker, 2004; Yeo et al., 2020) and effectively control managers who carry out earnings overstatements (P.M. Dechow et al., 1996). Empirically, several studies show that blockholders or concentrated ownership have a negative effect on earnings management (Alves, 2012; Usman & Yero, 2012; Grimaldi & Muserra, 2017; Farouk & Bashir, 2017; Farouk & Bashir, 2017; Amir et al., 2019).

Furthermore, from the entrenchment perspective, concentrated shareholders have substantial control to influence managers and take advantage of the weak control of minority shareholders (Shleifer & Vishny, 1997; La Porta et al., 1999). When companies perform poorly, blockholders press managers to improve performance and maintain earnings stability (Ely & Song, 2000; Zhong et al., 2007). They intervene and encourage managers to earn management to maximize their benefits (Jaggi & Tsui, 2007). Several studies also prove that blockholders or concentrated ownership positively affect earnings management (Zhong et al., 2007; Kim & Yoon, 2008; Lassoued et al., 2018). Based on the two perspectives above, the following hypothesis is proposed.

According to Claessens et al., 2000, controlling has a pyramid structure in Indonesia and other East Asian countries (such as Hong Kong, Japan, South Korea, Malaysia, Philippines, Singapore, Taiwan, and Thailand). They found that half of the East Asian companies were family-controlled. In other words, many blockholders are owned by families, including in Indonesia. According to Le (2017), larger family companies use debt financing than no-family companies. Companies with more significant debt financing tend to get more pressure from debtholders. When this happens, blockholders tend to protect their interests by putting pressure on management. Therefore, the proposed hypothesis is as follows.

H_1: *Blockholders have a positive effect on earnings management behavior*

Researchers have two perspectives on the relationship between debt and earnings management. First, the debt covenant perspective argues that debt positively affects earnings management. Many researchers investigate the role of the covenants contract between debtholders and company borrowers. Debt contracts that make covenants a threshold function of financial ratios give borrowers an incentive to change accounting methods to avoid the cost of covenant violations (Watts & Zimmerman., 1986). Debtholders generally contract debt covenants with restrictions such as a minimum debt to equity ratio, maximum dividend payments to shareholders, and others. The limitation contained in the debt contract is dreadful for management. Person (1999) indicated that higher leverage possibility violates the debt covenant. Management takes opportunistic actions to avoid debt covenants. Therefore, the financial condition that causes the company in a position of the debt covenant violation can be an incentive for managers to carry out earnings management (Dichev & Skinner, 2002; Beatty & Weber, 2003; Iatridis & Kadorinis, 2009; Chamberlain et al., 2014; Lazzem & Jilani, 2017).

Second, the perspective of free cash flow believes that debt has a negative effect on earnings management. Based on agency theory, debtholders are effective monitoring (Jensen & Meckling, 1976); and free cash flow theory, proposed that debt creation reduces the opportunistic behavior of managers (Jensen, 1986). Managers use discretion to control their free cash flow. However, the role of the debtholder begins when the manager must pay principal and interest. The implication is a restriction on managers to manipulate earnings. It is supported by the findings of Jelinek (2007) that increasing leverage will reduce earnings management, especially when high free cash flow and low-growth companies. Other researchers have proven that debt levels are negatively correlated with earnings management (see, Wasimullah et al., 2010; Alsharairi & Salama, 2011; Zamri et al., 2013; Afza & Rashid, 2014).

In Indonesia, the largest debt holders are commercial banks, namely 57.41% of all funding sources (Pratiwi, 2019). According to Claessens et al., (2000), companies in East Asian countries, including Indonesia, are more controlled by families. Family companies use debt more than non-family companies in Southeast Asia, including Indonesia (Le, 2017). Consequently, the capital structure of companies in Indonesia is dominated by debt (Soleman, 2008). This dominance has pushed the rules to protect the interests of debt holders or creditors in Indonesia so that debtors cannot take legal action when entering into agreements (Anwar, 2014). Therefore, debtholders will control and restrict free cash flow to management. Finally, management tries hard to pay off debt and avoids opportunism because debtholders supervise it. Based on the above study, the proposed hypothesis is as follows.

