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DOI: [10.22219/jrak.v15i2.35620](https://doi.org/10.22219/jrak.v15i2.35620)

Citation:

Kartikasari, L., Indriastuti, M. (2025). Manager Characteristics and Internal Control Disclosure: The Moderating Role of Manager Incentives. *Jurnal Reviu Akuntansi Dan Keuangan*, 15(2), 481-495.

Article Process

Submitted:

August 7, 2024

Reviewed:

September 21, 2024

Revised:

May 21, 2025

Accepted:

July 3, 2025

Published:

July 3, 2025

Office:

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Jalan Raya Tlogomas 246,
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P-ISSN: 2615-2223

E-ISSN: 2088-0685

Article Type: Research Paper

MANAGER CHARACTERISTICS AND INTERNAL CONTROL DISCLOSURE: THE MODERATING ROLE OF MANAGER INCENTIVES

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ABSTRACT:

Purpose: This study examines whether manager incentives strengthen the influence of managerial entrenchment and concurrent interest in internal control disclosure.

Methodology/approach: The sample comprises 633 non-financial companies on the Indonesia Stock Exchange in 2020 - 2022. It was selected using the purposive sampling technique, with the criteria that the internal control system be described in the Corporate Governance section. The analysis technique used is Moderating Regression Analysis.

Findings: The study results indicate that managerial entrenchment and convergent interest affect internal control disclosure. Managerial incentives strengthen the effect of concurrent interest on internal control disclosure. However, managerial incentives do not enhance the impact of managerial entrenchment on internal control disclosure. The results of this study provide implications that can be the basis for the government, through the Financial Services Authority (OJK), to create mandatory regulations for public companies to disclose internal control in annual financial reports.

Practical implications: Companies must pay attention to manager incentives and manager characteristics, such as managerial entrenchment and convergent interests, to support public disclosure of internal control.

Originality/value: This study is the first to examine the moderating effect of manager incentives in strengthening the influence of managerial entrenchment and convergent interest on internal control disclosure in non-financial companies on the Indonesia Stock Exchange.



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Keywords: Convergent Interest; Internal Control; Managerial Entrenchment; Managerial Incentives

ABSTRAK

Tujuan penelitian: Penelitian ini bertujuan untuk menguji apakah insentif manajer memperkuat pengaruh managerial entrenchment dan convergent interest terhadap pengungkapan pengendalian internal

Metode/pendekatan: Sampelnya adalah 633 perusahaan non-keuangan yang terdaftar di Bursa Efek Indonesia pada tahun 2020 – 2022. Sampel dipilih menggunakan Teknik purposive sampling dengan kriteria terdapat uraian mengenai sistem pengendalian internal pada bagian tata kelola Perusahaan. Teknik analisis yang digunakan adalah Moderating Regression Analysis.

Hasil: Hasil penelitian menunjukkan bahwa managerial entrenchment dan convergent interest berpengaruh terhadap pengungkapan pengendalian internal. Insentif manajer memperkuat pengaruh convergent interest terhadap pengungkapan pengendalian internal. Namun insentif manajer tidak memperkuat pengaruh managerial entrenchment terhadap pengungkapan pengendalian internal. Hasil dari penelitian ini memberikan implikasi dapat menjadi dasar bagi pemerintah melalui Otoritas Jasa Keuangan (OJK) untuk membuat aturan kewajiban bagi perusahaan publik mengungkapkan pengendalian internal pada laporan keuangan tahunan.

Implikasi praktik: Perusahaan harus memperhatikan insentif manajer dan karakteristik manajer seperti managerial entrenchment dan convergent interest untuk mendukung pengungkapan pengendalian internal pada publik

Orisinalitas/kebaharuan: Penelitian ini merupakan penelitian pertama yang menguji pengaruh moderasi insentif manajer dalam memperkuat pengaruh managerial entrenchment dan convergent interest terhadap pengungkapan pengendalian internal pada Perusahaan non-keuangan di Bursa Efek Indonesia.

