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How Does a Whistleblowing System Prevent Earnings Management? Insights from Corporate Governance Perspective

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Abstract

The whistleblowing system (WBS) is a component of the internal control system that plays a crucial role in preventing irregularities and fraud, as well as reinforcing the implementation of good governance practices. Therefore, this study aims to examine the whistleblowing system's role in moderating the effect of corporate governance (institutional ownership, independent commissioners, and audit committees) on earnings management. The population of this study comprises 147 manufacturing companies listed on the Indonesia Stock Exchange (IDX) for the period from 2017 to 2021. The sample was selected using simple random sampling, resulting in 60 companies per year and a total data observation of 300. Moderated Regression Analysis (MRA) was chosen as the analysis method, and the estimation results indicate that the whistleblowing system strengthens the negative effect of institutional ownership, independent commissioners, and audit committees on earnings management. These results demonstrate that with a whistleblowing system in place, governance functions more effectively in reducing earnings management compared to companies without such a system. This study contributes to the literature by illustrating that the whistleblowing system operates more optimally with the support of corporate governance. Policies are needed to enhance the relationship between corporate governance mechanisms and earnings management activities, with the whistleblowing system policy expected to enhance the effectiveness of functional governance and consequently reduce earnings management activities.



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1. Introduction

Earnings management practices have become a significant issue and generally occur in both private and public companies [1, 2], state-owned enterprises, before the Initial Public Offering (IPO), during the IPO process, or after the IPO of the company [3]. These practices have been studied by various researchers in Indonesia and internationally, yielding mixed results. Sutrisno [4] explain that there are pros and cons to earnings management practices. On the pro side, it is viewed that

earnings management can be carried out without being considered corrupt behavior as long as it adheres to the Generally Accepted Accounting Principles (GAAP) and is seen as filling a gap in the flexibility of GAAP. On the contrary, opponents claim that earnings management is no different from earnings manipulation.

Orazalin [5] stated that earnings management practices caused the bankruptcy of several international companies, where earnings management practices were carried out through delaying transaction techniques,

Table 1. Categorization of the WBS item disclosure.

Category	Score Range	Quantity	Percentage
High	≥7,000	166	55.3%
Medium	5,001 – 6,999	114	38.0%
Low	≤5,000	20	6.67%
Total		300	100%

Source: Indonesia Stock Exchange, 2022 (Processed).

resulting in inflated profits [6]. From a corporate governance perspective, earnings management reduces the reliability and usefulness of financial statement information, and many researchers examine the role of corporate governance in preventing earnings management practices [7]. The audit committee plays a crucial role in preventing earnings management practices, while institutional ownership has been found to reduce such practices [8–11]. Moreover, institutional ownership has a negative effect on earnings management and also diminishes managers' opportunistic actions [12].

Supervision by independent commissioners impacts managers to be more careful and transparent, encourages the realization of Good Corporate Governance (GCG), and minimizes earnings management practices [13–16]. Independent commissioner supervision has been shown to have a negative effect on earnings management [5, 7, 17], indicating that the greater the number of independent commissioners, the higher the level of supervision that can minimize the possibility of managers engaging in earnings management. Furthermore, other corporate governance mechanisms, such as the audit committee, also have a negative effect on earnings management [6, 18], with an increase in the number of audit committee members correlating to heightened company supervision and reduced incidence of earnings management.

However, despite numerous previous studies examining the role of corporate governance in earnings management, there are still few studies investigating how the whistleblowing system (WBS) contributes to strengthening corporate governance to reduce earnings management practices. WBS is a component of the internal control system that plays a crucial role in preventing irregularities and fraud, and in reinforcing the implementation of good governance practices [19]. This system aims to uncover fraud or violations that could harm the organization and prevent further occurrences beyond what has already transpired [20].

As shown in Table 1, based on the categorization according to score range, the implementation of WBS in Indonesia appears to have a fairly high percentage. In the "high" category, it was found that 55.33% of cases had a

score above 7,000, totaling 166 cases. This was followed by the "medium" category with 38% and the "low" category with 6.67%. However, the high implementation of WBS in Indonesia is also accompanied by high earnings management practices. This phenomenon indicates that there are a number of public companies in Indonesia involved in earnings management practices. Alleged accounting scandals have occurred in several public companies on the Indonesia Stock Exchange, such as the inflation of accounting profits [21].

