CORPORATE GOVERNANCE AND FIRM RISK: EARNINGS MANAGEMENT AS MODERATING VARIABLE

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ABSTRACT

Background: The research on corporate governance and firm risk is of paramount importance from an economic standpoint, primarily due to its significant influence on company performance and stability. Effective corporate governance can play a pivotal role in mitigating corporate risks.
Purpose: This study aims to investigate the impact of many factors related to corporate governance (such as board size, board independence, board meetings, board gender diversity, audit size, audit independence, audit meetings, audit quality, institutional ownership, and largest ownership) and earnings management on company risk. Furthermore, earnings management factors play a role in the connection between corporate governance and firm risk.
Design/methodology/approach: The study employed a sample of three companies with the highest assets and three with the lowest assets from each sector listed on the Indonesian stock exchange throughout 2020–2022. For testing purposes, this study uses panel data and moderated regression analysis.
Finding/Result: These findings show that several factors impact firm risk, including board meetings, board independence, discretionary earnings management, audit size, audit independence, institutional ownership, and largest ownership. Earnings management can mitigate the impact of audit attributes on corporate risk. Furthermore, studies have shown that earnings management plays a crucial role in reducing the influence of ownership structure on firm risk.
Conclusion: The research results show that several proxies of corporate governance are able to reduce company risk. Earnings management further moderates the influence of these factors.
Originality/value (State of the art): This research investigates the relationship between firm risk and a broad range of internal governance traits. It is important to note that only a few studies in the literature have examined this relationship because investors are concerned about return volatility, which is a gauge of a company's risk. This research can encourage improvements in corporate governance policies. Managers can use research findings to identify weaknesses in existing governance practices and develop more effective policies for managing risks associated with earnings management practices.

Keywords: corporate governance, firm risk, earnings management, audit, company performance

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INTRODUCTION

Corporate governance is a combination of policies, laws, and instructions that influence how a company is managed and controlled, relating to identifying potential mechanisms through which shareholders of a company exercise control over management to ensure their interests are protected (Dewanti & Djajadikerta, 2018). The focus on corporate governance has increased since the onset of the currency crisis in early July 1997 (Fakhariansyah, 2023). Before the crisis hit Indonesia, the system and economic growth averaged 7% yearly (Rahim, 2020). According to Ioana and Mariana (2014), this occurred due to the absence of applied corporate governance regulations and the identification of differences in accounting practices, namely an increase in personal interests and biased reporting. Financial reports provide helpful information that can meet users' needs, and such information is valid and reliable (Nini & Trisnawati, 2009).

The corporate board serves as an internal control mechanism to supervise the company and effectively manage and mitigate the risks it encounters on behalf of investors and stakeholders (Davies, 2011). Mathew et al. (2016) found that the composition and board structure impact corporate risk. Corporate risk is defined as the "strength of governance mechanisms," with solid governance mechanisms indicating low wealth takeover risks and vice versa (Damayanti & Susanto, 2015). The implementation of Good Corporate Governance (GCG) in Indonesia has yet to meet expectations; therefore, the implementation of GCG requires a strong commitment (Suwandi, 2020). In Indonesia, corporate governance could be stronger in the banking sector due to a lack of checks and balances between policy formulation and implementation. According to Suwandi (2020), the lack of oversight during instances of minimum loan limit violations is clearly apparent, resulting in substantial difficulties for banks during times of crisis.

This research aims to investigate a comprehensive set of corporate governance attributes – board, audit, and corporate ownership, that represent governance effectiveness and how these relate to corporate risk. This study selected three companies with the highest assets and three companies with the lowest assets from each sector, including Basic Materials, Consumer Cyclicals, Consumer Properties and Real Estate, Energy, Industrials, Consumer Financials, Consumer Healthcare, Consumer Infrastructure, Consumer Technology, Consumer Non-Cyclicals, and Transportation and Logistics. Researchers utilize this sample as a representation of each sector to gain an overview of the stock market's overall performance. The combination of the largest and smallest assets provides more general results because it can cover variations in the population and reduce the size effect.