Kata kunci: Convergent Interest; Insentif Manajer; Managerial Entrenchment; Pengendalian Internal

INTRODUCTION

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Internal control disclosure can be used to assess the quality of a company's internal control. By disclosing the implementation of internal control, the company can provide an overview of its reliable reporting system (Zhao et al., 2023). Disclosure of internal control can increase awareness among CEOs and top company officials about the importance of internal control, which can prevent more serious internal control problems (Li et al., 2024). The principle of disclosure and transparency states that companies must disclose all material information about themselves accurately and promptly. Transparent disclosure rules will reduce the imbalance of information so that the possibility of actions that can harm the company can be minimized. Internal control disclosure is a disclosure made by the company to reflect the effectiveness of internal control in an organization (Cheng et al., 2024).

The concept of the Sarbanes and Oxley Act (SOX) in the United States in 2002, among others, supports the statement of Sections 302 and 404, which contain the responsibility of company management for the Company's internal control. The Indonesian capital market authority responded to the issuance of the Sarbanes and Oxley Act (SOX) in 2002 by issuing Regulation Number VIII.G.11, the contents of which include requiring the company's directors to make a written statement on stamped paper that internal control is their full responsibility. Regulation VIII.G.11 differs from SOX 2002, where Regulation VIII.G.11 does not require management to assess the control report implemented on the financial statements and the approval of the external auditor.

In 2016, the Financial Services Authority issued Regulation Number 30/SEOJK.04/2016 on corporate governance, specifically regarding the description of the internal control system implemented by the company, issuers in the capital market must at least disclose financial and operational controls, compliance with other laws and regulations, and a review of the effectiveness of the internal control system. Such regulations only imply an explanation of the internal control implemented by the company, at least regarding financial and operational controls and compliance with legal regulations, as well as a review by the company concerning the effectiveness of the internal control system (Weli, 2018).

On May 20, 2024, the Audit Result Report (LHP) of the Investigation by the Audit Board of Indonesia (BPK) on the financial management of PT Indofarma Tbk (INAF) and its subsidiaries was submitted to the Attorney General of the Republic of Indonesia. The report revealed indications of significant irregularities that caused state losses of IDR 371.8 billion. This audit is a follow-up to the compliance audit conducted by BPK on the management of income, expenses, and investment activities of PT Indofarma from 2020 to the first semester of 2023. As a public company listed on the stock exchange, PT Indofarma Tbk (INAF) has an obligation to maintain transparency, accountability, and integrity in its financial management. Failure to supervise and implement internal control structures is one of the leading causes of this scandal. The Board of Commissioners and Directors of PT Indofarma failed to identify and handle the fraudulent practices that occurred, even though there had been indications since 2021. The identified fraudulent actions included misuse of company funds by senior executives, fraud in business transactions, and manipulation of the internal control system. Weak internal controls allow loopholes for company executives to carry out manipulative actions without being detected. The company's internal control system is insufficient to prevent and detect financial irregularities. Weak internal control structure oversight allows loopholes for company executives to carry out manipulative actions without being detected.

The results of the research study on the determinants of internal control disclosure show that several factors can affect the quality of internal control. These factors include corporate governance ([Ebaya et al., 2024](#); [Nalukenge et al., 2017](#); [Agyei & Agyei, 2016](#)), auditing ([Ye et al., 2023](#); [Khlif & Samaha, 2016](#); [Al Matari et al., 2017](#)) and corporate social responsibility ([Huang et al., 2022](#); [Kim et al., 2017](#); [Akisik & Gal, 2017](#)). However, the determinants of the manager's position as a party directly involved in achieving internal control disclosure have not been widely studied. In addition, the novelty in this study is to place the manager's incentive variable as a moderating variable. Based on agency theory, the manager's actions will always maximize his interests. Manager incentives are one of the reinforcements for managers to maximize their interests. In agency theory, there can be differences in interests between managers and shareholders. Managers will support the interests of shareholders if there are personal benefits to be obtained. The existence of heterogeneity in manager characteristics is strengthened by providing incentives, which will support and maximize company policies such as internal control disclosure.

