THE EFFECT OF INDEPENDENT COMMISIONER ON REAL EARNINGS MANAGEMENT WITH THE MODERATION OF POLITICAL CONNECTION

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Abstract

This research purpose to investigate the effect of independent commissioners on real earnings management with moderation political connection and to investigate real earnings management uses to avoid earning decreases. This research using quantitative research approach. This research using population manufacturing companies who listed on the Indonesia Stock Exchange during 2018 until 2020. This research using the purposive sampling method, with number of observation 306 firms were determined. Multiple linier regression and hierarchical regression analysis uses to testing research hypothesis. Based on the analysis, it showcased that real earning management with proxy abnormal cash flow of operation can used to avoid earning decreases. However, proxy abnormal production cost and abnormal discretionary expense didn't used to avoid earning decreases. Other results showcased that independent commissioners can be used to minimize real earnings management with proxy abnormal production cost and political connection can't moderate the effect of independent commissioners on real earnings management.

Kata Kunci: *Independent Commissioner, Real Earnings Management, Political Connecti*on

INTRODUCTION

Multiple companies in Indonesia doing earnings management, whose research was conducted by Subekti (2012), Livia (2014), and Vajriyanti et al. (2016). One of the phenomena of earnings management in Indonesia is the Unilever case. Unilever gets criticism from financial advisors because Unilever's profit increase of 19.03% in 2022 was not due to operational success. This increase occurred because Unilever delayed recording service fees. Service fees that are usually paid to affiliated parties suddenly disappear from the financial statements. Looking at Unilever's cases in 2012 Unilever had done removing service fees and then recording them in the next pe-riod so that there was an increase in expenses in the next period (Rahadian, 2022).

Burgstahler & Dichev (1997) and Graham et al. (2005) found that managers are moti-vated to do earnings management to get earning targets: 1) to avoid reporting losses; 2) to avoid earning decreases from the previous year and 3) to get earning forecast from analysts. Scott (2015) explained the motivations of managers doing earnings management is to meet investors' earning expectations and maintain reputation. Managers get earning targets because managers have pressure to give investor expectations of good performance which is reflected in increased company earnings (Degiannakis et al., 2019; Azmi et al., 2022). Earnings have increased in the previous period indicating the company's performance is good. Based on the other research, it estimated 8% until 12% of firms with small earnings decrease, doing earnings management to increase earnings which is reflected in distribution cross-sectional from changes in earnings, there is a small frequency for earning decreases in small amounts and high frequency for earn-ings increases in small amounts (Burgstahler & Dichev, 1997). Managers do earnings manage-ment to meet shareholder expectations, such as increasing earnings from the previous period, so earnings management is used to avoid earning decreases (Degiannakis et al., 2019).

Earning decreases occur because of the manager's bad performance in that year, but it can be covered with earnings management, so shareholders do not know that the firm's earning has decreased, and assume earnings have increased. It makes shareholders make wrong deci-sions such as holding their shares or even buying new shares. Based on this, earnings manage-ment makes shareholders lose

because the reliability and transparency of financial information become less accurate (Dechow & Skinner, 2000).

Managers choose to use earnings management based on real activities more than accru-al, based on research by Roychowdhury (2006), Zang (2012) and Zhu et al. (2015). The reason why managers prefer to use real earnings management than accrual earnings management be-cause accrual is more supervised by auditors (Zang, 2012). Based on that, it is easier to detect accrual more than real earnings management. Graham et al., (2005) found accrual is highlighted by auditors, while real earnings management is less highlighted by auditors because the actions of it are similar to business decisions. Christyansah & Subekti (2016) found risk of being de-tected accrual earning management by auditors is high, so the companies will incur large audit fees. Meanwhile, real earnings management can minimize the risk of being detected by the au-ditor, because pricing policies, production quantities, and discretionary costs do not attract the auditor's attention. Subekti (2012) proves the majority of public companies in Indonesia prefer to manage earnings using activities real more than accrual.

