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The Effect of Leverage, Risk Management Committee, and Earnings Persistence on Real Earnings Management

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ABSTRACT

The banking industry is inherently vulnerable to financial manipulation due to its high leverage structure, complex transactions, and direct access to liquid financial assets. Profit management can be viewed as the right of managers to establish certain accounting policies from an academic perspective; however, it is often viewed as fraudulent behavior by practitioners. This study aims to examine how leverage, the risk management committee (RMC), and earnings persistence affect real earnings management (REM). Using a quantitative approach and purposive sampling, the study analyzes 47 banking companies, resulting in 198 usable observations after outlier removal. The results show that leverage and the risk management committee have a significant effect on real earnings management, with significance values of 0.014 (< 0.05) and 0.042 (< 0.05), respectively, while earnings persistence (sig. = 0.186) does not have a significant effect. Simultaneous testing also confirms a significant joint influence (sig. = 0.008), although the adjusted R-squared value is only 0.044 (4.4%), indicating that the independent variables collectively explain a limited portion of real earnings management. Future research is recommended to incorporate additional independent variables to better explain real earnings management.

Keywords: Earnings Persistence; Leverage; Real Earnings Management; Risk Management Committee; Banking Industry

INTRODUCTION

The banking industry is inherently vulnerable to financial manipulation due to its high leverage structure, complex transactions, and direct access to liquid financial assets. Compared to other industries, banks face stronger incentives to present stable performance because fluctuations in reported earnings can immediately affect public trust, liquidity, and regulatory compliance. This environment increases the relevance of real earnings management (REM), as bank managers may alter operational decisions such as discretionary expenses, loan-loss provisions, and credit disbursement timing to meet profit targets. Unlike accrual management, which leaves cash flows unchanged, REM directly affects banks' cash liquidity and future performance, making it particularly consequential for the financial sector. Financial statements are a measuring tool used by stakeholders to assess a company's performance over a given period. The reliability of the data contained in financial statements is important for decision-making by both internal and external parties. However, conflicts of interest between management, as the preparers of financial statements, and external parties or other stakeholders can give rise to earnings management practices. Earnings management practices can be categorized into two types, which are REM and accrual earnings management (AEM). AEM is a practice carried out by management in changing accounting methods when treating a transaction without changing the company's cash flow. Unlike AEM, REM is a practice of manipulating the company's operational activities, such as cash flow, discretionary expenses, and production, to achieve certain profit targets that can directly impact the company's cash flow in the current period and future cash flow (Abubakar et al., 2022).

Despite its importance, the academic literature provides mixed and unresolved evidence regarding the determinants of earnings management, particularly leverage, the effectiveness of the risk management committee (RMC), and earnings persistence. Some studies suggest that leverage exacerbates earnings management, while others argue that it constrains managerial opportunism. Pricillia et al. (2025), for example, found that leverage has a positive effect on earnings management, as debt pressure encourages managers to modify earnings to appear financially healthy. In contrast, Awad et al. (2024) reported that leverage limits REM but does not significantly affect AEM.

Further evidence from Awad et al. (2024) indicates that leverage negatively affects AEM but has no significant impact on REM when moderated by growth opportunities. These inconsistent findings highlight the need for further investigation into how leverage influences different forms of earnings management.

Similarly, prior studies report inconsistent associations between RMC attributes, such as size, independence, expertise, and activity, and earnings management outcomes, raising questions about the committee's true governance role. Elhaj et al. (2022) found that RMC size, activity, and member qualifications negatively affect REM practices, although member independence was not significant. In contrast, Abubakar et al. (2022) showed that the presence of an independent RMC significantly discourages earnings management, particularly when moderated by institutional ownership.

Supporting this view, Lamidi et al. (2022) found that RMC characteristics, including independence and gender diversity, influence bank financial performance. More recently, Musa et al. (2025) demonstrated that the existence of an effective RMC suppresses earnings management. Given these inconsistent findings, it is important to re-examine the role of the RMC in Indonesian companies, especially in light of increasing demands for transparency, accountability, and high-quality financial reporting.