In a company, if ownership and control are in different hands, then conflict will arise—the behavior of managers who prioritize their welfare results in losses for the company and shareholders. Moreover, if the manager has a number of shares in the company, managerial entrenchment behavior will appear in the manager. The attitude of the entrenched manager is more powerful and has a strong influence by prioritizing their interests. Conflicts of interest arise, one of which is due to managerial entrenchment ([DiMeo et al., 2017](#)). The managerial entrenchment variable is measured by the Classified Board, a board structure (board of commissioners) in which board members have different terms of office and where more important functions are usually held by board members who have served longer.

On the other hand, in the company, there are also managerial attitudes that align with shareholders. The manager's actions align with shareholders' interests, which is called convergent interests. Convergent interest results in management actions that help manage the company better. This is because shareholder decisions will be in line and followed up by managers. The convergent interest variable is measured using the manager's tenure proxy. Managerial tenure refers to the years an individual continues to hold a managerial position in a company ([Cai & Li, 2022](#)). Convergent interest supports managers' duties and responsibilities, such as achieving the company's internal control quality. Long manager tenure encourages decision-making that aligns with shareholder interests regarding disclosure of internal control information to the public.

This research is important because managers are responsible for establishing and maintaining an effective internal control structure. Top management must create a conducive climate in every part of the company by showing a high awareness of the need for quality internal control. This study is expected to contribute findings on the relationship between managerial entrenchment, convergent interest, and the quality of internal control that can be used as a reference by the government in Indonesia in making regulations regarding the company's obligations in disclosing internal control.

According to agency theory, companies with high agency costs will try to reduce them by increasing information disclosure ([Hossain et al., 1995](#)). However, if there is an agency problem, such as managerial entrenchment, it will hinder the disclosure of the information. Therefore, if not minimized, the high agency costs due to managerial entrenchment will cause losses, especially to shareholders. The manager's actions maximize his interests at the expense of other parties in a situation where the manager does not bear all the full consequences of his actions ([Cao et al., 2022](#)).

If a company has a classified board, which is a board structure (board of commissioners) with different terms of office and where more essential functions are usually held by board members who have served longer, the closer the relationship with the company's managers will be. The closeness of the relationship can provide power to the company's managers. Entrenched managers with discretionary power will find it easier to override and create weaknesses in internal control to increase their interests, such as placing managers in the same camp as them to sit on the board of commissioners. Hence, the board of commissioners is willing to compromise when the entrenched manager makes a decision

The stronger the managerial entrenchment in a company, the lower the quality of internal control ([Y. Liu, 2023](#)). The existence of managerial entrenchment will cause the quality of internal control to decline because internal control has weaknesses examined by external auditors. [Ananzeh \(2024\)](#) stated that managers with power and too confidence can disrupt the decision-making process related to internal control disclosure. Managers with high political positions and close to the government tend not to support internal control disclosure because they fear their position outside the company will be threatened ([Maqsood et al., 2024](#)). [Safari Gerayli et al., \(2021\)](#) and [Salehi et al., \(2021\)](#) found that managers with strong power in the company will increase the weaknesses of internal control, so as not to support the disclosure of internal control. This is because managers with strong power in the company prioritize their personal position, interests, and goals, so they do not care about the quality of the company's internal control ([Li et al., 2024](#)).

H1. Managerial entrenchment has a negative effect on internal control disclosure.

In agency theory, the bonding approach minimizes agency problems over manager behavior. Shareholders bind managers to have interests that are in line with their interests. Through the bonding approach, deviant manager behavior can be controlled and is expected to decrease so that the company's goals will be achieved in line with the interests of shareholders.

Longer tenure for managers is one way for shareholders to bind managers to create convergence of interests with shareholders. This is also a way for shareholders to protect their interests. The longer the tenure of a manager, the better the shareholders expect the manager to run the company. Managers who have held important positions in the company for a long time understand and comply with shareholder decisions because managers in such positions are more risk-averse, thus supporting increased internal control through public disclosure ([L. Liu, 2024](#)). Managers who work for a particular company for an extended period accumulate much company-specific knowledge and skills that are nontransferable and less valuable to other companies. Long tenure also allows managers to develop specific routines and habits unique to the company where the manager works.