H_2: *Debtholders have a negative effect on earnings management behavior.*

METHOD

Sample and Data Collection

The study selected public companies listed on the Indonesia Stock Exchange (IDX) between 2015-2019. In 2019, there were 668 companies listed on IDX. The researchers excluded 90 companies from financial sectors (Banks, Consumer Financing Institutions, Venture Capital, Investment Services, Insurance, and Holdings Companies) because financial sectors had different characteristics and regulations from companies in general (Zhong et al., 2007; Korkmaz et al., 2017). The researchers also excluded 109 companies suspended from trading and 136 missing annual reports. After this selection, the researchers employed 333 companies as a final sample or 1,665 company-year observations.

Measurement of Earnings Management

This study uses discretionary accruals proxy to capture earnings management behavior. Discretionary accruals use the Jones model (Jones, 1991) as modified by Dechow *et al.* (1995), which is widely used in earnings management research (Jaggi & Tsui, 2007; Kasznik, 1999; Perols & Lougee, 2011; Alves, 2012). In addition, many researchers state that discretionary accruals are the most powerful estimation model compared to other existing models (Ashbaugh et al., 2003; Guay et al., 1996; Jaggi & Tsui, 2007). The Jones Model is modified as follows:

$$TACC_{i,t} = NI_{i,t} - CFO_{i,t} \quad (1)$$

$$\frac{TACC_{i,t}}{A_{i,t-1}} = \beta_1\left(\frac{1}{A_{i,t-1}}\right) + \beta_2\left(\frac{\Delta Rev_{i,t}}{A_{i,t-1}}\right) + \beta_3\left(\frac{PPE}{A_{i,t-1}}\right) + \varepsilon_{i,t} \quad (2)$$

$$\frac{NDACC_{i,t}}{A_{i,t-1}} = \beta_1\left(\frac{1}{A_{i,t-1}}\right) + \beta_2\left(\frac{\Delta Rev_{i,t} - \Delta Rec_{i,t}}{A_{i,t-1}}\right) + \beta_3\left(\frac{PPE}{A_{i,t-1}}\right) + \varepsilon_{i,t} \quad (3)$$

$$DACC_{i,t} = TACC_{i,t} - NDACC_{i,t} \quad (4)$$

Where:

$DACC_{i,t}$ = discretionary accruals for company i in year t

$TACC_{i,t}$ = total accruals for company i in year t

$NDACC_{i,t}$ = non-discretionary accruals for company i in year t

$NI_{i,t}$ = net Income for company i in year t

$CFO_{i,t}$ = cash flow operating for company i in year t

$A_{i,t}$ = total assets for company i in year t

$\Delta Rev_{i,t}$ = change in revenue for company i in year t

$\Delta Rec_{i,t}$ = change in receivables for company i in year t

$PPE_{i,t}$ = gross property, plant and equipment for company i in year t

$\varepsilon_{i,t}$ = residual for company i in year t.

Measurement of blockholders and debtholders

Blockholders are large shareholders whose ownership is at least 5% of the outstanding shares (Agrawal & Knoeber, 1996; Klein, 2002; Thomsen et al., 2006; Zhong et al., 2007; Krishnan & Lee, 2009; Dou et al., 2016), but not top officers and the board of directors (Zhong et al., 2007). The shareholders have a more significant proportion of the company's shares than others (Baryeh, 2014; Akbarali, 2017). Blockholders can be institutions such as insurance companies, pension funds, banks, investment companies, or individuals such as outside investors or company managers (Korkmaz et al., 2017). In this study, the blockholders measurement used three proxies: (1) the most significant percentage of share ownership (Mcconnell & Servaes, 1990); (2) the percentage of all blockholders (Mcconnell & Servaes, 1990); and (3) number of blockholders.

Debtholders are investors who hold debt instruments. These investors can be individuals, banks, and other institutions. The more funds loaned by debtholders to the company, the greater the pressure on the company. Debt pressure is reflected in debt agreements that the company must comply with. Skousen et al. (2009) claimed that the ability to meet listing requirements, pay debts, or meet debt covenants are widely recognized sources of external pressure. Hence, according to Skousen et al. (2009), leverage is an appropriate proxy of external pressure. Leverage is measured by total debt divided by total assets, where this comparison shows the number of assets used to guarantee a debt.