This research is different from previous research. Previous research is limited to internal governance analysis using board characteristics and their relationship to firm value (Mathew, Ibrahim, and Archbold, 2018). This research combines several aspects of internal governance: board characteristics, audit, and ownership. Furthermore, this research includes earnings management as a moderating variable. We are investigating the impact of earnings management on the relationship between corporate governance and corporate risk. We make two contributions to the literature on corporate governance. Firstly, we explore the relationship between firm risk and a broad range of internal governance traits. It is important to note that few studies in the literature examine this relationship since investors are worried about return volatility, which is a gauge of a company's risk. Second, we add earnings management, which is predicted to influence the role of governance in reducing company risk.

The corporate governance mechanism plays a crucial role in helping companies mitigate issues that may arise between management and shareholders. It is not just a theoretical concept but one that has been supported by empirical evidence. For instance, Reilly et al. (2018) as cited in Asghar et al. (2020), found that the board of directors utilizes corporate governance practices to maintain equality and accountability awareness. It means that without effective corporate governance practices, management could potentially influence reported earnings or manipulate accounting information in the company's interest, which could discreetly lead investors to make decisions that may not be in their best interest (Patrick et al. 2015). Research by Ferreira and Laux (2007) further supports this, indicating that corporate governance has a negative impact on company risk. Kusnadi (2015) documents a significant negative influence between corporate governance and company risk, meaning that good corporate governance mechanisms result in lower company risk. The importance of governance and audit mechanisms is to increase the credibility and reliability of financial and non-financial reports (Wibowo et al. 2022) to reduce company risk.

The research on corporate governance and firm risk is of paramount importance from an economic standpoint, primarily due to its significant influence on company performance and stability. Effective corporate governance can play a pivotal role in mitigating corporate risks, including financial, reputational, and operational risks (Bebchuk, Cohen, Ferrell, 2009). Building on the findings of previous research (Asghar et al. 2020), this study offers valuable insights into risk management best practices that companies can adopt. The research provides empirical evidence that board size can be a factor in reducing company risk. Moreover, it is crucial to consider earnings management variables in the context of the relationship between corporate governance and company risk, as earnings management practices can compromise the company's transparency and accountability to stakeholders and investors. The research suggests that management earnings can amplify the influence of institutional ownership and the largest ownership on company risk.

This research employs a rigorous quantitative method based on panel data in its regression testing. The study aims to analyze the influence of corporate governance, including the structure of the board of commissioners, audit committee, audit quality, and ownership structure, on company risk for companies listed on the Indonesia Stock Exchange from 2020-2022. By using this robust methodology, we can ensure the validity and reliability of our findings, providing a solid basis for future research and practical applications in the field of corporate governance and risk management.

METHODS

The object of this study uses the population of all companies listed on the Indonesia Stock Exchange (IDX) from all sectors from 2020 to 2022. From this population, the sample taken for this study is based on the company's assets. The research selects three companies with the largest assets and three with the smallest assets from each sector listed on the IDX during 2020-2022. The researcher uses these samples to represent each sector and gain an overall stock market performance overview. The selection of both the largest and smallest assets is based on the rationale that it provides more generalizable results as it can encompass variations in the population and reduce size effects.

This study uses sector categories for 2022, so changes in categories in 2020 do not affect this research. The study also uses companies listed in 2022 within the sector categories on the Indonesia Stock Exchange. This study's sampling steps are as follows: (1) gathering sector category data for companies listed on the Indonesia Stock Exchange in 2022; (2) verifying the continued listing of these companies on the Indonesia Stock Exchange in 2022; (3) retrieving the total assets data for all sector categories; (4) sorting the total assets of the companies based on their categories; and (5) selecting three companies with the largest assets and three with the smallest assets, while ensuring they implement governance through a board of commissioners, an audit committee, and a division of ownership structure. Table 1 displays the sample selection results, as well as the 198 data points obtained. During the three years of research, we selected six firms from each sector. There are eleven sector categories on the Indonesian stock exchange, namely basic materials, consumer cyclical, consumer properties and real estate, energy, industrials, consumer financials, consumer healthcare, consumer infrastructure, consumer technology, consumer non-cyclical, transportation, and logistics.

This study presents a novel quantitative approach, incorporating a diverse set of independent variables. These variables are categorized into the company's board of commissioners' structure, the audit committee, and the company's ownership structure. The dependent variable in this research uses volatility as a proxy to measure company risk. Detailed explanations for each variable can be found in Table 2, inviting you to delve deeper into our unique methodology.