Managers with long tenure must know the company's internal accounting and adequate internal control systems ([Muttakin et al., 2019](#)). The company effectively maintains accounting policies and internal control procedures when recording non-routine transactions. According to [Desir et al \(2024\)](#), when management risk is lower and the manager's tenure is longer, the manager is also responsible for the company's internal control quality.

Convergent interest supports the manager's tasks, which are their responsibility. These responsibilities include achieving the quality of the company's internal control. The longer the manager's term of office, the more it will encourage the creation of decision-making that aligns the interests of managers and shareholders, thereby supporting the disclosure of

internal control information to the public. Commitment and alignment of interests will support realizing the company's internal control quality. Research results by [Song & Zhu \(2023\)](#) found that the longer the manager's tenure, the more supportive it is of corporate information disclosure.

H2. Convergent interest has a positive effect on internal control disclosure.

Based on the 'economic man' hypothesis, the relationship between principal and agent in agency theory will trigger opportunistic management behavior ([Li et al., 2024](#)). Managers can exploit the information they obtain to increase their power and maximize their interests. Therefore, overcoming agency risk and establishing incentive mechanisms for managers are practical actions in corporate governance. Where the attitude of entrenched managers is more powerful and has a strong influence by prioritizing their interests. Managers with greater power are more willing to take risks and make bigger bets to obtain higher income, thus disrupting internal governance, including the company's internal control ([Guo et al., 2020](#)). Therefore, manager incentives can strengthen the relationship between managerial entrenchment and internal control quality.

H3. Manager incentives strengthen the influence of managerial entrenchment on internal control quality.

Convergent interests between managers and shareholders can increase the interests of both managers and shareholders. It is expected that with convergent interest, corporate governance will be better, thereby improving the quality of internal control. The length of time a manager holds office as a measure of convergent interest will increase the alignment of interests with shareholders, thereby supporting the disclosure of internal control. The longer a manager holds office, the higher the salary and incentive income ([Tang & Chang, 2024](#)). The higher the incentives managers receive, the stronger the influence of convergent interest on internal control disclosure. ([Masulis & Mobbs, 2023](#)) stated that managers will be more courageous in disclosing internal control items of the company to the public when supported by high incentives that managers will receive. Managers who hold positions for a long time will be more courageous in disclosing company information ([Song & Zhu, 2023](#)). This is because the manager already knows all the consequences and risks that must be faced and understands the company's management as a whole.

H4. Manager incentives strengthen the influence of convergent interest on internal control quality.