Based on the phenomenon mentioned above, the question arises: does the implementation of WBS not reduce earnings management practices, or does the implementation of high WBS strengthen the influence of corporate governance in reducing earnings management? Earnings management has indeed eroded investor confidence in the quality of financial reporting and hampered the smooth flow of capital in financial markets. There needs to be a control mechanism to harmonize the differences in interests between management and principals, namely Corporate Governance, which aims to prevent excessive earnings management actions. However, in its implementation, the GCG mechanism is still not effective enough to reduce agency conflicts, leading to financial scandals that still often occur today.

Some studies suggest that earnings management marks the beginning of management activities that may lead to fraud [22, 23], hence the presence of WBS can reduce both earnings management activities and fraud. This is supported by research conducted by Suastawan et al. [24] and Gaurina et al. [25], which demonstrate that WBS reduces instances of fraud and earnings management. Companies governed by good governance practices can decrease earnings management practices [26] and instances of financial statement fraud [27, 28] due to the stringent control of corporate governance mechanisms. Additionally, Islamiati et al. [29] found that the effectiveness of WBS implementation hinges on the protective aspects provided by institutions or regulators, as this protection motivates whistleblowers to report unethical behavior within the organization. Based on the findings, implementing WBS strengthens corporate governance, reducing earnings management.

Although numerous studies have explored the role of WBS in strengthening corporate governance and preventing fraud at both national and international levels, there are still few studies that investigate the role of WBS in moderating corporate governance regarding earnings management. Previous studies have predominantly focused on the role of WBS in preventing fraud. Therefore, it is crucial to conduct further research on the role of WBS, with the expectation that it will enhance the effectiveness of GCG in curbing earnings management.

The objectives of this study are to examine several concepts proposed as issues that describe the phenomenon, namely: (1) whether corporate governance reduces earnings management practices; and (2) whether the whistleblowing system can strengthen the effect of corporate governance on earnings management. The potential and contribution of this research are expected to provide input for investors by: (1) observing management behavior in earnings management activities related to the company's short-term achievements; and (2) offering considerations when assessing company performance to facilitate informed decision-making. The findings of this study are likely to assist policymakers and regulators in implementing a mandatory whistleblowing system, thereby enhancing the effectiveness of functional governance in reducing earnings management activities.

2. Literature Review and Hypothesis Development

2.1. Corporate Governance and Earnings Management

Corporate governance is a company management mechanism based on agency theory. The concept of corporate governance continues to be an interesting topic for regulators and researchers due to the numerous cases of financial statement data misrepresentation, fraud, and other white-collar crime cases. Since its introduction in the UK around the middle of the 19th century, and first introduced by the Cadbury Committee in 1992 [30], the concept of corporate governance remains relevant and important for discussion [31–33].

In many studies, corporate governance is associated with fraud and earnings management. Previous studies have extensively investigated the effect of corporate governance on earnings management and the effect of corporate governance on earnings management moderated by WBS. The first aspect of the corporate governance mechanism used in this study is institutional ownership and found inconsistent results in its effect on earnings management. The research conducted by Garel et al. [11], Mayasari et al. [9], Nengzih [10], and Prasavita Amertha et al. [34] found that institutional ownership has

a negative effect on earnings management, meaning that greater institutional share ownership results in fewer opportunistic actions by managers.

Furthermore, the second aspect of the GCG mechanism, namely independent commissioners, also found inconsistent results in its influence on earnings management. Independent commissioners were found to have a negative effect on earnings management based on the results of research conducted by Fasua & Osifo [17], Hermawan [35], Orazalin [5], Prasavita Amertha et al. [34], and Trisanti [7], indicating that a higher number of independent commissioners results in less earnings management. This condition occurs because independent commissioners in the company have the duty and responsibility of monitoring the information contained in the financial statements, so the greater the number of independent commissioners, the higher the supervision in the company, which can minimize the possibility of managers carrying out earnings management [36, 37].

The third GCG mechanism, the audit committee, was found to have a negative effect on earnings management. The study by Al-Absy et al. [6] and Srikanthi & Suryandari [18] shows that a higher number of audit committee members in the company is expected to increase supervision, creating transparent company practices to minimize earnings management.

As overviewed in Figure 1, the first proposed hypotheses of this study are:

- H₁: Institutional ownership negatively impacts earnings management.
- H₂: Independent commissioners negatively affect earnings management.
- H₃: Audit Committee negatively influences earnings management.

