Military Backgrounds in Shaping Earnings Management: Insights from the Board of Commissioners and Directors

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Abstract

This study aims to determine the effect of the military background of the board of commissioners and directors on earnings management practices in manufacturing companies listed on the Indonesia Stock Exchange (IDX) from 2021 to 2023. The research uses a quantitative approach, utilizing secondary data obtained from annual reports published on the Indonesia Stock Exchange and on the official websites of each company. Using panel data regression analysis, the findings indicate that companies with a board of commissioners and a military background negatively affect earnings management. Meanwhile, directors with military experience do not affect earnings management. This study utilizes the military background variable of the company's top management, which is still rarely used in earnings management research, particularly in Indonesia. This research contributes as a guideline for company stakeholders, especially investors, regarding the potential risks and benefits associated with earnings management in companies with a board of commissioners and directors with military backgrounds.
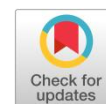
Keywords

Introduction

Financial statements, as the final product of accounting, are an important source of information about the company that reflects the company's financial condition and assesses operational performance as well as managerial plans over a certain period (Babuska, 2021). Profit plays a crucial role in decision-making by stakeholders, because its information can reflect the success or failure of management in managing the company (Anik et al., 2021). The high dependence on profit information is often what triggers profit manipulation practices for personal gain, a practice known as earnings management (Martens et al., 2020).

Earnings management is the practice of manipulating financial statements by managers for personal gain (Garel et al., 2021). This practice has been proven in several cases in Indonesia, including the case involving PT Tiga Pilar Sejahtera Food (AISA) in 2017, where the company recorded higher revenues of IDR 662 billion and EBITDA of IDR 329 billion (CNBC Indonesia, 2019). A similar case was also found at PT Indofarma in 2022, with indications of losses reaching IDR 470 billion due to financial statement manipulation (Kumparan Bisnis, 2024). In addition, Unilever Indonesia in the first quarter of 2022 allegedly deferred the recognition of operational expenses amounting to IDR 337 billion, which artificially increased the company's profit by 19.03% (CNBC Indonesia, 2022). This Unilever practice shows a pattern of timing the recognition of expenses or revenues to influence the perception of the company's financial performance.

Although regulators do not formally sanction earnings management practices, they can arise from the flexibility embedded in the Generally Accepted Accounting Principles GAAP) (Subadriyah et al., 2020). For instance, managers may legitimately implement accrual techniques, including the adjustment of provisions for questionable accounts or the selection of alternative depreciation methodologies (Nasir et al., 2019). Nevertheless, the quality of financial reporting can be compromised, and stakeholders may be misled when such discretion is exercised in excess. Recent studies show that aggressive earnings management can reduce the quality of financial statements (Chakroun et al., 2022), decrease the company's value (Chen et al., 2023), increase the risk of financial distress (Panigrahi, 2019; Thu, 2023), and lead to bankruptcy (Durana et al., 2021; Xu et al., 2021). Xu et al. (2021) revealed a trend of increasing accrual earnings management activity in the 5 years leading up to bankruptcy, emphasizing the importance of strict oversight to prevent abuses that harm stakeholders.

Agency theory (Jensen & Meckling, 1976) emphasizes that the conflict of interest between management, serving as agents, and business owners, functioning as principals, is the fundamental cause of earnings management practices. This conflict occurs when management's objectives in operating the company do not consistently coincide with the interests of the business owners (Setiawan et al., 2020). Information asymmetry exacerbates this misalignment because it gives management access to more detailed information about the company, potentially concealing information for personal gain (Bouaziz et al., 2020; Menz et al., 2021; Zimon et al., 2021). In this situation, agents can use earnings management techniques to alter accounting statistics in financial statements by leveraging their informational advantage.

Various corporate governance structures can be used to reduce agency problems with the primary goal of ensuring that management acts in the interests of shareholders (Nguyen et al., 2024), for example, through the roles of the board of commissioners and directors. Existing empirical data show that the characteristics of the board of commissioners and directors have proven to impact earnings management. Size of the board of commissioners (Suripto, 2023; Syarif et al., 2022), independent commissioners (Devi and Aryani, 2024; Hakim et al., 2022; Winarta et al., 2021), and the age of the board of commissioners (Setiawan, 2018) have shown to have a negative impact on earnings management, indicating that the characteristics of the board of commissioners are capable of limiting earnings management practices. Furthermore, the number of directors (Attia et al., 2022; Cho & Chung, 2022; Riyadh et al., 2024), number of independent directors (Aleqab & Ighnaim, 2021; Alhebri et al., 2021; Khan et al., 2022), financial expert board (Khan et al., 2022; Riyadh et al., 2024), even gender diversity, namely female directors (Alhossini et al., 2024; Harakeh et al., 2019; Zalata et al., 2022) also proven capable of mitigating earnings management.