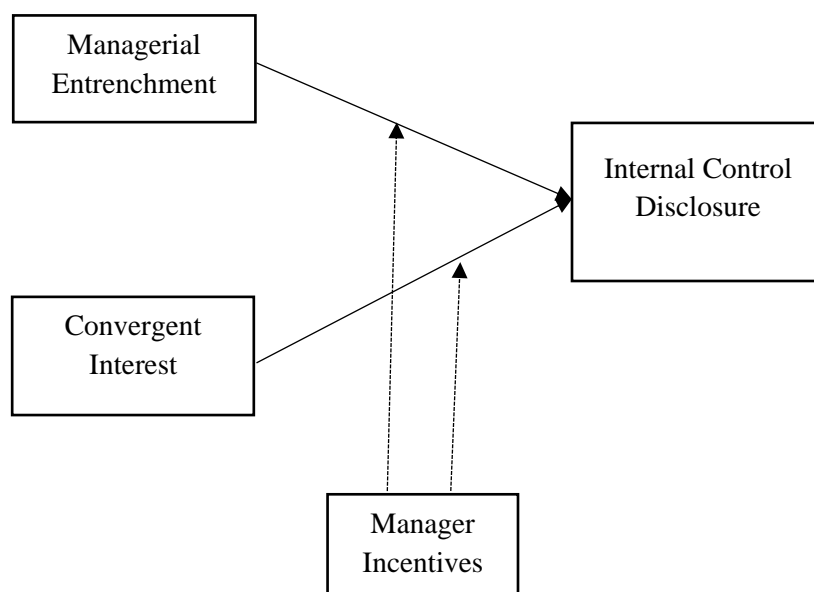


Figure 1.
Research
framework

487 METHODOLOGY

This study used causal research. The population in this study was all companies listed on the Indonesia Stock Exchange (IDX) with an observation period from 2020 to 2022. The sampling method used was purposive sampling, with the criteria that companies with a financial industry background were not used as research objects to avoid data bias due to differences in regulations between financial and non-financial companies regarding internal control systems and these companies published financial reports as of December 31 for the 2020 to 2022 financial years. The internal control system is described in the corporate governance section. Therefore, the number of samples in this study is 633 companies.

The analysis technique used in this study is Moderating Regression Analysis. The dependent variable in this study is internal control disclosure. Measurement of internal control disclosure variables in this study used an instrument that was built by [Deumes & Knechel \(2008\)](#), developed by [Poel & Vanstraelen \(2011\)](#), as well as [Weli \(2018\)](#) and adjusted to Capital Market Supervisory Agency (BAPEPAM) and Financial Institution regulations number Kep-431/BL/2012. An unweighted dichotomous scale is used to score each disclosure item made by the company. Each disclosure of an item will be given a value of 1 or 0 if the item is not disclosed. Furthermore, the scores for each item will be added up to obtain the total disclosure score for each company. The internal control disclosure index is calculated using the following formula:

$$ICDI = \frac{\sum_{ij} Ditem}{\sum_{ij} ADitem}$$

$\sum_{ij} Ditem$ = total score of internal control items disclosed

$\sum_{ij} ADitem$ = total score of internal control items that should be disclosed

Disclosure of information items on financial and operational control and compliance with other laws and regulations, as follows: Item A1. Description of Internal Control, Item A2. Internal Control Review, Item A3. Internal Control Object, Item A4. Internal Audit Function in the Company's internal control system, Item A5. Management risk activities, Item A6. Audit Committee, Item A7. Company Code of Ethics, Item A8. Whistleblower Policy, Item A9. Special risks, and Item A10. Significant changes to the internal control system. Disclosure of information items related to the review of the effectiveness of the internal control system, as follows: Item B1. Management statement on the effectiveness of the internal control system, Item B2. The role of the board of commissioners in the internal control system, Item B3. The audit committee's role in the internal control system, Item B4. The external auditor's role in the internal control system, Item B5. Management statement on assessing the quality of financial statements, Item B6. The board of commissioners discusses the internal control system at least once a year in a meeting, Item B7. Management responsibility related to implementing the internal control system, Item B8. There is a statement about the internal control system in the financial statements and Item B9. Internal control criteria, such as COSO.

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Independent variables include managerial entrenchment and convergent interest. The managerial entrenchment variable is measured by the Classified Board, namely a board structure (board of commissioners) in which board members have different terms of office and where more important functions are usually held by board members who have served longer, and alternatively, called rotating elections. If the election of the board of

commissioners is carried out in rotation, then the old members of the board of commissioners will oppose if an acquisition occurs. Because their positions are threatened, they can be replaced. So is the condition of the manager. Thus, the existence of classified boards will increase managerial entrenchment. A dummy variable represents the size of the classified board. Where the score is one if the appointment time of the members of the board of commissioners is different or not done at the same time. The opposite score is 0, namely if the appointment time of the members of the board of commissioners is different or done simultaneously. Convergent interest is the alignment of interests between managers and shareholders. Measurement of the convergent interest variable uses the proxy of manager tenure. Tenure measurement with dummy variables, where the score is one if the average manager in the sample company has a tenure of more than 5 years. The score is zero otherwise, if the average manager in the sample company has less than 5 years of tenure. The moderating variable in this study is manager incentives. The manager incentive variable is measured by the amount of manager incentives, such as salary, bonuses, and incentives managers receive in a year. The analysis technique used in this study was Moderating Regression Analysis. All variables, along with their indicators and scales, are shown in Table 1.