This research uses estimation techniques in panel models. This research uses multiple linear regression methods to answer hypothesis testing. The moderated regression linear method in this research is divided into seven models. Model 1 tests the impact of board of commissioner characteristics on company risk. The characteristics of the Board of Commissioners are proxied by board size, board meetings, board independence, and the presence of women on the Board of Commissioners. Model 2 analyzes the influence of the audit committee and audit quality on company risk. Model 3 investigates the impact of ownership structure – institutional and largest ownership, on company risk. Model 4 tests the effect of earnings management on company risk. Model 5 analyzes the role of earnings management as a moderating variable

in the relationship between board characteristics and company risk. Model 6 investigates the role of earnings management on the relationship between the audit committee and audit quality on corporate risk. Finally, model 7 answers the hypothesis of whether earnings management moderates the relationship between ownership structure and company risk.

$$VOL_{i,t} = \beta_0 + \beta_1 BS_{i,t} + \beta_2 BM_{i,t} + \beta_3 BIND_{i,t} + \beta_4 FDIR_{i,t} + \beta_5 SIZE_{i,t} + \beta_6 LEV_{i,t} + \beta_7 GRW_{i,t} \ldots\ldots\ldots (1)$$

$$VOL_{i,t} = \beta_0 + \beta_1 AUDM_{i,t} + \beta_2 AI_{i,t} + \beta_3 AM_{i,t} + \beta_4 AQ_{i,t} + \beta_5 SIZE_{i,t} + \beta_6 LEV_{i,t} + \beta_7 GRW_{i,t} \ldots\ldots\ldots (2)$$

$$VOL_{i,t} = \beta_0 + \beta_1 IOWN_{i,t} + \beta_2 LO_{i,t} + \beta_3 SIZE_{i,t} + \beta_4 LEV_{i,t} + \beta_5 GRW_{i,t} \ldots\ldots\ldots (3)$$

$$VOL_{i,t} = \beta_0 + \beta_1 DEM_{i,t} + \beta_2 SIZE_{i,t} + \beta_3 LEV_{i,t} + \beta_4 GRW_{i,t} \ldots\ldots\ldots (4)$$

$$VOL_{i,t} = \beta_0 + \beta_1 BS_{i,t} + \beta_2 BM_{i,t} + \beta_3 BIND_{i,t} + \beta_4 FDIR_{i,t} + \beta_5 BS \times DEM_{i,t} + \beta_6 BM \times DEM_{i,t} + \beta_7 BIND \times DEM_{i,t} + \beta_8 FDIR \times DEM_{i,t} + \beta_9 SIZE_{i,t} + \beta_{10} LEV_{i,t} + \beta_{11} GRW_{i,t} \ldots\ldots\ldots (5)$$

$$VOL_{i,t} = \beta_0 + \beta_1 AUDM_{i,t} + \beta_2 AI_{i,t} + \beta_3 AM_{i,t} + \beta_4 AQ_{i,t} + \beta_5 AUDM \times DEM_{i,t} + \beta_6 AI \times DEM_{i,t} + \beta_7 AM \times DEM_{i,t} + \beta_8 AQ \times DEM_{i,t} + \beta_9 SIZE_{i,t} + \beta_{10} LEV_{i,t} + \beta_{11} GRW_{i,t} \ldots\ldots\ldots (6)$$

$$VOL_{i,t} = \beta_0 + \beta_1 IOWN_{i,t} + \beta_2 LO_{i,t} + \beta_3 IOWN \times DEM_{i,t} + \beta_4 LO \times DEM_{i,t} + \beta_5 SIZE_{i,t} + \beta_6 LEV_{i,t} + \beta_7 GRW_{i,t} \ldots\ldots\ldots (7)$$

Table 1. Sample selection 2020-2022

Description	2020	2021	2022	Total
Companies listed on the Indonesian Stock Exchange	711	767	824	2302
Sector				
Sector Basic Materials	6	6	6	18
Sector Consumer Cyclicals	6	6	6	18
Sector Consumer Properties and Real Estate	6	6	6	18
Sector Energy	6	6	6	18
Sector Industrials	6	6	6	18
Sector Consumer Financials	6	6	6	18
Sector Consumer Healthcare	6	6	6	18
Sector Consumer Infrastructure	6	6	6	18
Sector Consumer Technology	6	6	6	18
Sector Consumer Non-Cyclicals	6	6	6	18
Sector Transportation and Logistics	6	6	6	18
Total Samples	66	66	66	198