2.2. Whistleblowing System

The Whistleblowing System (WBS) is an application that is useful for reporting violations. In general, every company has a WBS application. Disclosure is made to a person or another company so that action can be taken to prevent or minimize losses and follow up on violations [38]. Company information disclosed through the WBS can be used by institutional investors to actively monitor management activities [39].

Research results by Erin & Bamigboye [40] show that most financial firms in Nigeria intensified WBS disclosure efforts, which had a significant impact on reducing earnings management practices. Hapsari [41] also proves that the GCG mechanism is more effective in companies

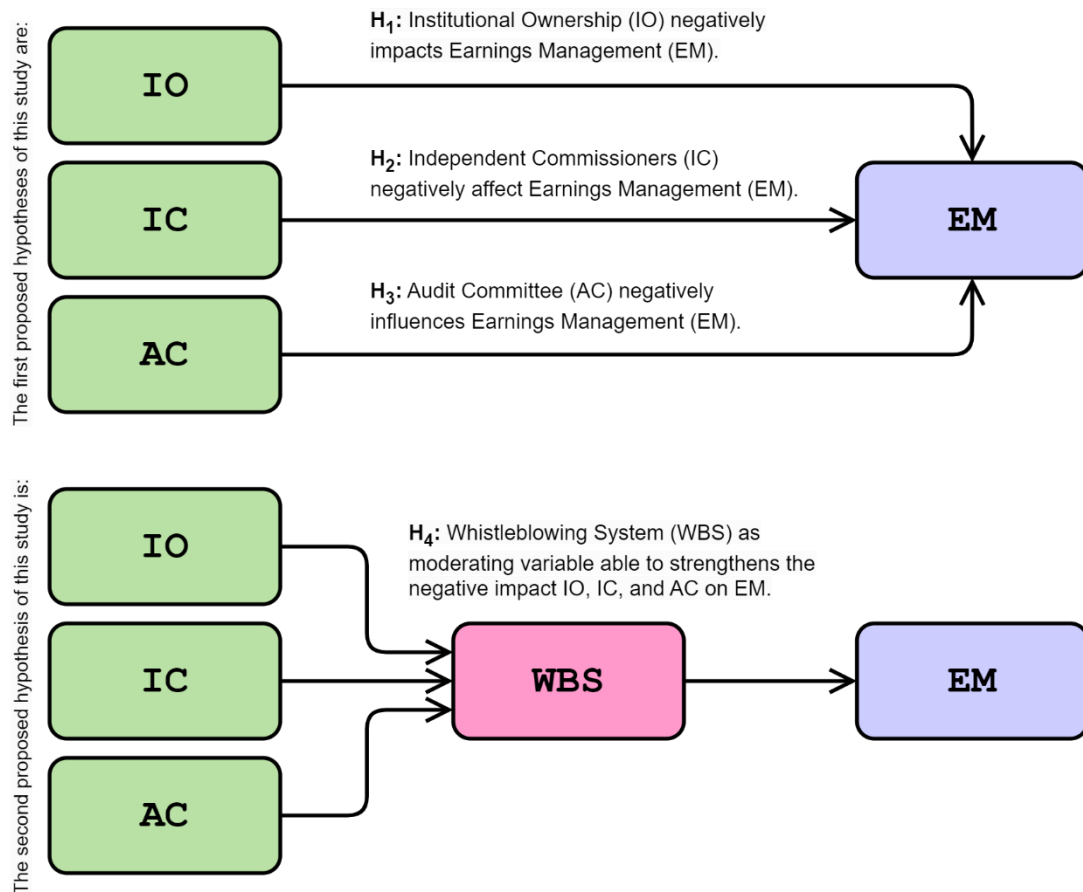


Figure 1. Overview of study hypotheses.

that have a whistleblowing policy than in companies that do not. Implementing WBS is considered to help institutional investors more quickly reduce or prevent earnings management practices. Al-Absy et al. [42] tested whether the GCG mechanism of companies that implement WBS is more effective in limiting earnings management than companies that do not. The result is that in companies with WBS, board independence is associated with less earnings management activity.