No	Variables	Measurement
1	Disclosure of internal control	ICDI = $\frac{\sum_{ij} \text{Ditem}}{\sum_{ij} \text{ADitem}}$ $\sum_{ij} \text{Ditem}$ = total score of internal control items disclosed $\sum_{ij} \text{ADitem}$ = total score of internal control items that should be disclosed
2	Managerial entrenchment	Dummy variables measured the Classified Board. Where the score is one if the appointment time of the members of the board of commissioners is different or not done at the same time. The score is zero otherwise, if the appointment time of the board of commissioners is not different or is done at the same time.
3	Convergent interest	It was proxied by manager tenure. Tenure measurement with dummy variables, where a score of 1 is given if the average manager in the sample company has a tenure of more than 5 years. A score of 0 otherwise, if the average manager in the sample company has less than 5 years of tenure.
4	Manager Incentives	The salary, bonuses, and incentives the manager receives in a year.

Table 1.
Variables and Indicators

Hypothesis testing uses the following equation:

$$PPI = a + \beta_1 ME + \beta_2 CI + e \tag{1}$$

$$PPI = a + \beta_1 ME + \beta_2 CI + \beta_3 IM + \beta_4 ME*IM + \beta_5 CI*IM + e \tag{2}$$

Information:

- 489** PPI = Internal Control Disclosure
 A = Constants
 β_1 = Coefficient regression Managerial Entrenchment variable
 β_2 = Coefficient regression Convergent Interest variable
 β_3 = Coefficient regression Manager Incentive Variable
 MI = Managerial Entrenchment
 CI = Convergent Interest
 IM = Manager Incentives
 E = Error

RESULTS AND DISCUSSION

	N	Min	Max	Mean	Std. Deviation
Managerial Entrenchment (ME)	633	0	1	.43	.495
Convergent Interest (CI)	633	0	1	.31	.461
Manager Incentive (IS)	633	87	99	90.56	1,500
Internal Control Disclosure (ICC)	633	32	95	71.57	12,366
Valid N (listwise)	633				

Table 2.
Descriptive Statistics for All Variables

(Source: Data processed 2024)

Table 2 shows that the managerial entrenchment variable has an average value of 43% with a standard deviation of 49.5%. This shows that almost half of the companies listed on the Indonesia Stock Exchange that were selected as samples have managerial entrenchment in the company, as indicated by the different terms of office of the board of commissioners. The average value of the convergent interest variable is 31% with a standard deviation of 46.1%. This shows that 31% of managers in the sample companies have a term of office of more than 5 years. The internal control disclosure variable has an average value of 71.57%. This illustrates that of the 19 control disclosure items that should be disclosed, only about 15 items of internal control disclosure information are carried out by the sample companies. These results indicate that the internal control disclosure of information in the sample companies to the public is still not optimal.

Variables	Normality	Multicollinearity	Heteroscedasticity	Autocorrelation
Constants	0.127		0.012	
ME		1,007	0.218	
CI		1,021	0.000	0.952
IM		1.001	0.361	

Table 3.
Results of the Classical Assumption Test

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A good multiple regression equation model is a model that meets the classical assumption requirements, such as data must be normal, the model must be free from multicollinearity, autocorrelation, and heteroscedasticity. Based on the results in Table 3, it is proven that the

equation model proposed in this study has met the classical assumption requirements, so the equation model in this study is good. The normality test results of $0.127 > 0.05$ mean that the data have met the normality assumption using the Jarque-Bera probability value. The multicollinearity test tolerance value is close to 1, and the variance inflation factor (VIF) value is around 1 for each variable, so the regression model is free from multicollinearity. The results of the heteroscedasticity test show a Chai-Square prob. value of $0.000 < 0.005$ using the Breusch-Pagan test, meaning that there is no heteroscedasticity. This regression equation does not have autocorrelation, where the Durbin-Watson (DW) value is 0.952, because the DW value is smaller than the upper limit; it can be concluded that there is no autocorrelation.