Corporate governance is used to minimize earnings management because it makes fi-nancial reports more transparent. Mallin (2013) stated the quality and transparency of financial reports are determined by corporate governance. One of the components of corporate govern-ance is independent commissioners. The board of commissioners has a monitoring function by their duties, that is supervising management of the firm and giving advice to the directors. Inde-pendent commissioners do not have conflicts of interest in carrying out their duties so they can carry out their supervisory functions more effectively, including monitoring the quality of finan-cial reports (Pratami et al., 2021).

Anggraeni & Hadiprajitno (2013); Latif & Abdullah (2015); Manurung & Syafruddin (2020) found there is negative effect independence of board commissioners on earnings man-agement. Shaqila (2021) found there is negative effect recommendations of the board of com-missioners on fraudulent financial statements. However, Firnanti (2017), Rucita & Sanjaya (2021), and Sari et al. (2021) found the independence of board commissioners does not affect earnings management. The inconsistent results of the study of independent commissioners on earnings management made researchers include moderating variables. Researchers use political connections as a moderating variable to interact the effect of independent commissioners on earnings management. Based on resource dependence theory, the negative effect of independ-ent commissioners on earnings management can strengthen by political connections. Political connections have a positive effect on companies because political connections are good corpo-rate strategies to minimize external environmental uncertainties, especially from the govern-ment, and ultimately improve company performance (Hillman & Dalziel, 2003). Boards con-nected to politics will provide many conveniences and facilities for companies (Faccio, 2006). Ang (2012) proves that an independent board that has political connections can make a positive contribution to the company, so it can reduce earnings management.

The advantage of this research than previous research is the measurement of independent commissioners using the recommendations of the board of commissioners which are rarely used in previous studies. Proxies uses to measurement real earnings management measurement is the abnormal cash flow of operation (ABNCFO), abnormal production cost (ABNROD), and ab-normal discretionary expense (ABNDISCR). This proxy has been modified and adapted to the conditions of the Indonesian economy, so the measurements using this model can provide better results. The measurement of political connections by Supatmi et al. (2019) uses the political connection score index (PCIDX), which is measured by a total score of the existence of political connections based on position and status.

Real Earnings Management to Avoid Earning Decreases

Burgstahler & Dichev (1997) and Graham et al., (2005) found managers are motivated to do earnings management to avoid earning decreases. Managers avoid earning decreases because the

manager's performance is reflected in the company's earnings. Burgstahler & Dichev (1997) stated earnings decrease from the previous period indicated the manager's performance was bad, which gave negative signals to stakeholders, so the companies would pay more costs in transactions with stakeholders. In addition, bad manager performance also affected to manager's reputation. Therefore, to maintain their reputation, managers do earnings management to avoid earning decrease. Roychowdhury (2006) stated companies doing real earnings management by accelerating sales or making sales increase by providing discounts or extending credit. This is a way to increase operating cash flow. Managers also carry out earnings management by delaying research and development or reducing research and development costs. The other method is managers make the cost of goods sold is lower by produce bigger products than usual, so it makes the company will report a higher operating profit. Based on that, the formulated of research hypothesis is

H1a: Firms doing real earnings management with increased cash flow of operation to avoid earning decreases

H1b: Firms doing real earnings management with increased production cost to avoid earning decreases

H1c: Firms doing real earnings management with decreased discretionary expense to avoid earning decreases

The Influence Independent Commissioner on Real Earnings Management

Monitor the management of the company and provide advice to the directors has a duty of the board of commissioners. Therefore, the board of commissioners can limit earnings management, especially independent commissioners. Independent commissioners do not have conflicts of interest in doing their duties, so they can do supervisory functions more effectively, including monitoring the quality of financial reports (Pratami et al., 2021). Previous research by Putri & Supatmi (2022) show there is negative effect the board of commissioners on real earnings management as measured by abnormal production costs. Other previous research by Latif & Abdullah (2015) show there is negative effect of independent commissioners on earnings management. Based on that, the formulated of research hypothesis is

H2a: Real earnings management which is proxy by abnormal cash flow of operations can reduce by independent commissioner

H2b: Real earnings management which is proxy by abnormal production costs can reduce by independent commissioner