Although various characteristics of boards of commissioners and directors have been extensively examined, military background as a potential factor influencing earnings management remains relatively underexplored. The study by Cai et al. (2021) revealed that the presence of military-background directors can enhance the board's oversight effectiveness of managers, aligning with Resource Dependence Theory (RDT), which emphasizes that the background and social networks of the board can be strategic resources for reducing the company's dependence on the external environment (Pfeffer & Salancik, 1978). These findings suggest that unique characteristics such as discipline and crisis expertise from a military background can potentially limit earnings management opportunities and serve as social capital for managing external risks.

Hillman and Dalziel's (2003) research integrates agency theory and resource dependence theory to offer a complementary perspective on analyzing the board's role. This approach combines a focus on the conflict of interest between owners and management (agency theory) with the board's ability to provide necessary resources (resource dependence theory) to reduce uncertainty and improve organizational performance (Akram & Haq, 2022). In this case, the military background of the board of commissioners and directors can be seen as a form of social capital and a unique resource that potentially influences earnings management practices through managing the organization's dependence on the external

environment. The combination of these two theories allows for a holistic analysis of how board attributes prevent agency conflict and serve as a strategic resource for organizational performance stability.

However, empirical studies on the effect of military background and military connections are still focused on limited areas, such as auditing (Azis et al., 2022; Harymawan et al., 2024; Quan et al., 2021; Setiadi & Harymawan, 2020; Widodo & Fanani, 2020), compensation (Li & Rainville, 2021), cost of capital (Joni et al., 2020), investment efficiency (Islam et al., 2024), tax avoidance (Wahab et al., 2023), impact on company performance (Cai et al., 2021; Lin et al., 2021), and corporate social responsibility disclosure (Nasih et al., 2019). The majority of research about the backgrounds of boards of commissioners and directors, especially with military experience, has been undertaken in developed countries like China and the United States, yielding inconclusive results (Lai et al., 2023; Li et al., 2024; Xu et al., 2024). This contradiction suggests that the effect of military history on corporate governance is ambiguous and contingent on context.

In the Indonesian context, Widodo and Fanani (2020) investigate the impact of military history on earnings quality, utilizing a sample of mining sector companies registered on the Indonesia Stock Exchange from 2017 to 2018. Their findings indicate that earnings quality is unaffected by CEOs or management possessing a military background. Conversely, Harymawan (2020) identifies a positive and significant correlation between military links and earnings management for nearly all proxies, except the Dechow model, based on observations of Indonesian publicly listed companies from 2003 to 2017. The findings indicate that organizations with directors linked to the military are more prone to higher degrees of earnings management, resulting in inferior financial reporting quality compared to enterprises without such connections.

This study contributes by filling gaps in previous research by expanding the analysis of military origins in corporate governance in Indonesia. Prior research, including Widodo and Fanani (2020) Harymawan (2020), did not differentiate between the functions of the board of directors (BOD) and the board of commissioners (BOC), despite the distinct responsibilities and varying degrees of influence these two governance entities possess in corporate decision-making. Furthermore, previous studies either concentrated exclusively on the mining industry (Widodo & Fanani, 2020) or encompassed all publicly traded companies without conducting industry-specific evaluations (Harymawan, 2020). This study focuses on the manufacturing sector, a critical industry in Indonesia, and separately examines the effect of military origins on both the board of directors and the board of commissioners, offering refined insights into the role of military connections in earnings management. This provides a clearer comprehension of the specific governance processes by which military origins affect the quality of financial reporting.

The military background of the board of commissioners and directors can serve as an effective control mechanism to reduce earnings manipulation practices, considering the values of discipline and responsibility ingrained in military culture (Nasih et al., 2019). Therefore, it is only natural that the presence of a board of commissioners and directors with military backgrounds is expected to improve oversight of earnings management practices and promote ethical behavior in financial reporting (Harymawan, 2018). Especially in Indonesia, the phenomenon of appointing figures with military backgrounds to the boards of commissioners and directors of companies is becoming increasingly common (Azis et al., 2022), stemming from the Indonesian Armed Forces dual function policy during the Soeharto era. Active and retired military personnel not only hold political positions in the House of Representatives of the Republic of Indonesia or the Indonesian People's Consultative Assembly (Majelis Permusyawaratan Rakyat), but also occupy many strategic positions in companies (Azis et al., 2022).