Table 4.
Results of multiple regression tests

Model	Unstandardized Coefficients B	Standardized Coefficients Beta	Std. Error	t	Sig.
(Constant)	70,488		.728	96,843	.000
ME	-1,730	.029	.991	.736	.011
CI	2,577	.096	1,064	2,421	.037

Dependent Variable: Internal Control Disclosure

Table 4 shows the results of hypothesis testing using multiple regression. The significance value of the managerial entrenchment (ME) variable is $0.011 < 0.05$, explaining that managerial entrenchment affects internal control disclosure. Thus, hypothesis 1 is accepted. The significance value of the convergent interest variable is $0.037 < 0.05$, so hypothesis 2, namely, convergent interest affects internal control disclosure, is accepted.

Table 5.
Results of the Moderation Regression Test

Model	Unstandardized Coefficients B	Standardized Coefficients Beta	Std. Error	t	Sig.
(Constant)	80,499		10,385	.993	.047
ME	- 12,782	.071	1,775	.281	.013
CI	.150	.057	.058	1,039	.041
IM	.111	.013	1,446	.249	.732
ME*IM	.193	.701	.659	.293	.769
CI*IM	.031	.106	.042	.738	.012

Dependent Variable: Internal Control Disclosure

Table 5 shows the results of the hypothesis test using moderated regression. The results of hypothesis 3 state that manager incentives strengthen the influence of managerial entrenchment on the quality of internal control, which is not accepted. The significance value is $0.769 > 0.05$, indicating that manager incentives can moderate the convergent interest variable on internal control disclosure, with a moderation test value of $0.012 < 0.05$, so that hypothesis 4 is accepted.

Table 6.
F Test (Simultaneous Test before moderation)

ANOVA						
Model	Sum of Squares	df	Mean Square	F	Sig.	
1 Regression	963,465	2	481,732	3.173	.003	
Residual	95497.749	629	151,825			
Total	96461.214	631				

a Dependent Variable: PPI

b Predictors: (Constant), CI, ME

The F test aims to determine whether the independent variables simultaneously affect the dependent variable. The F test is conducted to see the effect of all independent variables simultaneously on the dependent variable. In Table 6, the significance value is 0.003, which is <0.05. This means the convergent interest and managerial entrenchment variables simultaneously affect the internal control disclosure variable.

ANOVA					
Model	Sum of Squares	df	Mean Square	F	Sig.
1 Regression	1050.210	4	262,553	2.725	.015
Residual	95411.003	627	152,171		
Total	96461.213	631			

Table 7.
F Test
(Simultaneous Test after moderation)

a Dependent Variable: PPI

b Predictors: (Constant), CIIM, MEIM, CI, ME

Table 7 shows that the calculated F value is 2.725, while the significance value produced is 0.015, smaller than 0.05. Thus, the predictor variables convergent interest, managerial entrenchment, convergent interest*manager incentives, and managerial entrenchment*manager incentives simultaneously influence the internal control disclosure criterion variable.

Discussion

The first hypothesis test accepted in this study is that managerial entrenchment has a negative effect on internal control disclosure. Managers are the parties responsible for the company's internal control quality. If managers are entrenched with power and discretion, it will be easier to override and cause weaknesses in internal control. This is because high power can be misused to increase personal interests. Entrenchment affects the behavior of managers by engaging in income manipulation because entrenched managers tend to be undisciplined (Banko et al, 2013). Internal control that contains weaknesses causes managerial entrenchment not to be supported if disclosed to the public. Therefore, if there is managerial entrenchment in a company, it will reduce the disclosure of internal control to the public. The results of this study are in line with Li et al (2024), Safari Gerayli et al (2021) and Salehi Ghanbari et al (2021), that managers with strong power in the company will increase the weaknesses of internal control, so as not to support the disclosure of internal control. This is because managers with strong power in the company prioritize their positions, interests, and goals, so that they do not care about the quality of the company's internal control (Li et al., 2024).