H2c: Real earnings management which is proxy by abnormal discretionary expenses can reduce by independent commissioner

The Influence Independent Commissioner on Real Earnings Management Through Political Connection as a Moderator

Political connections are believed to be a valuable resource for companies (Fisman, 2001). Members of the firm liked board of directors, board of commissioners, or company shareholders who have political connections, will give the company various benefits and facili-ties for conducting transactions, so the performance of the company will be good (Faccio, 2006). Good company performance will increase company earnings, so managers do not need to do earnings management to meet earning targets. Supatmi et al. (2019) state companies that have political connections will be watched more closely by the public, so political connections can limit earnings management. Savitri (2021) proves there is negative effect political connec-tions on earnings management. It can be because company pays more attention to reputation and company maintains the privilege of the political relationship that exists between the gov-ernment and the company, so the company avoids things that

can make the company's reputa-tion worse. It proved by Ang (2012)'s research that independent board who has political con-nections can make a positive contribution to the company, so it can minimize earnings man-agement. Based on that, the formulated of research hypothesis is

H3a: Real earnings management which is proxy by abnormal cash flow of operations can re-duce by independent commissioner who strengthen by political connection

H3b: Real earnings management which is proxy by abnormal production costs can reduce by independent commissioner who strengthen by political connection

H3c: Real earnings management which is proxy by abnormal discretionary expense can reduce by independent commissioner who strengthen by political connection.

METHOD

This research used a quantitative research approach. Explanatory research with causal purposes is a type of this research, it used panel data. Manufacturing companies listed on the Indonesia Stock Exchange during 2018 until 2020 is the population, and the sample selection used purposive sampling method with criteria; Manufacturing firms listed on the Indonesia Stock Exchange during 2018 until 2020 with complete annual reports, Firms using rupiah currency in financial reports, Firms have complete information recommendations board of commissioners, and profiles board of commissioners and board of directors. Based on these criteria, 102 companies were selected with a total of 306 observations.

Table 1. Research Sampling

No	Criteria	Total
1	Manufacturing companies listed in IDX in 2018	165
2	Manufacturing companies are not listed for the period 2018-2020	(13)
3	Manufacturing companies don't use rupiah currency on their financial report	(29)
4	Manufacturing companies do not have a complete annual report	(21)
	Numbers of sample	102
	Number of observations from 2018-2020	306

Source: *The Processed Primary Data (2024)*

Dependent variables in this research is real earnings management. Three proxies use to measured it, namely abnormal cash flow from operations, abnormal production costs, and abnormal discretionary expenses. Reference three proxies from Subekti (2012).

$$ABNCFO = CFO_t / A_{t-1} - [\alpha_0 + \alpha_1 (1/\log A_{t-1}) + \alpha_2 (S_t / A_{t-1}) + \alpha_3 (\Delta S_t / A_{t-1})]$$

$$ABNPROD = PROD_t / A_{t-1} - [\alpha_0 + \alpha_1 (1/\log A_{t-1}) + \alpha_2 (S_t / A_{t-1}) + \alpha_3 (\Delta S_t / A_{t-1}) + \alpha_4 (\Delta S_{t-1}/A_{t-1})]$$

$$ABNDISCR = DISCR_t / A_{t-1} - [\alpha_0 + \alpha_1 (1/\log A_{t-1}) + \alpha_2 (S_t/A_{t-1})]$$

Description:

α = Regression coefficient

A_{t-1} = Total asset in year t-1

$ABNCFO$ = Abnormal cash flow from operation

CFO_t = Cash flow from operation in year t

$ABNPROD$ = Abnormal production cost

$PROD_t$ = Production cost in year t

$ABNDISCR$ = Abnormal discretionary expense

$DISCR_t$ = Discretionary expense in year t

S_t = Sales in year t

ΔSt = Sales in year t minus year t-1

$\Delta St\text{-}1$ = Sales in year t-1 minus t-2

Independent commissioner is the independent variable. Recommendations the board of commissioners uses to measured independent commissioner (Shaqila, 2021).