Sources: Indonesian Stock Exchange (2022)

Table 2. Definition of variable

Variable	Definition	Formula
VOLi,t	volatility of the company i period t	VOLi,t = Standard deviation of operating cash flows
BSi,t	board of commissioners company i period t	BSi,t = Total board of commissioners,t
BMi,t	board meetings company i period t	BMi,t = Total board meetings,t
BINDi,t	independent board of commissioners company i period t	BINDi,t = Total independent board of commissioners,t/ Total board of commissioners,t
FDIRi,t	board of commissioners with female members company i period t	FDIRi,t = The number of female board of commissioners,t/Total board of commissioners,t
AUDMi,t	audit committee company i period t	AUDMi,t = The total of audit committeei,t
AIi,t	independent audit committee company i period t	AIi,t = The number of independent audit committeei,t/ Total of audit committeei,t
AMi,t	audit committee meetings company i period t	AMi,t = The number of audit meetingsi,t

Table 2. Definition of variable (continue)

Variable	Definition	Formula
AQi,t	audit quality company i period t	AQi,t = A dummy variable for BIG 4 presented as “1” if it is audited by the BIG 4 otherwise presented as “0”
IOWNi,t	institutional ownership company i period t	IOWNi,t = Percentage of the institutional ownershipi,t/ Total outstanding sharesi,t
LOi,t	largest ownership company i period t	LOi,t = Percentage of the largest ownershipi,t/Total outstanding sharesi,t
Variable control	Definisi	Rumus
SIZEi,t	firm size of the company i period t	SIZEi,t = Log(total assetsi,t¬)
LEVi,t	leverage of the company i period t	LEVi,t = Total debti,t/total assetsi,t
GRWi,t	growth of the company i period t	GRWi,t = (Salesi,t – Salesi,t-1)/salesi,t-1 × 100%
Variable moderate	Definisi	Rumus
DEMi,t	total accrual of the company i period t	DEMi,t = Total net incomei,t – total cash flow from operatingi,t
β0	constant coefficient	-
β1, β2, β3, β4, β5, β6, β7, β8, β9, β10, β11	regression coefficient	-
ε		error term

Figure 1 presents the conceptual framework of this study. Board, audit, and ownership characteristics are independent variables that serve as proxies for corporate governance. We measure board characteristics using four variables: board size, board independence, board meetings, and board gender diversity. Institutional ownership and the largest ownership serve as metrics for measuring ownership. Corporate risk is a dependent variable. Earnings management becomes a moderation variable in the relationship between each corporate governance proxy and corporate risk.

Several measurement tools are used in the board structure, including the following. A larger board size will increase the company’s value by making it more effective, but company risk also increases because the information is not disseminated promptly (Klein 1998). The number of meetings conducted by the board of commissioners should also enhance company performance because these meetings discuss the company’s strategies to reduce risks (Al-Daoud et al. 2016). Board independence has a significant negative impact on company risk; the more independent board members there are, the less manipulation and bias effects occur (Hassan et al. 2017). Women directors have a negative effect on company risk (Asghar et al. 2020).
H1: The board of commissioners’ structure significantly negatively impacts company risk.

The audit used in this research encompasses the company’s audit committee and the quality of external auditors. The audit committee, through its negative impact on company risk, plays a significant role in risk mitigation (Asghar et al. 2020). Audit independence also influences company risk, with the lack of skills and experience of independent auditors potentially affecting their ability to monitor the company’s internal financial affairs (Asghar et al. 2020). The frequency of meetings held by the audit committee is directly proportional to the company’s performance, as these meetings address existing agency problems (Hamdan et al. 2013). External auditors who provide a positive assessment instill confidence in investors, thereby strengthening the relationship between audit quality and company risk (Wahab et al. 2011).
H2a: The Audit Committee has a significant negative impact on company risk.
H2b: Audit Quality has a significant negative impact on company risk.