Calderon-Cuadrado et al. [43] stated that companies with large assets tend to require the use of WBS for fraud detection rather than relying solely on direct supervision. The presence of WBS significantly aids independent commissioners in carrying out their supervisory function and preventing earnings management. According to the National Audit Office [44], the audit committee needs to continuously review the WBS process to evaluate its implementation so that it is more optimal in preventing earnings management. Dewi et al. [45] studied the role of WBS in the development of corporate governance in Indonesia and proved that WBS is necessary for financial optimization and strong witness protection. Fasua & Osifo [17] examined WBS effectiveness and audit committee efficiency in the Nigerian banking sector and found a strong relationship between effective WBS mechanisms and audit committees.

As overviewed in Figure 1, The second proposed hypothesis of this study is:

H₄: The whistleblowing system enhances the negative impact of institutional ownership, independent commissioners, and audit committees on earnings management.

3. Materials and Methods

3.1. Data

The population used in this study comprises manufacturing companies listed on the Indonesia Stock Exchange (IDX) from 2017 to 2021. The total population consisted of 147 companies. Sampling was done using simple random sampling. The sample size was determined using the Slovin formula with a 5% margin of error, resulting in 60 companies being selected as research samples for the years 2017-2021. Therefore, the total number of observations in this study over 5 years was 300 sample units. The data utilized in this study were sourced from the official annual reports of the selected companies on the IDX [46].

3.2. Variable Measurement

The dependent variable in this study is earnings management. Earnings management is the act of

Table 2. Variable measurement.

Variables (Status)	Measurement	Scale
Earnings Management (Dependent Variable)	Discretionary Accruals	Ratio
Institutional Ownership (Independent Variable)	$IO = \frac{\text{Number of Institutional Shares}}{\text{Number of Shares Outstanding}}$	Ratio
Independent Commissioners (Independent Variable)	$IC = \frac{\text{Number of Independent Board Members of Commissioners}}{\text{Number of Board of Commissioners}}$	Ratio
Audit Committee (Independent Variable)	AC = Number of Audit Committee Members	Nominal
Financial Leverage (Control Variable)	$FL = \frac{\text{Total Debt}}{\text{Total Asset}}$	Ratio
Audit Quality (Control Variable)	Dummy variable, (1) audited by KAP Big Four, and (0) not audited by KAP Big Four	Nominal
Whistleblowing System (Moderation Variable)	$WBS = \frac{\text{Number of Reported Items}}{\text{Number of Items According to KNKG}}$	Ratio

selecting accounting policies by managers to achieve certain reporting objectives [11]. The measurement of earnings management is done by calculating discretionary accruals. Discretionary accruals, used as a proxy for earnings management, are measured using the Jones model [47], modified by Dechow et al. [48]. Discretionary accruals are considered the most effective in detecting earnings management because the accrual component does not require physical cash evidence, meaning that manipulating the accrual component does not need to be accompanied by cash transactions. Detailed measurements for all employed variables are shown in Table 2.

3.3. Method

As the hypothesis testing in this study involves moderating variables, the specific multiple linear regression approach chosen is Moderated Regression Analysis (MRA). MRA is a statistical technique used to examine how the relationship between a dependent variable and independent variables are influenced or moderated by another variable, known as the moderator. Essentially, MRA helps to determine if the effect of the independent variables on the dependent variable varies at different levels of the moderator [49, 50].

In this study, the moderating variable is categorized into four types [51, 52]. Firstly, the pure moderator solely influences the relationship between the independent and dependent variables. Secondly, the quasi-moderator both moderates the relationship and acts independently. Thirdly, the homologizer-moderator neither moderates the relationship nor acts independently. Lastly, the predictor-moderator functions independently but doesn't moderate the relationship between the independent and dependent variables.

The econometric model employed in this study is represented by the following equation:

$$EM_{it} = \beta_0 + \beta_1 IO_{it} + \beta_2 IC_{it} + \beta_3 AC_{it} + \beta_4 FL_{it} + \beta_5 AQ_{it} + \beta_6 WBS_{it} + \beta_7 IO.WBS_{it} + \beta_8 IC.WBS_{it} + \beta_9 AC.WBS_{it} + \beta_{10} FL.WBS_{it} + \beta_{11} AQ.WBS_{it} + \varepsilon_{it} \quad (1)$$

Where, *EM* represents earnings management; *IO* stands for institutional ownership; *IC* denotes independent commissioners; *AC* refers to the audit committee; *FL* indicates financial leverage; *AQ* signifies audit quality; *WBS* is the whistleblowing system; *IO.WBS* is the interaction between institutional ownership and the whistleblowing system; *IC.WBS* is the interaction between independent commissioners and the whistleblowing system; *AC.WBS* is the interaction between the audit committee and the whistleblowing system; *FL.WBS* is the interaction between financial leverage and the whistleblowing system; *AQ.WBS* is the interaction between audit quality and the whistleblowing system; β_0 is the constant value; β_1 through β_{11} are the coefficients; and ε is the error term.