$$ICP = \frac{\text{Total board of commissioners recommendations}}{\text{Total recommendations according to OJK rules}}$$

Moderating variable of this research is political connection. Political connection score index (PCIDX) from Supatmi et al. (2019), which has been adapted to the Indonesian condition are uses to measured political connection. The score of political connections is measured by adding up the score existence of political connections based on position and status. People who were still active during the research period and those who were no longer active during the research period will get differenced score. People in politics who are still active are given higher scores than those who are no longer active. Score between 2 (lowest) to 9 (highest) will give to member of company who still active in firm, while score between 1 (lowest) to 8 (highest) will give to member of company who are no longer active in firm. Member of company who has no political connection will give a zero score.

Return on assets (ROA) is the control variable of this research, it is a financial ratio used analytically to measure a company's earnings compared to total assets owned by the company. Measurement of return on assets as follows

$$ROA = \frac{\text{Income}}{\text{Total Asset}}$$

The sample is divided into firms that are suspected of doing real earnings management to avoid earnings decreases and firms that are not suspected of doing it. Classify the sample into firms that are suspected of doing real earnings management and those do not real earnings management measured by dummy ROA. The reason why uses ROA to distinguish firms that are suspected and not suspected because ROA is used to measure the performance of managers using company assets to generate profits, so if ROA increases, it means the manager's performance also increases evidenced by an increase in profits compared to the previous year. Firms who have ROA bigger than zero but less than equal to 1% compared to the previous year's ROA (ROA for year t-1 < ROA for year t ≤ ROA for year t-1 x 1%) is a firm who suspected of doing real earnings management to avoid earning decreases. A limitation rate using 1% is a novelty because most previous research used a limitation rate of 5%. A limitation rate of 1% will provide a more careful level to determine companies that are suspected of doing real earnings management to avoid earning decreases. Dummy variables used to measure it. Grade 1 given to firms that are suspected and grade 0 given to firms that are not suspected.

Table 2. Firms who Identification Suspected doing Real Earnings Management

Year	Suspected	Unsuspected
2017	6	96
2018	5	97
2019	5	97
2020	5	97
Total	21	387

Source*: The Processed Primary Data (2024)*

This research used multiple linear regression analysis to test hypothesis 1, Firms doing real earnings management to avoid earning decreases. The regression model of this research is

$$REM = \alpha + \beta1Dm\_ROA + \beta2ROA + \varepsilon t$$

Description:

α = Constant

β = Regression Coefficient

REM = Real Earning management proxies abnormal cash flow of operation (H1a), abnormal production cost (H1b), and abnormal discretionary expense (H1c)

Dm_ROA = Dummy ROA (1 for the sample who identified doing earning management, and 0 for the sample who do not identify doing earning management)

ROA = Control variable Return on Asset

Hierarchical multiple regression analysis used to test hypotheses 2 – 3, namely real earnings management can reduce by independent commissioner. Then analyze real earning management can reduce by independent commissioner who strengthen by political connection. The regression model of this research is

$REM = \alpha + \beta_1 IC + \beta_2 ROA + \varepsilon_t$

$REM = \alpha + \beta_1 IC + \beta_2 ROA + \beta_3 PC + \varepsilon_t$

$REM = \alpha + \beta_1 IC + \beta_2 ROA + \beta_3 PC + \beta_4 IC*PC + \varepsilon_t$

Description:

α = Constant

β = Regression Coefficient

REM = Real Earnings management

IC = Independent commissioner

PC = Political connections

ROA = Return on Asset

ε = error term

RESULT AND DISCUSSION

The results of the descriptive statistical analysis show on table 3. It explains the characteristics of the data distribution, such as mean, standard deviation, minimum and maximum. Abnormal cash flow of operations, abnormal production costs, abnormal discretionary expenses, political connections, and return on assets are varied in terms of minimum and maximum data. It can be seen from the mean score is smaller than the standard deviation. Meanwhile, independent commissioners have minor variations in minimum and maximum data. It can be seen from the deviation standard that is smaller than the mean.