Regression model

We used discretionary accruals to proxy the earnings management dependent variable. The following regression model to test the effect of blockholders and debtholders on earnings management, after controlling for other factors identified by prior studies:

$$DACC_{it} = \alpha + \beta 1BLCK_{it} + \beta_2 DEBH_{it} + \beta_3 SIZE_{it} + \beta_4 ROA_{it} + \beta_5 BIG4_{it} + \beta_6 GROW_{it} + \beta_7 BENC_{it} + \beta_8 MB_{it} + \varepsilon_{it} \quad (5)$$

DACC is the discretionary accruals; BLCK is blockholders; DEBH is Debholder; and control variables are SIZE, ROA, BIG4, GROW, BENC, and MB. Meanwhile, SIZE is the company size using the natural log of total assets. Large companies tend to report high-quality earnings because they focus on analysts' and investors' attention (Chen et al., 2005). Previous studies have shown a positive relationship between company size and earnings management (Nalarreason et al., 2019; Ali et al., 2015). ROA is profitability as measured by net income divided by total assets. It is used as a control variable because company performance affects earnings management choices (Cohen et al, 2008). BIG4 is the dummy variable, coded 1 if Big4 audits the company and 0 otherwise. Francis & Yu (2009) described that the companies audited by Big4 show lower earnings management behavior. MB is market to book, stock market price divided by book value (McGuire et al., 2012). BENC is Benchmark; if net income divided by total assets is greater than or equal to 0 and less than 0.01 ($0 \leq$ net income / total assets < 0.01), it is coded 1 and 0 otherwise (McGuire et al., 2012). The last GROW is the growth rate (sales in year t - sales in year t-1) / sales in year t-1. Companies with higher growth opportunities tend to reduce profits (Belkaoui, 2001). It means growth is positively associated with earnings management (Lee et al., 2006; Haw et al., 2004)

RESULTS AND DISCUSSION

Descriptive statistics

Table 1 shows descriptive statistics of the variables. The mean of discretionary accruals (DACC) is -0.003, ranging between -0.874 to 1.687. BLCK1, as the first proxy of blockholders, the top blockholders of the companies have a mean of 51.7 percent of shares. The range is between 7.2 to 99.6 percent. BLCK2 is the second proxy for blockholders, the total shares owned by all blockholders in each company has a mean of 68.8 percent, ranging between 7.2 and 100 percent. The last, BLCK3, as the third proxy of blockholders, has a mean of 1.762 with a range of 1 to 5.

Tabel 1. Descriptive statistics

Variables	Minimum	Maximum	Mean	Std. Deviation
DACC	-0.874	1.687	-0.003	0.133
BLCK1	0.072	0.996	0.517	0.217
BLCK2	0.072	1.000	0.688	0.195
BLCK3	1.000	5.000	1.762	0.883
DEBH	0.008	8.308	0.512	0.453
SIZE	9.154	19.679	15.012	1.641
ROA	-2.847	2.192	0.027	0.151
BIG4	0.000	1.000	0.397	0.489
GROW	-16.945	67.429	0.163	2.068
BENC	0.000	1.000	0.096	0.295
MB	-6.186	17.714	1.720	2.044
Number of observations 1,665				

DEBH is a debtholder that provides loan funds to companies. Debtholder pressure is proxied with leverage. This study demonstrates that the company's leverage has a means of 0.512 with a range between 0.008 to 8.308. The control variable, which includes profitability (ROA), shows that the company has earned an average return on assets of 2.7 percent; big4 has an average of 0.397, indicating that only 39.7 percent were audited of the sample big4. Growth (GROW) has an average annual sales of 16.3 percent; the company has an average market price (MB) with a value of 1.72 from its book value with a benchmark (BENC) of 9.6 percent.

Correlation

Table 2 presents the Pearson correlation coefficient between variables. The correlation between the dependent and independent variables, where DACC has a significant correlation with BLCK1 and BLCK2 (ϱ = 0.05). DACC is also significantly correlated with DEBH, SIZE, ROA, and GROW (ϱ = 0.01). Furthermore, the correlation between independent variables and BLCK1, BLCK2, and BLCK3 is relatively higher than between other independent variables. It is reasonable because they are proxies of a blockholder variable. Therefore, the discretionary accrual regression test with variables BLCK1, BLCK2, and BLCK3 is processed gradually into four models to avoid collinearity problems (table 3). Other independent variables, SIZE has a significant correlation with BLCK2, BLCK3 (ϱ = 0.01), and DEBH (ϱ = 0.05). ROA has a significant correlation with BLCK1, BLCK3, DEBH, and ZISE (ϱ = 0.01). BIG4 has a significant correlation with BLCK1, BLCK2, BLCK3, SIZE, and ROA (ϱ = 0.01). BENC has a significant correlation BLCK1, BLCK2, BIG4 (ϱ = 0.01), and ROA (ϱ = 0.05). Whereas MB has a significant correlation with DEBH, SIZE, ROA, BIG4, and BENCH (ϱ = 0.01).