This research aims to add to the literature by examining how the military background of board members influences earnings management in businesses in Indonesia. This research focuses on the manufacturing industry because this sector has the largest representation of companies on the Indonesia Stock Exchange (IDX), thus having a significant impact on trading activity on the exchange. Therefore, the manufacturing sector is expected to reflect the general condition of public companies in Indonesia.

Literature Review and Hypothesis Development

Resource dependence theory and agency theory both emphasize the importance of having competent board members to oversee company management effectively (Hillman & Dalziel, 2003; Islam et al., 2024). Although agency theory is often used as the main theory in research on board members (Aleqab & Ighnaim, 2021; Alhebri et al., 2021; Alhossini et al., 2024; Attia et al., 2022; Cho & Chung, 2022; Devi & Aryani, 2024; Hakim et al., 2022; Khan et al., 2022; Riyadh et al., 2024; Setiawan, 2018; Suripto, 2023; Syarif et al., 2022), resource dependence theory also makes a significant contribution to explaining another role of the board of commissioners and directors, which is as a provider of strategic resources for the company (Hillman et al., 2009).

This study employs agency and resource dependence theories (RDT) to explain the role of military backgrounds in reducing earnings management. Agency theory highlights the board of commissioners (BOC) monitoring function in mitigating the principal–agent conflict, thereby constraining managerial opportunism. The characteristics of executive discipline and compliance with a military background serve as a monitoring mechanism that reduces earnings manipulation (Lai et al., 2023). In contrast, RDT explains the role of directors with military backgrounds in providing resources. Military connections bring valuable political ties, legitimacy, and discipline that reduce environmental uncertainty and increase external resource security. Together, these perspectives suggest that military backgrounds may lower the incentives and opportunities for earnings management through stronger monitoring and enhanced organizational resources. The skills gained from military experience provide access to external resources, thereby reducing reliance on profit manipulation to maintain corporate legitimacy (Hillman et al., 2009; Hillman & Dalziel, 2003).

Although RDT does not directly address earnings management, it offers an indirect perspective to elucidate the technique. Earnings management can be perceived as a managerial reaction to external influences (such as pressures from capital markets, regulatory bodies, or stakeholders) that provide incentives to depict advantageous financial results. In this context, earnings management illustrates how managers navigate their firm's external environment and resource requirements via financial reporting procedures. Military experiences on the board diminish external dependencies by solidifying political connections, augmenting credibility, and alleviating uncertainty. Consequently, companies with directors related to the military may exhibit diminished incentives to participate in opportunistic earnings management.

Studies in other countries show that leadership by military executives can limit aggressive earnings management practices. For example, research in China by Xu et al. (2024) suggests that military executives enhance board oversight's effectiveness, thereby reducing accrual-based earnings management. Cai et al. (2021) similarly argue that companies with military independent directors exhibit better monitoring outcomes, including fairer CEO compensation and higher performance sensitivity, thus reducing earnings management practices. Li et al. (2024) added new findings by revealing that US companies led by former military senior executives managed accrual and real earnings management at a lower rate than companies without military executives.

The company's connection to the military not only provides privileged access but also instills unique characteristics such as leadership, honesty, loyalty, and integrity from military retirees, which support company compliance and performance (Azis et al., 2022; Lai et al., 2023). Even in a sluggish industrial climate, military leadership and discipline have proven capable of maintaining the company's performance stability (Ullah et al., 2022). The presence of a board of commissioners and directors with military backgrounds can serve as an effective control mechanism to prevent earnings manipulation practices, thanks to the values of discipline and responsibility integrated into military culture (Widodo & Fanani, 2020), as well as strengthening oversight and promoting ethical financial reporting (Cai et al., 2021).

In the Indonesian two-tier system, the BOD's purpose in decreasing EM lies in its executive responsibility and accountability for financial reporting. While the BOC monitors from the outside, the

BOD has the direct power to either manipulate or maintain integrity in earnings. Agency theory explains that this accountability, combined with reputational and regulatory pressures, can push the BOD to reduce earnings management and align more closely with shareholder interests.

Although the number of directors with military backgrounds in the BOD is relatively small in our sample, we argue that this variable still provides important explanatory power. First, in governance studies, even a single director with distinct characteristics can disproportionately influence decision-making, particularly in small boards (Adams & Ferreira, 2007). Military background may bring strong hierarchical values, risk aversion, and obedience to authority, which can shape how the board monitors or tolerates earnings management practices. Second, the uniqueness of military-connected directors lies not in their frequency but in their symbolic and strategic role; their presence can signal political ties, access to networks, or disciplinary control, which may affect managerial behavior even if only one or two such directors exist (Harymawan, 2020). Third, the scarcity of military background in the BOD strengthens this study's contribution, as it highlights an underexplored but potentially impactful dimension of board characteristics in Indonesia's corporate context. Thus, despite the limited number, including BOD with a military background as an independent variable is theoretically justified and empirically meaningful.