Table 3. Descriptive Statistical Analysis

Variable	Minimum	Maximum	Mean	Std. deviation
IC	0.00	1	0.420	0.295
ROA	-1.049	0.921	0.047	0.133
PC	0.00	26	2.095	4.405
ABNCFO	-0.383	0.463	0.005	0.097
ABNPROD	-0.913	0.537	0.007	0.235
ABNDISCR	-0.294	0.683	0.003	0.130

Source: *The Processed Primary Data (2024)*

Table 4 are shown the results of multiple linear regression analysis. The results of the F test shows all real earnings management models with all proxies are significant, so every real earnings management model is good and can be used to predict the dependent variable.

Table 4. Multiple Linear Regression Analysis

	ABNCFO		ABNPROD		ABNDISCR	
	B	**t**	**B**	**t**	**B**	**t**
Constant	-0.022	-4.268	0.043	3.299	-0.009	-1.202
DUMMY	0.116*	2.339	0.077	0.627	-0.081	-1.084
ROA	0.338**	9.226	-0.768***	-8.420	0.161**	2.916
F-Value	46.132**		35.500**		4.731**	
Adjusted R^2	0.233		0.190		0.030	

Source: *The Processed Primary Data (2024)*
** sig at α = 5%   *** sig at α = 1%

Real Earnings Management to Avoid Earning Decreases

Table 4 shown the results of the multiple linear regression analysis. The coefficient Dummy for the proxy abnormal cash flow of operation (ABNCFO) is 0.116 and the t value is 2.339 significant at 5% level. Hypothesis 1a is supported by these results, that firms doing real earnings management with increased cash flow of operation to avoid earning decreases. It results reinforce the findings that 8% until 12% of companies with small earning decreases do earnings management to get earning increases (Burgstahler & Dichev, 1997). This finding strengthens the prospect theory by applying to earnings management, decisions taken by managers are related to profits or losses seen from a reference point, namely a zero point (Kahneman & Tversky, 1979). These results supported Roychowdhury (2006) stated that is companies doing real earnings management by accelerating sales or making sales increases by providing discounts or extending credit. This is a way to increase operating cash flow.S

The coefficient dummy for the proxy abnormal production costs (ABNPROD) is 0.077 with the t value 0.627 not significant. The coefficient dummy for the proxy abnormal discretionary expense (ABNDISCR) is -0.081 with the t value -1.084 not significant. It means hypotheses 1b and 1c are not supported, which means firms do not real earnings management to avoid earning decreases on real transactions such as production costs and discretionary expenses. These results do not support previous research by Handayani & Rachadi (2009), Subekti (2012), and Vajriyanti et al. (2016). The reason why firms do not real earnings management to avoid earning decreases by increasing production costs, because if managers do real earnings management by increasing production costs such as producing more goods than needed, the company also requires a wider storage space, so this will burden the company.

Therefore, the method of real earnings management by increasing production costs is not used by managers to avoid earning decreases. Other hypothesis test result, firms do not real earnings management to avoid earning decreases by decreasing discretionary expenses because decrease discretionary expenses such as R&D cost by manager will have an impact on value of the company in the future (Roychowdhury, 2006). Decreased R&D costs at this time will have an impact on reducing the company's competitive ability in the future. Company's ability to innovate is the good things for company in the future, so decreasing discretionary expenses will make it difficult for the company to compete in the future and it can reduce sales. Therefore, decreasing discretionary expense is not used by managers to avoid earning decreases.

Real earnings management with the proxy ABNCFO resulted the adjusted R squared 23.3%. It means dummy (X1) and returns on assets (X2) explain 23.3% proxied by ABNCFO (Y) and 76.7% explained by another variables are not used in this research. The adjusted R squared the real earnings management proxied by ABNPROD is 19%. It means dummy (X1) and returns on assets (X2) explain 19% proxied by ABNPROD (Y) and 81% explained by another variables are not used in this research.

The adjusted R squared the real earnings management proxied by ABNDISCR is 3%. It means dummy (X1) and returns on assets (X2) explain 3% proxied by ABNDISCR (Y) and 97% explained by another variables are not used in this research.