The ownership structure is measured using two tools. Institutional investors pay special attention to risk-taking activities in the companies they invest in due to their typically substantial investments (Jafarinejad et al. 2015). The largest shareholders in a company undoubtedly focus more on the performance and profitability of the companies in which they invest. The

efficient monitoring hypothesis posits that institutional investors possess superior competence and can oversee management at reduced expenses compared to small shareholders. Therefore, this argument suggests a direct correlation between the level of institutional share ownership and the firm's success, with higher ownership leading to better performance. Optimal firm performance will mitigate company risk.
H3: Ownership structure has a significant positive impact on company risk.

The narrative in Demski (1998) work revolves around the transmission of learned competence through earnings smoothing. The underlying premise is that a diligent manager possesses superior capabilities to manage the company and accurately forecast future profits. The management showcases his ability to forecast future outcomes, demonstrating his diligent efforts to the owner by manipulating earnings to appear more consistent. Earnings management has a negative impact on company risk (Arya et al. 2003). Through earnings management practices, investors can obtain many dividends from managed earnings. It indicates that earnings management practices can cause company risk to change according to the practiced earnings management.
H4: Earnings management has a significant negative impact on company risk.

Board independence and DEM have a negative impact on company risk. The absence of board independence in the board structure will misguide operational functions (Asghar et al. 2020). Women directors provide greater supervision and monitoring, thus reducing agency costs (Adams & Ferreira, 2009).
H5: Earnings management strengthens the influence of the board of commissioners' structure on company risk.

Audit size and DEM have a positive impact on company risk (Asghar et al. 2020). It means that many audit committee members have efficient control over company operations to eliminate company risks, thus reducing performance fluctuations. Reported audit quality has a non-significant negative impact on company performance while reducing the role of discretionary earnings management (Asghar et al. 2020).
H6a: Earnings management moderates the influence of the audit committee on company risk.
H6b: Earnings management moderates the influence of audit quality on company risk.

External shareholders do not yield positive results for internal investors. DEM negatively mitigates the association between large ownership and company performance and company risk (Asghar et al. 2020). By increasing company risk to generate more profits, the largest ownership has a non-significant impact on company performance.
H7: Earnings management moderates the influence of ownership structure on company risk.