H1. The military background of the board of commissioners negatively influences earnings management.
H2. The military background of the board of directors negatively influences earnings management.

Research Method

This research employs a quantitative approach, utilizing secondary data obtained from the annual reports of manufacturing companies published on the Indonesia Stock Exchange and the official websites of each company for the period 2021-2023. The sample selection in this study used the purposive sampling method, which resulted in 408 annual reports from 136 manufacturing sector companies over three years for in-depth analysis. The manufacturing industry was chosen as the sample for this study because it is one of the most significant and extensive sectors in the Indonesian economy. It is characterized by its high capital intensity, intricate operations, and substantial discretion in financial reporting practices. Manufacturing firms are particularly pertinent for examining earnings management behavior due to their diverse product lines, inventory management, and depreciation policies, which typically result in more accrual-based accounting adjustments than other sectors.

The period 2021-2023 was chosen because it has the most recent data, is easily accessible, and is relevant to the Industry 4.0 transformation that is impacting accounting and governance (Gonçalves et al., 2022). Digitalization increases transparency and efficiency, but it also enables opportunistic earnings management practices (Guo & Xu, 2021). The intricacy of digital systems enables managers to modify accruals more discreetly, such as through automated modifications in revenue recognition, depreciation timelines, or inventory assessment, which may be more challenging to identify within extensive datasets. Furthermore, advanced analytics can obscure accounting decisions that artificially enhance reported earnings.

The dependent variable in this study adopts the Modified Jones Model approach by Dechow et al. (1995) to detect earnings management through discretionary accruals proxies. There are several steps in calculating discretionary accruals using the Modified Jones Model by Dechow et al. (1995). The first step is calculating the total accrual value (TAC) using Equation 1.

$$TAC_{it} = NI_{it} - CFO_{it} \quad \ldots\ldots\ldots (1)$$

After the total accrual (TAC) value is obtained, the next step is to estimate the total accrual (TAC) using the Ordinary Least Squares (OLS) method in Equation 2.

$$\frac{TAC_{it}}{A_{it-1}} = \beta1 \left(\frac{1}{A_{it-1}}\right) + \beta2 \left(\frac{\Delta REV_{it}}{A_{it-1}}\right) + \beta3 \left(\frac{PPE_{it}}{A_{it-1}}\right) + \varepsilon \quad \ldots\ldots\ldots (2)$$

Equation 3 can be used to determine non-discretionary accruals (NDA) using the regression coefficients obtained from the previous formula.

$$NDA_{it} = \beta1 \left(\frac{1}{A_{it-1}}\right) + \beta2 \left(\frac{\Delta REV_{it} - \Delta REC_{it}}{A_{it-1}}\right) + \beta3 \left(\frac{PPE_{it}}{A_{it-1}}\right) \ldots\ldots (3)$$

Finally, discretionary accruals (DA), which indicate earnings management, are calculated using Equation 4.

$$DAC_{it} = \left(\frac{TAC_{it}}{A_{it-1}}\right) - NDA_{it} \ldots\ldots (4)$$

TAC_{it} is the company's total accruals for the current year; NI_{it} is the company's net income after tax for the current year; CFO_{it} is the company's cash flow from operations for the current year; $A_{(it-1)}$ is the company's total assets for the previous year; ΔREV_{it} is the difference between the company's revenue for the current year and the company's revenue for the previous year; PPE_{it} is the company's fixed asset amount for the current year; NDA_{it} is the company's non-discretionary accruals for the current year; ΔREC_{it} is the difference between the company's receivables for the current year and the company's receivables for the previous year; and DAC_{it} is the company's discretionary accruals for the current year. Discretionary accruals are computed with industry-year regressions, with the model generated independently for each year within the manufacturing industry sample. This technique is chosen because accrual-generating processes are affected by both industry characteristics and temporal factors, including economic situations, regulatory changes, and reporting incentives.

The independent variable in this study is the military background of the board of commissioners and directors. A company is categorized as having a board of commissioners and directors with a military background if there is at least one military officer (graduated from a military academy and/or currently/formerly worked in a police or TNI institution) in the composition of the company's board members listed in the annual report biographies. This study measures the military background variables of the board of commissioners (symbolized by MB_BOC) with the number of board of commissioners with military background divided by total board of commissioners, and the military background of the board of directors (symbolized by MB_BOD) is measured by the number of directors with military background divided by total directors.