Table 5 shown the results of hierarchical linear regression analysis. The results of F test shows all real earnings management models with proxies ABNCFO, ABNPROD and ABNDISCR are significant, so every real earnings management model is good and it can be used to predict the dependent variable.

Table 5. Hierarchical Regression Analysis

	ABNCFO		ABNPROD		ABNDISCR	
	B	t	B	t	B	t
Stage 1 Hierarchical Model						
Constant	-0.024	-2.829	0.088	4.178	-0.013	-0.989
IC	0.008	0.461	-0.110**	-2.661	0.007	0.257
ROA	0.338**	9.045	-0.727**	-7.962	0.157**	2.796
F-value	42.763**		39.624**		4.162*	
Adjusted R^2	0.220		0.207		0.027	
Stage 2 Hierarchical Model						
Constant	-0.025	-2.871	0.094	4.475	-0.016	-1.252
IC	0.006	0.369	-0.094*	-2.269	-0.002	-0.082
ROA	0.336**	8.953	-0.708**	-7.786	0.147**	2.618
PC	0.001	0.538	-0.007*	-2.381	0.004*	2.117
F-value	28.538**		28.712**		4.301**	
Adjusted R^2	0.221		0.222		0.041	
Stage 3 Hierarchical Model						
Constant	-0.027	-2.866	0.093	4.104	-0.016	-1.128
IC	0.012	0.597	-0.093*	-1.951	-0.003	-0.106
ROA	0.336**	8.930	-0.708**	-7.773	0.147**	2.614
PC	0.002	0.763	-0.006	-1.197	0.003	1.049
IC*PC	-0.002	-0.566	0.000	-0.060	0.000	0.071
F-value	21.435**		21.464**		3.216*	
Adjusted R^2	0.222		0.222		0.041	

Source: The Processed Primary Data (2022)

** sig at $\alpha = 5\%$ *** sig at $\alpha = 1\%$

The Effect of Independent Commissioner on Real Earnings Management

The results of hypothesis testing 2 are the first stage of a hierarchical regression model. Shown in Table 5. Hypothesis 2b independent commissioner can reduce real earnings management with proxy abnormal production cost (ABNPROD), showing the coefficient of independent commissioner -0.110 with t value -2.661 is significant. It means more independent commissioners, make real earnings management with proxy ABNPROD increasingly limited. This result supported previous research by Putri & Supatmi (2022), Latif & Abdullah (2015), and Anggraeni & Hadiprajitno (2013). Independent commissioners must monitor and supervise the management of the firm and advise the directors. Independent commissioners do not have conflicts of interest in doing their duties, so they can do supervisory functions more effectively, including monitoring the quality of financial reports (Pratami et al., 2021). Therefore, real earnings management with proxy abnormal production cost (ABNPROD) can reduce by independent commissioners.

Meanwhile, hypothesis 2a real earnings management with proxy abnormal cash flow of operation (ABNCFO) can reduce by independent commissioner shows the coefficient of independent commissioner 0.008 with t value 0.461 is not significant. Hypothesis 2c independent commissioner can reduce real earnings management with proxy abnormal discretionary expense (ABNDISCR) shows the coefficient of independent commissioner 0.007 with t value 0.257 is not significant. It means proxy abnormal cash flow of operation (ABNCFO) and abnormal discretionary expenses (ABDISCR) can't reduce by independent commissioners. This results do not support the research of Latif & Abdullah (2015), Manurung & Syafruddin (2020) dan Shaqila (2021). However, this research supported the research of Firnanti (2017) and Siregar & Utama (2008) that independent commissioners do not affect earnings management. Independent commissioners can't reduce it, which could be due to the lack of effectiveness of independent commissioners so they cannot limit earnings management. The effectiveness of independent commissioners are lacking because the board of commissioners has many other positions in various companies and lacks experience as a board of commissioners (Nor & Ismail, 2015).