Analisis yang dilakukan dengan menggunakan data tingkat pengembalian yang bersifat bulanan. Cara penentuan tingkat pengembalian realisasi dan harapan yaitu dengan melihat nilai tertinggi, rata-rata, terendah pada tahun 2018-2020. Hasil perhitungan ditunjukkan pada tabel berikut ini

Variables	DACC	BLCK1	BLCK2	BLCK3	DEBH	SIZE	ROA	BIG4	GROW	BENC	MB
DACC	1										
BLCK1	0.054*	1									
BLCK2	0.054*	0.642**	1								
BLCK3	-0.004	-0.657**	0.057**	1							
DEBH	-0.108**	-0.019	-0.017	-0.001	1						
SIZE	0.099**	0.007	-0.115**	-0.096**	-0.053*	1					
ROA	0.553**	0.098**	0.046	-0.085**	-0.088**	0.131**	1				
BIG4	0.052	0.152**	0.112**	-0.107**	-0.047	0.388**	0.168**	1			
GROW	0.066**	0.002	-0.014	-0.023	0.044	0.047	0.016	-0.020	1		
BENC	0.013	-0.071**	-0.068**	0.022	-0.028	-0.039	-0.049*	-0.077**	-0.005	1	
MB	0.037	0.016	0.005	-0.020	-0.121**	0.087**	0.233**	0.127**	-0.003	-0.087**	1

Tabel 2. Correlation matrix

**Correlation is significant at the 0.01 level (2-tailed). *Correlation is significant at the 0.05 level (2-tailed)

Furthermore, the highest correlation was the correlation between the variables BLCK1 and BLCK3 (r = 0.657), while the lowest correlation was between DEBH and BLCK3 (r = -0.001). No correlation coefficient exceeds 0.90, so there is no threat and collinearity problem (Hair, 2009; Tabachnick et al., 2001). In diagnosing the problem of collinearity in regression, this study uses multicollinearity indicators with Variance Inflation Factor (VIF). The VIF presented in table 3 is all less than two, indicating that multicollinearity is not a problem (Johnston, 1984).

Based on the results of multiple linear regression in table 3, we find a significantly positive relation between blockholders and earnings management except for the first model. Where, the second model has a significant positive effect (β = 0.029; ϱ = 0.05). The third model is significantly positive (β = 0.006; ϱ = 0.05). Based on the second and third models, the first hypothesis is supported. Furthermore, we found a significant negative relationship between

debtholders and earnings managements for all model (model 1, 2, 3; β = -0.021; ϱ = 0.01). Hence, the second hypothesis is supported.

Variables	(1) Coefficient (p-value)	VIF	(2) Coefficient (p-value)	VIF	(3) Coefficient (p-value)	VIF
BLCK1	0.004 (0.734)	1.038				
BLCK2			0.029 (0.039)**	1.050		
BLCK3					0.006 (0.035)**	1.020
DEBH	-0.021 (0.001)***	1.024	-0.021 (0.001)***	1.025	-0.021 (0.000)***	1.024
SIZE	0.004 (0.034)**	1.195	0.004 (0.015)**	1.228	0.004 (0.020)**	1.203
ROA	0.502 (0.000)***	1.095	0.501 (0.000)***	1.090	0.505 (0.000)***	1.091
BIG4	-0.014 (0.023)**	1.238	-0.015 (0.011)**	1.243	-0.013 (0.035)**	1.215
GROW	0.004 (0.005)***	1.007	0.004 (0.005)***	1.006	0.004 (0.004)***	1.007
BENC	0.013 (0.158)	1.018	0.014 (0.128)	1.018	0.013 (0.167)	1.015
MB	-0.006 (0.000)***	1.085	-0.006 (0.000)***	1.085	-0.007 (0.000)***	1.085
R^2	0.327		0.329		0.329	
F	100.77		101.54		101.72	
Sig (F)	0.000		0.000		0.000	
Observations	1,665					

Tabel 3. Multiple Regression

Notes: *Significant at 10%; **Significant at 5%; ***Significant at 1%

These results indicate that when the company is in a state of poor performance and high debtholders pressure, blockholders will pressure managers to make performance appear better. Based on table 1, the profitability has an average of 2.7 percent. It shows that the company's performance is less good. According to Hargrave (2021), the criteria of companies' performance with ROA of over 5 percent are generally considered good, and over 20 percent are excellent. Debtholders also reveal high pressure, namely an average of 51.2 percent. The higher the level of debt, the more the company will experience financial distress (Hanifah & Purwanto, 2013; Antikasari & Djuminah, 2017). If the company is in a state of financial distress, there is a conflict between debt and equity holders (Keswani et al., 2020; Becker & Stromberg, 2012).