This study also uses several control variables, as presented in Table 1, such as firm size (SIZE), profitability (ROA), and leverage (DER), because all three influence earnings management practices. Large companies tend to have stricter internal control systems, making earnings management practices less likely to occur compared to small companies (Alam et al., 2020; Matonti et al., 2021). ROA and DER negatively influence earnings manipulation, as high profitability and debt increase company oversight and caution (Al-Shattarat, 2024; Widagdo et al., 2021).

Table 1. Control Variables

Control Variable	Formula	Reference
Company size (SIZE)	$Ln\ (Total\ Assets)$	Hutauruk et al. (2022).
Profitability (ROA)	$\dfrac{Net\ profit\ for\ the\ current\ year}{Total\ Assets}$	Irman et al. (2023)
Leverage (DER)	$\dfrac{Total\ Liability}{Total\ Equity}$	Naibaho and Natasya (2023)

Hypothesis testing in this study uses panel data regression analysis with the following hypothesis testing formula in Equation 5.

$$EM = \alpha + \beta_1 MB\_BOC_{it} + \beta_2 MB\_BOD_{it} + \beta_3 SIZE_{it} + \beta_4 ROA_{it} + \beta_5 DER_{it} + \varepsilon_{it} \ldots\ldots (5)$$

Where EM is the earnings management level obtained using discretionary accruals measurement, MB_BOC is the military background of the board of commissioners, MB_BOD is the military background of the board of directors, SIZE is company size, ROA is the company's profitability rate, and DER is the company's leverage rate.

Results and Discussion

The sample in this study consists of 136 publicly listed manufacturing sector companies between 2021 and 2023, with 408 observations. As shown in Table 2, the average value of EM (Earnings Management) is 0.0036, meaning that on average, the level of earnings management for the sample companies is 0.36%. However, some companies have an earnings management level as high as 0.7918 or 79.18%. While a minimum discretionary accrual of −1.4 may initially appear unusual, prior studies (even in similar emerging market settings, Indonesia) have observed comparably extreme outcomes (e.g., −7.679 as minimum in non-financial companies' data in the Indonesian Capital Market) and acknowledged that extraordinary accruals can result from one-off events or estimation sensitivities (Widagdo et al., 2022).

The MB_BOC variable (board of commissioners' military background) has an average value of 0.0216, which means that 2.16% of the sample companies have a board of commissioners with military experience. Meanwhile, the MB_BOD variable (directors' military background) shows an average value of 0.0021, meaning that only 0.21% of the sample companies were found to have directors with military experience. Furthermore, the variable SIZE (company size) shows an average value of 1.565 billion rupiah. The variable ROA (company profitability) shows an average of 0.0401, meaning that the overall average of the sample companies is positive profit. The DER variable (company leverage) has an average value of 0.5867, but its maximum value reaches 16.3400.

Table 2. Descriptive Statistics

Variable	N	Mean	Max	Min	Std. Dev.
Earnings Management (EM)	408	0.0036	0.7918	-1.4419	0.1320
Military Background of the BOC (MB_BOC)	408	0.0216	0.5000	0.0000	0.0777
Military Background of the BOD (MB_BOD)	408	0.0021	0.2500	0.0000	0.0219
Company Size (SIZE)	408	28.0794	32.8599	24.4451	1.5108
Profitability (ROA)	408	0.0401	0.9436	-0.9489	0.1239
Leverage (DER)	408	0.5867	16.3400	-17.9300	5.2522

Source: Secondary data processed (2025)

Table 3 shows the results of the analysis of the distribution of the board of commissioners and directors with military experience. The board of commissioners with military backgrounds is most prevalent in the raw materials and primary consumer goods subsectors (4 companies each), followed by industry and non-primary consumer goods (2 each), and healthcare (1); there are none in the technology subsector. The prevalence of commissioners with military backgrounds in Indonesia's basic materials sector is attributable to the nation's political and economic history. In the New Order era, the military functioned as a security organization and a formidable economic entity, overseeing enterprises and foundations within critical sectors such as mining, cement, forestry, and oil. This legacy persists today, as retired generals often hold posts on boards of commissioners, offering companies significant political connections and access to state resources. The basic materials market is heavily regulated and frequently reliant on government concessions, permits, and infrastructure initiatives, rendering relationships with key stakeholders especially vital.

Directors with military backgrounds are only found in industry and primary consumer goods (1 each), with none in other subsectors. Military backgrounds are more dominant on the board of commissioners than on the board of directors. It indicates that the prevalence of military backgrounds is more dominant at the board of commissioners (BOC) level than at the board of directors (BOD) level in

the manufacturing sector. The board of directors is accountable for daily operational management and technical decision-making, necessitating specialized knowledge in industry, finance, and management, rather than political or security considerations. Consequently, military personnel are less often designated to director roles, as they may lack the requisite technical or professional expertise for operational leadership.