4. Results and Discussion

4.1. Descriptive Statistics

The descriptive statistics presented in Table 3, regarding the EM variable, the mean level of discretionary accruals stands at 0.0324, indicating a relatively low level of manipulation on average, with a standard deviation of 0.0140, suggesting limited variability across observations. The IO variable exhibits a broader range, spanning from 6.9130 to 22.3170, with an average institutional ownership of 12.8208, signaling diverse levels of institutional involvement in the sampled companies.

In terms of governance structure, the proportion of IC variable varies modestly, with a mean ratio of 0.4803 and

Table 3. Descriptive statistics.

Variables	Minimum	Maximum	Mean	Std. Dev.
EM	0.022	0.0850	0.0324	0.0140
IO	6.913	22.317	12.821	4.6811
IC	0.333	0.5764	0.4803	0.0911
AC	3.0000	4.0000	3.7000	0.4590
FL	-1.7369	1.3196	0.0420	0.8201
AQ	0.0000	1.0000	0.8033	0.3981
WBS	0.4000	0.9500	0.7093	0.1495

a narrow standard deviation of 0.0911, implying a relatively consistent presence of independent board members across the sample. The AC variable, with an average size of 3.7 members, shows limited variability as all observations fall within the range of 3 to 4 members, indicating a common practice among the studied firms.

The FL variable displays a mean ratio of 0.0420, suggesting a conservative approach to debt financing on average, with a notable standard deviation of 0.8201, indicating considerable diversity in leverage levels among the companies. The AQ variable, assessed through a dummy variable, indicates that a majority of the firms in the sample (mean = 0.8033) are audited by KAP Big Four, with some variability in audit quality.

Lastly, the WBS variable statistics reveal a mean ratio of reported items to items according to KNKG of 0.7093, indicating a substantial degree of engagement with the whistleblowing system, albeit with some variation across companies as indicated by the standard deviation of 0.1495. These statistics give a thorough look at the key variables and their characteristics in the studied context.

These results also indicate that companies listed on the IDX have fulfilled the regulations of the Financial Services Authority Number 33 / POJK.04 / 2014 concerning directors and board of commissioners of public companies which states that regarding the board of commissioners consisting of more than 2 members of the board of commissioners, the number of independent commissioners must be at least 30% of the total number of members of the board of commissioners. The audit committee amounts to 3 to 4 people; then, 80.33% of companies use KAP Big Four to audit their financial statements. KAP Big Four is considered more qualified because the auditors are equipped with a series of training and procedures compared to KAP non-Big Four. Moreover, as the WBS statistics show an average value of 0.7093, with a standard deviation of 0.1495, which is lower than the average value, means that 70.93% of companies have reported the number of WBS items in accordance with the KNKG.

4.2. Results of MRA

The regression results in Table 4 reveal that IO, with a probability value of 0.032, exhibits a significant impact on EM, indicated by its coefficient value of -0.003, suggesting a negative effect. This supports the hypothesis that higher institutional ownership reduces earnings management. Similarly, IC, with a probability value of 0.000, demonstrates a significant impact on EM, with a coefficient value of -0.531, again pointing to a negative effect. This reinforces the hypothesis that increased institutional ownership is linked to decreased earnings management. Additionally, AC, with a probability value of 0.000, shows a significant impact on EM, reflected in its coefficient value of -0.101. Once more, this aligns with the hypothesis that higher institutional ownership correlates with diminished earnings management.

Meanwhile, in terms of control variables, FL has a probability value of 0.000, which is smaller than 0.05, thus indicating a significant impact on EM. The coefficient value is 0.113, suggesting that FL has a positive effect on EM. Furthermore, AQ has a probability value of 0.011, also smaller than 0.05, thus indicating a significant impact on EM. The coefficient value is -0.032, suggesting that AQ has a negative effect on EM. Regarding the WBS variable, it exerts a probability value of 0.041, which is smaller than 0.05, thus indicating a significant impact on EM. The coefficient value is -0.169, suggesting that WBS has a positive effect on EM. First estimation reveals all independent variables significantly impact EM.