The second hypothesis states that convergent interest positively affects internal control disclosure. The more aligned the interests of managers with the interests of shareholders, the stronger the support for internal control disclosure. Internal control disclosure is one way for the public to know that the company has good control over operational and financial procedures and compliance with the law (Ashfaq & Rui, 2019). Therefore, managers with interests aligned with shareholders will support the disclosure to the public. The results of this second hypothesis strengthen the idea that the bonding approach between shareholders and managers, according to agency theory, can reduce agency costs that arise in the company. According to Loconto et al (2021), managers with a long tenure in the company will be selective in disclosing information to parties outside the company, but still support the disclosure. This is because managers understand which information should be disclosed to the public.

The results of the third hypothesis test in this study show that manager incentives do not strengthen the influence of managerial entrenchment on internal control disclosure. The higher the managerial entrenchment attitude, the less supportive the disclosure of the company's internal control items to the public, but incentives cannot strengthen this influence. The value of the incentives given by the company to managers does not make the manager influential in disclosing internal control. This is because managers know there are still many weaknesses in the company's internal control. The Indonesian capital market, namely the Indonesian Stock Exchange, only asks issuers to disclose internal control related to the review of the effectiveness of the internal control system. In addition, it does not require issuers to assess the control report implemented on the financial statements and the approval of the external auditor. Hence, the weaknesses in the internal control of issuers are not known to the public, which causes managerial entrenchment in not supporting disclosure of the company's internal control information, even though some incentives reinforce it, the company will give. Managers with strong power in the company prioritize their position, interests, and personal goals so they do not care about the quality of the company's internal control (Li et al., 2024). Companies must strive for effective internal control (Paletta & Alimehmeti, 2018). Managerial entrenchment is closely related to managers who dare to take risks. As a result, these managers often make mistakes in reporting accounting performance, so they do not support the disclosure of internal control, even though the company offers them high incentives (Antounian et al., 2021).

The fourth hypothesis is supported in this study. Manager incentives strengthen the influence of convergent interest on internal control disclosure. Managers who have held positions for a relatively long time know the number of incentives they will receive when they support the policies implemented by the company. Therefore, when the company issues a policy on internal control disclosure and managers are strengthened by the incentives they will receive for supporting the policy, then managers will support disclosure. Internal control disclosure is one way for the public to know that the company has good control over operational and financial procedures and compliance with the law (Ashfaq & Rui, 2019). In this matter, managers with interests aligned with shareholders will support the disclosure to the public, as his research proved that manager incentives strengthen the role of managers in supporting the disclosure of internal control to the public. Paletta & Alimehmeti (2018) proved that manager incentives enhance the role of managers in supporting the disclosure of internal control to the public. Manager compensation strengthens the convergent interest between owners and managers to improve the company's performance (Masulis & Mobbs, 2023).

CONCLUSION

The study results found that managerial entrenchment has a negative effect on internal control disclosure. In addition, the convergent interest variable positively affects internal control disclosure. The more aligned the interests of managers with the interests of shareholders, the stronger the support for internal control disclosure. The characteristics and attitudes of managers as the parties responsible for internal control in the company significantly affect the disclosure and quality of internal control structures. Furthermore, the manager incentive variable cannot strengthen the influence of managerial entrenchment on internal control disclosure. Moreover, the manager incentive variable can strengthen the influence of convergent interest on internal control disclosure. The incentive value given by the company to managers does not make the managers influential in disclosing internal control. This is because managers know there are still many weaknesses in the company's internal control.

This study has some limitations. The disclosure of internal control of public companies in Indonesia is still weak. Not all public companies have disclosed internal control information to the public. Future research needs to increase the period and compare it with other countries for better results. The results of this study provide implications that can be the basis for the government, through the Financial Services Authority (OJK), to create mandatory regulations for public companies to disclose internal control in annual financial reports. This is because disclosure of internal control provides valuable information for investors and other users of financial reports.

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