Table 3. The Distribution of the BOC and BOD has a Military Background

	Manufacture Sector					
	Basic Material	Industrials	Consumer Cyclicals	Consumer Non-cyclicals	Healthcare	Technology
BOC	4	2	4	2	1	0
BOD	0	1	1	0	0	0

Source: Secondary data processed (2025)

In Table 4, we conducted a more in-depth analysis of the professions of the board of commissioners and directors with military backgrounds. The majority of the commissioners are former police officers (9 people) and Indonesian Army personnel (5 people), with one from the Indonesian Navy; there are none from the Indonesian Air Force. Most commissioners with a military background are at PT KMI Wire and Cable Tbk. and PT Kino Indonesia Tbk. (2 each). On the board of directors, there is only one former police officer and 1 Indonesian Army personnel in two companies; none are from the Indonesian Navy and Air Force. Military involvement is greater in the board of commissioners, dominated by police and Indonesian Army personnel.

Table 4. Statistics on the Professional Background of the BOC and BOD with a Military Background

Profession	Board of Commissioners (BOC)	Board of Directors (BOD)
Police	9	1
Indonesian army (TNI AD)	5	1
Indonesian Navy (TNI AL)	1	-
Indonesian air force (TNI AU)	-	-

Source: Secondary data processed (2025)

Table 5 shows the results of testing the best model. Based on the test results, the Cross-section Chi-square probability value is 0.0000 from the Chow test, which is less than alpha at 0.05 (<0.05). It means H0 is accepted, and H1 is rejected, so the FEM (Fixed Effect Model) is better than the Common Effect Model (CEM). Furthermore, the Hausman test results show that the probability value is 0.0014, which is less than 0.05 (<0.05), meaning H0 is accepted and H1 is rejected, so the panel data regression model used is the FEM (Fixed Effect Model). The Lagrange Multiplier test was not used in this study because the results of the previous model estimation approach tests, the Chow test, and the Hausman test, showed that the best model was the Fixed Effect Model (FEM).

Table 5. Best Model Testing

Testing	Prob.	Evidence
Chow Test	0.0000	Fixed Effect Model
Hausman Test	0.0014	Fixed Effect Model

Source: Secondary data processed (2025)

The author conducted a multicollinearity test in this study to determine whether the data used were unique or uncorrelated. We primarily conducted correlation diagnostics to ensure multicollinearity did not bias our estimations. Other assumptions, such as heteroskedasticity and autocorrelation, were not

explicitly tested. However, in panel data regressions using the Fixed Effect Model (FEM), estimators remain consistent even in the presence of these issues (Wooldridge, 2010; Baltagi, 2008).

Table 6 presents the correlation matrix among the independent variables as an initial step to detect potential multicollinearity. All pairwise correlation values are below the commonly accepted threshold of 0.8, indicating no preliminary signs of multicollinearity.

Table 6. Correlation Matrix

	MB_BOC	MB_BOD	SIZE	ROA	DER
Military Background of the BOC (MB_BOC)	1.000				
Military Background of the BOD (MB_BOD)	0.244	1.000			
Company Size (SIZE)	0.147	0.030	1.000		
Profitability (ROA)	0.012	0.110	0.236	1.000	
Leverage (DER)	-0.019	-0.002	0.015	0.114	1.000

Source: Secondary data processed (2025)

This study uses panel regression analysis to determine the relationship between the military background of the board of commissioners and directors and earnings management. Table 7 shows that the board of commissioners' military background variable (MB_BOC) significantly negatively affects earnings management, supporting the first hypothesis (H1). The directors' military background (MB_BOD) does not significantly affect earnings management, so the second hypothesis (H2) is rejected. The control variables of firm size (SIZE) and leverage (DER) did not have a significant effect on earnings management, while profitability (ROA) did have a significant effect on earnings management.