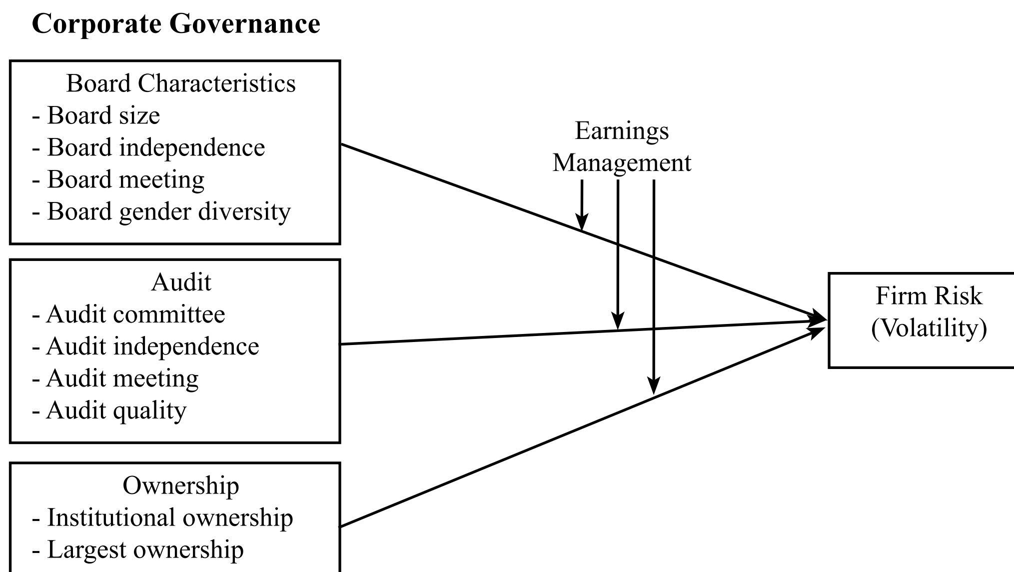

Figure 1. Research framework

RESULTS

Descriptive statistics in Table 3 show the sample size, minimum value, maximum value, mean, and standard deviation. Volatility (VOL) is a dependent variable used to describe company risk. The minimum and maximum values for the VOL variable are 5806780 and 6.73E+13. Board size (BS) is an independent variable used to describe corporate governance in terms of board structure. The minimum BS value is 2. The average value of the BS variable is greater than the standard deviation value, which means the BS data has varied. The minimum and maximum values for board meetings are 0 and 88. The average value for the Board independence variable is 0.44. The number of samples that have a minimum board gender value of 0 is 102 data, meaning that they do not have a female board. Audit size (AUDM) shows the number of audit committees with minimum and maximum values of 1 and 8. The maximum value of the Audit independence variable is 1, while the minimum value is 0. Audit meetings (AM) measure the number of committee meetings; the maximum value is 57. Institutional ownership (IOWN) and Largest Ownership (LO) are independent variables used to describe corporate governance in terms of ownership structure. The maximum IOWN value is 0.7963, while the maximum LO value is 0.9934.

The Influence of Board Structure on Company Risk

Table 4 shows the empirical results to answer hypotheses 1 to 3. The first hypothesis in this study states that board structure has a significant negative influence on company risk. Board size has an insignificant influence on VOL. This result is in line with the research of Muchtar and Darari (2013) and Asghar et al. (2020). A large board size supports the company more effectively in terms of the business environment and organizational culture and can gather more information (Klein, 1998). The collaboration of the company's regulatory function with board size can increase company risk. Board meetings have a significant negative influence on VOL. Rodriguez-Fernandez et al. (2014) stated that holding meetings more than once a month does not guarantee good company value. It aligns with the research of Handayani (2018). Meetings can impact the performance of the board of commissioners as they become more active in carrying out their duties, leading to lower company risk.

Board independence has a significant positive influence on VOL. Raheja (2005) in Fauziah & Yusoff (2015) found that an increasing number of independent commissioners would increase company risk as they are considered weak in managing the company. These results align with research by Asghar et al. (2020). The more independent the board of commissioners is, the higher the company's risk will be because it is considered weak in company management. Board independence is a party not tied to the company; it carries out its duties in the interests of shareholders, and shareholders tend to want high investment (Pathan et al. 2007). This impact is that board independence prefers risk to gain more profits. Board gender has an insignificant result on VOL. This result is in line with the research of Adams and Ferreira (2009). Company risk in this study is not significant because, in Indonesia, female board commissioners are still relatively few. The three control variables, size, leverage, and growth, have a significant positive influence on VOL.

The Influence of Audit on Company Risk

Audit size shows a significant positive result on VOL. Audit independence has an insignificant influence on VOL. Audit meetings have an insignificant influence on VOL. It means that both independent and non-independent audit committees do not consider short-term company strategies, leading to a decrease in company value and an increase in company risk due to a lack of attention to short-term company strategies (Asghar et al. 2020). Audit quality shows an insignificant influence on VOL. The percentage of companies using Big Four audit quality in this study is 31.3%, so this audit quality does not affect company risk. Size has a significant positive influence on VOL. Leverage has an insignificant influence on VOL. Growth has a significant positive influence on VOL.

The Influence of Ownership Structure on Company Value and Risk

Institutional ownership shows a significant negative influence on VOL. The larger institutional ownership, the shareholders tend to think about themselves and do not care about company value based on profit (Lutfiana & Fitriati, 2022) but increases based on the market because the market values the company as having optimal strength and drive, thus reducing company risk (Purbopangestu, 2014). Largest ownership has an insignificant influence on VOL. The largest shareholders

exercise strict oversight over the company's operations, thus increasing company value, but are less bound by company risk (Asghar et al. 2020). The control variable size shows a significant positive influence on VOL. The leverage variable shows a significant positive influence on VOL. Growth shows a significant positive influence on VOL.