Moving to the WBS variable as a moderator of the impact of the main independent variables in corporate governance mechanisms on the dependent variable, earnings management, reveals compelling insights. IO.WBS yields a probability value of 0.000, indicating a significant impact on EM, with a coefficient value of -0.016, suggesting a negative effect. Notably, the coefficient value of IO.WBS's impact on EM surpasses that of IO alone, bolstering the hypothesis that WBS enhances the role of higher institutional ownership in reducing earnings management. Similarly, IC.WBS demonstrates significance with a probability value of 0.025 and a coefficient value of -0.640, emphasizing a negative effect

Table 4. Results of MRA estimation on dependent variable EM.

Variable	Coefficients	t-Count	t-Table	Prob.
Constant	0.100	2.333**		0.020
IO	-0.003	-2.151**		0.032
IC	-0.531	-6.177*		0.000
AC	-0.101	-6.404*		0.000
FL	0.113	13.76*		0.000
AQ	-0.032	-2.567**		0.011
WBS	-0.169	-2.700**	2.011	0.041
IO.WBS	-0.016	-7.209*		0.000
IC.WBS	-0.640	-4.314**		0.025
AC.WBS	-0.181	-7.531*		0.000
FL.WBS	-0.124	-12.57*		0.000
AQ.WBS	-0.039	-2.481**		0.014

Note: Significant at * (1%) and ** (5%).

on EM. The magnitude of IC.WBS's impact on EM exceeds that of IC, affirming the hypothesis that WBS augments the relationship between increased institutional ownership and decreased earnings management. Lastly, AC.WBS exhibits significance with a probability value of 0.000 and a coefficient value of -0.181, indicating a negative effect on EM. The coefficient value of AC.WBS's impact on EM surpasses that of AC, providing further evidence that WBS enhances the association between higher institutional ownership and diminished earnings management. The second estimation for indirect impact also reveals that the moderation variable of WBS enhances the significant impact of all main independent variables on earnings management.

4.3. Discussion

The results of the first direct impact hypothesis testing indicate that institutional ownership has a negative effect on earnings management. This result aligns with the proposed hypothesis, suggesting that higher institutional ownership correlates with reduced earnings management. Jensen & Meckling [53] assert that institutional ownership plays a crucial role in mitigating agency conflicts between managers and shareholders. The presence of institutional ownership in a company promotes heightened supervision of management performance. Greater institutional ownership translates to increased voting power and oversight from financial institutions, motivating management to optimize company performance while aligning their interests with stakeholders.

This outcome is consistent with prior research conducted by Garel et al. [11], which demonstrates that the advanced sophistication of institutional investors contributes to deterring earnings management. Similarly, empirical evidence from Kazemian & Sanusi [54] and Hsieh et al. [8] affirms that institutional ownership negatively impacts earnings management. Shareholding institutions are presumed to exhibit greater scrutiny and

comprehension of their investment portfolios, thereby enhancing their ability to oversee management effectively and reduce earnings manipulation. Consequently, a higher proportion of institutional ownership in a company is believed to diminish the potential for earnings management practices.

Furthermore, the independent commissioners have a negative effect on earnings management, which is also in line with the proposed hypothesis. The board of commissioners is considered the highest internal control mechanism responsible for monitoring the actions of top management. A greater number of independent commissioners leads to better supervision and control of the actions of the executive directors [13]. Independent boards of commissioners generally provide better oversight of management. This reduces the possibility of fraud in presenting financial statements by management because the supervision carried out by commissioners is better and free from various internal interests within the company [55].

These results are in line with previous research by Fasua & Osifo [17], Hermawan [35], and Trisanti [7], which state that independent commissioners have a negative effect on earnings management. A higher proportion of independent commissioners leads to lower earnings management actions. The independent board of commissioners strengthens supervision of the company's operational activities, and governance can be carried out effectively within the company. The same finding is also proven by Orazalin [5], who shows that companies with greater board gender diversity are more effective in limiting earnings management.