The first stage of the hierarchical regression model that uses ABNCFO as the proxy resulted in the adjusted R squared 22%. It means the independent commissioner (X1) and return on assets (X2) explain 22% proxied by ABNCFO (Y) and 78% explained by another variables are not used in this research. Real earnings management by proxy ABNPROD resulted in the adjusted R squared 20.7%. It means the independent commissioner (X1) and returns on assets (X2) explain 20.7% proxied by ABNPROD (Y) and 79.3% explained by another variables are not used in this research. Real earnings management by proxy ABNDISCR resulted in the adjusted R squared 2.7%. It means the independent commissioner (X1) and returns on assets (X2) explain 2.7% proxied by ABNDISCR (Y) and 2.7% explained by another variables are not used in this research.

The Effect of Independent Commissioner on Real Earnings Management With Moderation Political Connection

Table 5 shown the results of hypothesis testing 3 are the third stage of a hierarchical regression model. Hypothesis 3a real earnings management with proxy abnormal cash flow of operation (ABNCFO) can reduce by independence commissioner who strengthen by political connection shown the coefficient -0.002 with t value -0.566 is not significant. Hypothesis 3b political connection can strengthen independence commissioner to reduce real earnings management with proxy abnormal production cost (ABNPROD) shown the coefficient -0.000 with t value -0.060 is not significant. Hypothesis 3c political connection can strengthen independence commissioner to reduce real earnings management with proxy abnormal discretionary expense (ABNDISCR) shown the coefficient 0.000 with t value 0.071 is not significant. These results mean political connections can't moderate the effect of independent commissioners on real earning management. These results do not support previous research by Supatmi et al. (2019), Savitri (2021), and Ang (2012). The reason why political connections can't moderate it because the number of political personnel on the board of the company is not large. Most of the sample shows no political connections on the company's board. The number of sample companies that have politics only consists of 31 companies out of a total sample of 103 companies, which means there are only 30% of companies who have personnel politics. The low number of personnel politically connected makes political connections can't moderating the effect of independent commissioners on real earnings management.

The third stage of the hierarchical regression model that uses ABNCFO as the proxy resulted in the adjusted R squared 22.2%. It means the independent commissioner (X1), return on assets (X2) and political connection (Z) explain 22.2% proxied by ABNCFO (Y), and 77.8% explained by another

variables are not used in this research. Real earnings management by proxy ABNPROD resulted in the adjusted R squared 22.2%. It means the independent commissioner (X1), return on assets (X2) and political connection (Z) explain 22.2% proxied by ABNPROD (Y), and 77.8% explained by another variables are not used in this research. Real earnings management by proxy ABNDISCR resulted in the adjusted R squared 4.1%. It means the independent commissioner (X1), return on assets (X2) and political connection (Z) explain 4.1% proxied by ABNPROD (Y), and 95.9% explained by another variables are not used in this research.

CONCLUSION

Real earnings management by proxy abnormal cash flow of operation is used to avoid earning decreases. Meanwhile, proxy abnormal production costs and abnormal discretionary expenses are not used to avoid earning decreases. When it's proxy by abnormal production cost, it can be reduced by an independent commissioner. Meanwhile, when proxies by the abnormal cash flow of operation and abnormal discretionary expense, it cannot be reduced by an independent commissioner. Real earnings management cannot reduce by independent commissioner who strengthen by political connections.

This research provides empirical evidence of the application of prospect theory on earnings management to avoid earnings decreases and empirical evidence of agency theory, that is real earnings management can reduce by independent commissioners. Based on this results, investors can be more careful to making investment decisions. Investors should pay attention to the company's annual report. Investors should not only pay attention to the company's financial statements but also consider to independence commissioner owned by the company. It makes investors make decisions more thorough and careful, so investors can avoid possible investment losses.

The limitation is this research did not use earnings management with the focus of earning decreases as a research sample because if this research used companies that are suspected of earning decreases as research samples, it would get a small number of samples. Therefore, the limitations of this study are not able to specifically show earning decreases in the research framework. For future researchers who want to use companies that are suspected of carrying out earnings management to avoid earning decreases as research samples, it is expected to use all types of companies, not just manufacturing companies, so that an adequate number of samples is obtained.

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