Furthermore, this condition implies that dividends and returns for blockholders will be increasingly depressed. Free cash flow will continue to flow to debtholders in the form of principal and interest payments as agreed, thereby reducing dividends. In the stock market, the stock price will be depressed if the company's performance is not good and the debt burden is very high. Under these conditions, blockholders with strong control have incentives for earnings management behavior to protect their interests. This study shows that blockholders have a significant positive effect on earnings management, especially in the second and third proxies (see table 3).

This result follows the entrenchment perspective, arguing that controlling shareholders act opportunistically for personal interests (Lassoued et al., 2018). This situation occurs when the company performs poorly so that blockholders pressure managers to improve performance (Ely & Song, 2000; Zhong et al., 2007). These results are consistent with previous findings that there is a positive correlation between blockholders and earnings management (Ely & Song, 2000; Zhong et al., 2007; Kim & Yoon, 2008; Lassoued et al., 2018; Jiang et al., (2020)

In addition, this study also proves that debtholders have a negative effect on earnings management. This shows that the higher the debtholders, the higher their control of earnings management behavior. When the loans given by debtholders to the company increase, the control carried out by debtholders, get tighter, especially when the company has poor performance. This pressure has an impact on the decline in earnings management behavior. Debtholders have an interest so the right to payment of principal and interest is by the debt agreement. This is in line with agency theory, where debtholders are effective monitoring (Jensen & Meckling, 1976); and free cash flow theory, which proposed that debt creation reduces the opportunistic behavior of managers (Jensen, 1986). This result is consistent with previous findings that debt given by debtholders proxied by leverage negatively affects earnings management (Beatty & Weber, 2003; Jelinek, 2007; Wasimullah et al., 2010; Alsharairi & Salama, 2011; Zamri et al., 2013; Afza & Rashid, 2014).

For control variables, all of them are significantly correlated with discretionary accruals except for benchmarks. Firm size, profitability, and growth have a significant positive effect on accrual discretion (ϱ = 0.05; 0.01; 0.01). It indicates that the bigger the company, the more it grows, and the better profitability encourages management to maintain better. This condition will encourage management to opportunistic behavior so that the company looks good in the eyes of investors. On the other hand, big4 auditors and market-to-book value significantly negatively affect earnings management (ϱ = 0.05). These results provide a finding that reputable auditors can minimize earnings management actions. Likewise, the market-to-book value, indicates that the market's attention and trust are improving. Ultimately, the company becomes the center of attention and monitoring of investors so that management does not carry out earnings management.

CONCLUSION

The objective of this study is to examine the relationship between blockholders and debtholders to earnings management. Prediction is estimated to determine whether controlling blockholders in Indonesia leads to the perspective of entrenchment or alignment. This study signified that blockholders have a positive correlation with discretionary accruals. These results support the entrenchment perspective, where blockholders have encouraged earnings management to protect their interests. Furthermore, this study also shows that debtholders are negatively correlated with

discretionary accruals. This study is consistent with the perspective and theory of free cash flow, where managers have control of free cash flow, but they have restrictions since they have debt. For debtholders, controlling and pressure on debt covenants must be strictly so that the allocation of free cash flow for principal and interest payments is fluent. This result is consistent with previous research that debtholder pressure as an external party proxied by leverage can reduce earnings management actions.

This study has a limitation, where the earnings management estimation was not done separately for each industry and year to meet the differences in the coefficients, which are contingent on the industry and year (DeFond & Jiambalvo, 1994). To this end, industry classification may have a significant effect on the earnings management measure. In addition, this study ignores factors or conditions that cause blockholders and debtholders to have a gap of interest, for example, the company's financial condition. To complete this study, it is hoped that future research will include a moderating variable of financial pressure to capture the condition of the company.

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