The audit committee is also found to negatively affect earnings management, confirming that all three main independent mechanisms in corporate governance align with the study hypotheses. This finding is consistent with research by Srikandhi & Suryandari [18], which shows a significant negative influence between the audit

committee and the integrity of financial statements in BUMN companies. Studies by Al-Absy et al. [6], Kamarudin et al. [56], Miko & Kamardin [57], and Razzaque et al. [58] also found that the audit committee has a negative effect on earnings management. The results of this study prove that the audit committee can minimize managers' opportunistic actions in manipulating financial statements, indicating that the composition and number of audit committee members in a company will reduce earnings management practices.

The MRA results further reveal findings for the second indirect impact hypothesis, proving that the whistleblowing system is able to moderate and enhance the negative effect of institutional ownership on earnings management. Therefore, the whistleblowing system, in moderating the effect of institutional ownership on earnings management, falls within the quasi-moderator category. Information disclosed through the whistleblowing system can be used by institutional investors to actively monitor management activities. The research by Erin & Bamigboye [40] empirically reveals that most Nigerian financial companies intensify whistleblowing disclosure efforts, which significantly impact reducing earnings management practices. Hapsari [41] found that corporate governance mechanisms are more effective in companies that have a whistleblowing policy than in those that do not. Therefore, having and implementing a whistleblowing system can help institutional investors more effectively reduce or prevent earnings management practices.

Furthermore, the whistleblowing system is also able to moderate and enhance the negative effect of the independent commissioners on earnings management. Similarly, the whistleblowing system, in moderating the effect of the independent board of commissioners on earnings management, also falls within the quasi-moderator category. This indicates that the presence of a whistleblowing system increases the supervision by commissioners in preventing management activities that lead to earnings management. This finding aligns with Al-Absy et al. [59], which states that in companies with a whistleblowing policy, the independence of the board chairman is associated with less earnings management activity. Calderon-Cuadrado et al. [43] assert that companies with large assets tend to require the use of a whistleblowing system in fraud detection efforts rather than relying solely on direct supervision. Therefore, the presence of a whistleblowing system is very helpful for the independent board of commissioners in carrying out its supervisory function over company management and preventing earnings management.

Lastly, the whistleblowing system was also found to be able to moderate and enhance the negative effect of the audit committee on earnings management. Along with institutional ownership and independent commissioners, the whistleblowing system, in moderating the effect of the audit committee on earnings management, falls within the quasi-moderator category. This result is supported by Fasua & Osifo [17], who found a relationship between an effective whistleblowing mechanism and the independence of the audit committee, audit committee financial expertise, and audit committee meetings in conducting supervision to achieve the desired goals and objectives. The characteristics of the audit committee determine the quality of the whistleblowing system. Al-Absy et al. [42] also found that the whistleblowing policy can moderate the relationship between the audit committee and the integrity of financial statements. Therefore, the existence of a whistleblowing system can enhance the performance of the audit committee in overseeing the participation of management and independent auditors in the financial reporting process and minimizing the occurrence of earnings management.

5. Conclusions, Implications and Limitations

The results of this study confirm that companies implementing corporate governance mechanisms can effectively limit earnings management, as all corporate governance mechanism indicators exhibit a negative effect on earnings management. Moreover, the whistleblowing system proved to strengthen the negative effect of corporate governance mechanisms on earnings management. These empirical findings explain that the whistleblowing system in a company tends to support the GCG mechanism to work more effectively in overcoming earnings management compared to companies that do not have a whistleblowing system.

The contribution of the results of this study is expected to provide input for investors when assessing management behavior in earnings management activities related to the company's short-term achievements. It also offers considerations for investors when evaluating company performance, enabling them to make informed decisions. Additionally, the findings of this study will assist policymakers and regulators in regulating the mandatory whistleblowing system and implementing policies to strengthen the relationship between corporate governance mechanisms and earnings management activities. The whistleblowing system policy is anticipated to enhance the effectiveness of functional governance, thereby reducing earnings management activities.

Moreover, it's also important to acknowledge the limitations of this study. The primary constraint lies in its focus solely on companies within Indonesia. Future research should broaden its analysis by examining companies in other countries or utilizing panel data from multiple countries. Additionally, the relatively short duration of the study period may have restricted the scope of observation. Therefore, further studies should extend the period under consideration to capture a broader range of phenomena. By addressing these limitations, future research will undoubtedly enhance the depth and breadth of understanding the relationships between corporate governance mechanism, earnings management, and the whistleblowing system.

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