Table 3. Descriptive Statistics

	Minimum	Maximum	Mean	Std. Dev.
VOL	5806780	6.73E+13	2.76E+12	8.61E+12
BS	2.000000	15.00000	4.333333	2.692347
BM	0.000000	88.00000	13.67172	12.31145
BIND	0.000000	0.800000	0.445315	0.102238
FDIR	0.000000	1.000000	0.171093	0.218202
AUDM	1.000000	8.000000	3.232323	0.980296
AI	0.000000	1.000000	0.616198	0.137600
AM	0.000000	57.000000	8.323232	9.628456
IOWN	0.000000	0.796350	0.169368	0.211728
LO	0.229444	0.993468	0.548319	0.174030
SIZE	7.809767	15.29941	12.37310	1.568424
LEV	0.000103	3461.978	38.3573	334.5249
GRW	-1.000000	8.171119	0.182446	1.009947
DEM	-9.93E+13	7.10E+12	-4.04E+12	1.39E+13

Table 4. Volatility regression test results

Variable	Volatility			
	Model 1	Model 2	Model 3	Model 4
BS	-0.4822			
BM	-0.017**			
BIND	0.0034**			
FDIR	0.2200			
AUDM		0.09495*		
AI		-0.2739		
AM		-0.4448		
AQ		0.24725		
IOWN			-0.0834	
LO			-0.3270	
DEM				-0.0363**
SIZE	0.0648*	0.0013**	0.0050**	0.0877*
LEV	0.0457**	0.0314**	0.0611*	0.0604*
GRW	0.0836*	0.08195*	0.0537*	0.0791*
C	0.1029	-0.0002**	-0.012**	-0.0688*
Prob(F-statistic)	0.0000	0.0000	0.0000	0.000000
Adjusted R2	0.7357	0.1291	0.7302	0.754991

*significant at 10, **significant at 5%

The Influence of Earnings Management on Company Value and Risk

Discretionary earnings management shows a significant negative influence on company risk. This result aligns with the research of Kristanti and Priyadi (2016). Asghar et al. (2020) state that earnings management methods will reduce the fear of lowering company risk. Empirical evidence demonstrates that an increase in earnings management leads to a decrease in corporate risk. Two distinct explanations can elucidate these findings. First, the research sample does not distinguish between positive and negative discretionary accumulation (DEM). According to the descriptive statistics, the mean DEM is negative, indicating that the majority of the sample tends to decrease the value of profit.

Moreover, conducting a more thorough study by categorizing the sample into enterprises with positive and negative earnings reveals noteworthy findings exclusively for companies that report profits. Furthermore, these empirical findings are consistent with signal theory and the notion of information asymmetry. Engaging in earnings management practices aimed at enhancing future disclosure and promoting transparency helps mitigate firm risk. Company size has a significant positive influence on VOL. The control variable leverage has a significant positive influence on VOL. Growth has a significant positive influence on VOL.

Earnings Management Moderates the Influence of Board Structure on Company Risk

Table 5 shows that board size moderated by discretionary earnings management and board gender diversity moderated by discretionary earnings management show insignificant results on company risk. Board meetings moderated by discretionary earnings management and board independence moderated by discretionary earnings management significantly positively influence company risk. The presence of earnings management conducted by companies strengthens the influence of board meetings on increasing company risk and the influence of independent board commissioners on increasing company risk. The more independent board commissioners and meetings held by board commissioners will lower the company's reputation, especially for companies engaged in earnings management. It will damage the company's reputation with all stakeholders. The control variable size shows a significant positive influence on VOL. Leverage shows a significant positive influence on VOL. Meanwhile, growth shows a significant positive influence on company risk.

Earnings Management Moderates the Influence of Audit on Company Risk

The regression analysis results in Table 5 indicate that hypothesis 6a is partially accepted. This finding has significant implications for understanding the relationship between audit size, independence, discretionary earnings management, and company risk. The presence of many audit committees increases company risk, and the presence of earnings management strengthens this effect. Audit independence moderated by discretionary earnings management has a significant positive effect on company risk. Independent audit committees increase company risk. With the company conducting earnings management, this influence becomes more vigorous. It reinforces the results of Asghar et al. (2020), which state that independent audits prioritize market interests over internal company interests. Audit meetings moderated by discretionary earnings management have a significant positive effect on company risk. The more meetings a company holds, does not decrease company risk. The addition of earnings management strengthens this effect.

Through a rigorous research process, hypothesis 6b is rejected because audit quality moderated by earnings management does not significantly affect company risk. The control variable size has an insignificant effect on VOL. Leverage has an insignificant effect on VOL. Growth has an insignificant effect on VOL.