Table 7. Fixed Effect Model Regression

Variable	Coef.	t-Statistics	Prob.
Constant	0.8497	0.7864	0.4323
Military Background of the BOC (MB_BOC)	-0.4810	-1.9810	0.0486**
Military Background of the BOD (MB_BOD)	-0.4683	-0.3291	0.7424
Company Size (SIZE)	-0.0306	-0.7958	0.4269
Profitability (ROA)	0.5862	7.0320	0.0000***
Leverage (DER)	0.0006	0.3868	0.6992
Adjusted R-squared	0.2256		
Prob (F-statistic)	0.0000		
N	408		

Source: Secondary data processed (2025)
Significance levels in 1% (***); 5% (**); and 10% (*)

Board of Commissioners' Military Background and Earnings Management

The results of the first hypothesis testing (H1) support that the military background of the board of commissioners significantly negatively affects earnings management. Statistical analysis shows a t-statistic probability value of 0.0486 (below the significance level of 0.05) with a coefficient of -0.4810, indicating that the presence of board members with a military background is effective in suppressing earnings management practices in manufacturing companies on the Indonesia Stock Exchange (IDX). This finding reveals that the discipline, strategic experience, and integrity inherent in the military can improve the quality of supervision, thus limiting the scope for accounting manipulation. Previous research relevant to these findings is the study conducted by Xu et al. (2024) and Li et al. (2024). A study by Xu et al. (2024) revealed that military-background executives enhance the effectiveness of board oversight, particularly in reducing accrual-based earnings management. Meanwhile, Li et al. (2024) found that US companies led by former military officers had lower real and accrual earnings manipulation. These two

studies confirm that military leadership values such as discipline and accountability contribute to stricter governance, thereby minimizing opportunistic profit management practices.

This finding aligns with agency theory and resource dependence theory. From an agency theory perspective, the presence of a military background board of commissioners promotes more careful and conservative decision-making, thereby enhancing internal control and minimizing the risk of accounting fraud. As explained by Benmelech and Frydman (2015), companies with military boards of directors tend to avoid high-risk practices in financial reporting.

Furthermore, these findings also reveal another role of the board of directors' presence in suppressing earnings management practices, namely their expertise (human capital), which is reflected in military values that can promote transparency and access to external resources, thus reducing reliance on earnings manipulation to maintain company legitimacy, in line with resource dependence theory, as stated by Hillman et al. (2009) and Hillman and Dalziel (2003). It is supported by Law and Mills (2017), who showed that a military background is correlated with stricter tax compliance, namely the habit of managers with a military background in avoiding tax fraud.

Board of Directors' Military Background and Earnings Management

The results of testing the second hypothesis (H2) indicate that the directors' military background has no significant effect on earnings management, with the t-statistic probability value reaching 0.7424, which exceeds the significance threshold of 0.05. This indicates that the presence of directors with a military background is not effective in reducing earnings management practices. This finding was also influenced by the average proportion of directors with a military background in the research objects, which was only 0.0021 or 0.21%, indicating that their number was very small. The research by Widodo and Fanani (2020) aligns with these findings, indicating that the CEO's military background does not affect earnings quality. Conversely, this study contradicts the research by Cai et al. (2021), which found that the presence of independent directors with military backgrounds can enhance the board's oversight effectiveness of managers, thereby limiting earnings management practices. Meanwhile, Lai et al. (2023) argued through research findings that companies with military managers are correlated with higher levels of earnings management.

These findings do not support agency theory, which posits that CEOs of companies with military backgrounds should be less likely to commit fraud as revealed by Benmelech and Frydman (2015), thus showing that military experience can provide individuals with a stricter moral code and cause them to do things in an ethical manner (Azis et al., 2022; Nasih et al., 2019). However, this finding also does not support resource dependence theory. The presence of military background directors should be able to improve compliance in financial reporting (Cai et al., 2021) through the expertise (human capital) gained from military experience, which promotes transparency and accountability, thereby reducing reliance on earnings manipulation (Hillman et al., 2009; Hillman & Dalziel, 2003).

Control Variables on Earnings Management

The company's profitability, measured by Return on Assets, shows a strong and statistically significant relationship with earnings management, with a t-statistic probability value of 0.0000 (lower than the significance threshold of 0.05) and a positive coefficient of 0.5862. This finding is consistent with Guna and Herawaty (2010), who found that profitability, proxied by Return on Assets (ROA), significantly affects earnings management. Agency theory supports this finding, stating that the higher the profitability ratio (ROA), the better the asset productivity in generating net profit; thus, ROA can motivate management to engage in earnings management (Guna & Herawaty, 2010).

Meanwhile, the firm size variable (denoted by SIZE) did not show a significant effect on earnings management, with a t-statistic probability value of 0.4269, exceeding the threshold of 0.05. This finding contradicts the research by Alam et al. (2020), Khanh and Khuong (2018), and Matonti et al. (2021), which revealed that larger companies tend to have stricter internal control systems, making earnings

management practices more difficult to occur compared to smaller companies. However, this finding aligns with Agustia and Suryani (2018) and Guna and Herawaty (2010), who concluded that company size does not affect earnings management. Agustia and Suryani (2018) added that large companies typically receive closer scrutiny from the government, analysts, and investors. It creates fear among managers about engaging in earnings management practices because it could damage the company's credibility.

Furthermore, the leverage variable represented by the Debt-to-Equity Ratio (DER) also did not significantly affect earnings management, with a t-statistic probability value of 0.6992, greater than the threshold of 0.05. This finding aligns with Al-Shattarat (2024), who concluded that leverage (DER) does not affect accrual-based earnings management practices. In this study, the average company had a safe leverage of 58.67%, below 100%, indicating that the companies could pay off their debts to finance company assets. With good financial conditions, managers are not motivated to engage in earnings management practices. Additionally, Al-Shattarat (2024) emphasizes that corporate funding does not only come from debt but can also originate from investors, adding complexity as leverage does not always enhance earnings management.

Robustness Test

The robustness test was conducted by examining earnings management beyond accrual activities, specifically, real activities earnings management, using the earnings management detection methodology developed by Roychowdhury (2006). Table 8 reports that the results are similar to the previous regression results using accrual earnings management measurement. The results of this study indicate that the board of commissioners with a military background has a negative and significant influence on real earnings management. In contrast, directors with a military background do not influence real earnings management. Based on these test results, it can also be seen that the control variable ROA has a positive and significant effect on real earnings management. Meanwhile, company size (SIZE) and DER do not significantly affect real earnings management.

Table 8. Robustness Test

Variable	Coef.	t-Statistic	Prob.
Constant	0.4991	0.6190	0.5363
Military Background of the BOC (MB_BOC)	-2.0518	-5.0012	0.0000***
Military Background of the BOD (MB_BOD)	-1.2697	-0.7100	0.4783
Company Size (SIZE)	-0.0048	-0.1689	0.8659
Profitability (ROA)	0.2970	1.7493	0.0819*
Leverage (DER)	0.0019	0.5979	0.5503
Adjusted R-squared	0.0713		
Prob (F-statistic)	0.0000		
N	408		

Source: Secondary data processed (2025)
Significance levels in 1% (***); 5% (**); and 10% (*)

Conclusion

This study found that the military background of the board of commissioners negatively affects earnings management practices of manufacturing companies listed on the Indonesia Stock Exchange (IDX) from 2021 to 2023. It indicates that the presence of board members with military backgrounds plays a significant role in suppressing earnings management practices. This finding aligns with agency theory and resource dependence theory, revealing that the human capital of the board of commissioners, through military experience, shapes disciplined, transparent, and integrity-based characters (resource dependence theory), thereby improving the quality of supervision and limiting the scope for accounting

manipulation (agency theory). Meanwhile, the directors' military background shows no significant effect on earnings management in manufacturing companies listed on the IDX from 2021 to 2023. Directors with military experience were not effective enough in reducing the practice of manipulating financial statements. This finding contradicts agency theory and resource dependence theory. It provides a new perspective that although agency theory suggests CEOs with military backgrounds are less likely to engage in fraud, their military human capital does not always directly impact accounting compliance, contrary to resource dependence theory. In other words, the human capital inherent in directors with military backgrounds did not prove sufficient to limit external influence.

The results may have some implications for the practice. Firstly, we hope that the results can provide valuable insights for company stakeholders, especially investors, regarding the potential risks and benefits associated with earnings management in companies with a board of commissioners and directors with military backgrounds. Secondly, it is hoped that the results of this research can provide important guidance for future research and contribute effectively to the development of theory and practice in earnings management. Thirdly, the findings of this study can serve as a basis for other researchers to explore additional variables that may influence the effectiveness of controlling aggressive earnings management practices in Indonesia. Finally, future researchers can also utilize these findings to develop educational modules emphasizing the importance of military-background board members and directors in ensuring corporate compliance, particularly in transparent and accurate accounting information disclosure.

This study has several limitations that must be considered for future study development. First, based on the data collection results, only two companies with directors from a military background were found out of the 136 companies in the research sample from 2021 to 2023. Second, information regarding the military backgrounds of members of the board of commissioners and directors was only obtained from each company's annual reports, by manually reading their profiles, which could lead to subjective assessment by the author.

Further research should expand the scope of the study by including all companies listed on the Indonesia Stock Exchange. Another alternative is to research the same sector, but expanding the data to other countries in Asia allows for cross-country comparisons to gain more comprehensive insights. Additionally, further research is recommended using structured databases such as the Indonesia Capital Market Directory (ICMD) to improve accuracy, as implemented in similar studies conducted by Azis et al. (2022), Harymawan et al. (2024), and Wahab et al. (2023).

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