Earnings Management Moderates the Influence of Ownership Structure on Company Risk

Table 5 demonstrates a complete acceptance of hypothesis 7. Institutional ownership, moderated by discretionary earnings management, has a significant negative impact on company risk. It means that institutional ownership reduces company risk, and earnings management reinforces this influence. Earnings management only increases company risk if institutional ownership remains high, as institutions will closely oversee the company.

Table 5. Moderation regression test results

Variable	Volatility		
	Model 5	Model 6	Model 7
BS	0.1666		
BM	0.1910		
BIND	0.0494**		
FDIR	0.0062**		
BSDEM	0.1450		
BMDEM	0.0433**		
BINDDEM	0.0686*		
FDIRDEM	-0.1157		
AUDM		0.13785	
AI		0.23815	
AM		0.0337**	
AQ		-0.2411	
AUDMDEM		0.00065**	
AIDEM		0.0000**	
AMDEM		0.0466**	
AQDEM		-0.3934	
IOWN			-0.3072
LO			0.8130
IOWNDEM			-0.001**
LODEM			-0.001**
DEM	-0.044**	-0.001**	0.0001**
SIZE	0.0123**	0.27115	0.6792
LEV	0.0661*	0.3492	0.6860
GRW	0.0284**	0.2761	0.4989
C	-0.007**	-0.1613	-0.7327
Prob(F-statistic)	0.000000	0.000000	0.000000
Adjusted R2	0.877793	0.843572	0.815897

*significant at 10, **significant at 5%

Discretionary earnings management, which moderates the largest ownership, significantly reduces company risk. Majority ownership increases company risk. The presence of earnings management weakens this effect, meaning company risk decreases under the condition that majority ownership remains. If the majority of the company's management engages in earnings management, they will oversee the company more closely, thereby reducing company risk. In this regression model, the control variables indicate that size has an insignificant effect on VOL. Leverage has an insignificant effect on VOL. Meanwhile, growth has an insignificant effect on company risk.

Managerial Implications

This research provides several significant implications. In-depth research on corporate governance and risk can help identify best practices in risk management and governance. Implementing these best practices can improve corporate performance because effective risk management and good governance can help prevent unnecessary losses and increase shareholder confidence. Management must strengthen corporate governance practices to reduce company risks. It includes implementing stricter policies of transparency, accountability, and supervision. Companies that have good governance and manage risk effectively build the trust of stakeholders, especially investors. High trust can improve a company's reputation and provide competitive advantages. Good governance will encourage transparency. Greater transparency can

build stakeholder trust and facilitate better external monitoring. Management must guarantee the honesty and accuracy of financial reporting. The use of earnings management to beautify financial statements can damage investor confidence and increase the risk of litigation. Companies must maintain good communication with stakeholders, including investors, creditors, and regulators, to build trust and transparency. It can help reduce perceived risk and increase company value. For the author, this research can provide an essential contribution to academic knowledge in the fields of corporate governance, corporate risk, and earnings management. By investigating these complex relationships, the authors can increase their understanding of how these factors interact and impact firm performance. These findings have policy and practical implications for investors and regulators as they inform constituents about various board attributes and ownership associated with corporate risk.

CONCLUSIONS AND RECOMMENDATIONS

Conclusions

The findings of this research have practical implications as they demonstrate that the risk of a company is not related to the board of commissioners, the female composition of the board of commissioners, audit meetings, independence of the audit committee, audit quality, institutional ownership, and the largest ownership. However, the company's risk is positively associated with independent boards of commissioners and audit committees and negatively associated with the board of commissioner meetings and earnings management. The study also reveals that earnings management strengthens the influence of board of commissioner meetings, audit committees, audit committee meetings, independent audit committees, and largest ownership on company risk. Meanwhile, earnings management weakens the influence of institutional ownership on company risk, providing valuable insights for corporate governance and risk management practices.

Recommendations

This research holds immense potential for further development in subsequent studies focusing on corporate governance regarding corporate risk in Indonesia. By incorporating additional unique variables such as managerial ownership, foreign ownership, the number of commissioners attending meetings, and others, researchers can unlock new insights. They can also extend the sample period to generate more accurate corporate governance and risk results or concentrate the research on a specific sector. This research can be continued by differentiating the analysis into categories: sector or industry, type of earnings management, and financial conditions, thereby paving the way for a more comprehensive and nuanced understanding.

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