Earnings persistence also exhibits contradictory effects across studies. Kalbuana et al. (2020) found that earnings persistence does not influence earnings management, arguing that firms with stable earnings have less incentive to manipulate them. Conversely, Setiawati et al. (2022) reported a positive relationship, suggesting that even firms with consistent earnings may engage in earnings management to meet market expectations.

Indonesian banks during the 2020–2024 period provide a timely empirical context to re-examine these relationships. This period reflects the industry's post-pandemic recovery, stricter OJK regulatory policies, heightened transparency requirements, and several high-profile fraud and financial engineering cases, all of which underscore the urgency of improving earnings quality.

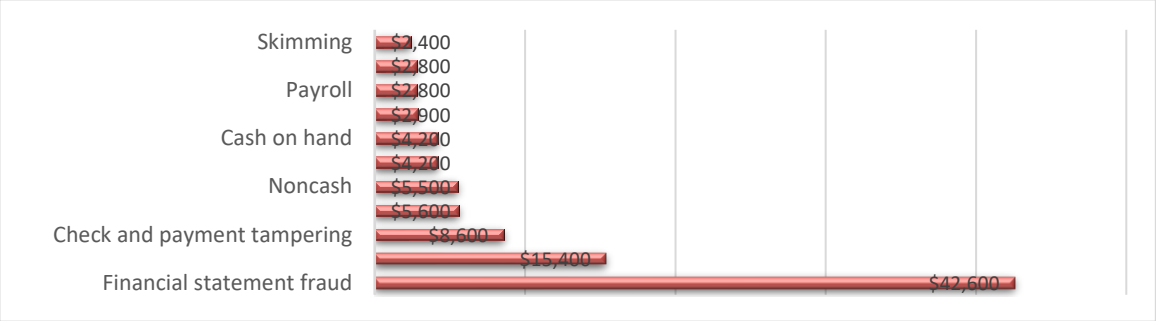
Table 1. Industries Affected by Accidental Fraud

Rank	Industry	Percentage Affected
1	Government	15%
2	Construction	14%
3	Banking and financial services	12%
4	Healthcare	12%
5	Insurance	10%

Source: ACFE Indonesia (2025)

Based on data from ACFE Indonesia (2025) in Table 1, the banking and financial services industry ranks third as the sector most affected by workplace fraud in Indonesia, with a percentage of 12%. This percentage shows that the banking sector still has a fairly high level of vulnerability to internal fraud compared to other sectors. The high level of fraud in the banking industry is caused by several main factors. First, the banking sector has direct access to vast financial assets and customer data, which increases the opportunity for abuse of authority or transaction manipulation. Second, the complexity of the financial system and banking products allows for gaps in supervision that fraudsters can exploit to cover up their actions over a long period of time. In addition, high pressure to meet performance targets also contributes to an increased risk of fraud. Employees are often faced with demands to meet credit distribution or profit targets, which can encourage the manipulation of financial data and false reporting. On the other hand, weaknesses in internal control systems, such as collusion between employees or weak internal audit functions, exacerbate this situation, as oversight becomes ineffective.

Figure 1. Typical Velocity of Different Occupational Fraud Schemes (Median Loss per Month)



Source: ACFE (2024)

Based on data from ACFE (2024) in Figure 1, financial statement fraud is the type of fraud that causes the most rapid financial losses to victims. The reason is that financial statement manipulation is usually carried out by senior management who have significant access to and authority over the presentation of financial data. As a result, the

financial impact of this type of fraud is rapid and substantial, as it can affect the value of the company, investor confidence, and the economic decisions of stakeholders. Thus, compared to other forms of operational fraud, financial statement fraud is the most destructive type and has the potential to cause large losses in a short period of time.

Table 2. The Departments Most at Risk of Committing Fraud in the Workplace

Departments	Number of Cases	Percent of Cases	Median Loss (USD)
Operations	227	14%	$100,000
Accounting	202	12%	$208,000
Sales	202	12%	$75,000
Customer service	154	9%	$55,000
Executive/upper management	146	9%	$793,000
Purchasing	109	7%	$143,000
Administrative support	98	6%	$88,000
Finance	82	5%	$285,000

Source: ACFE (2024)

Based on data from ACFE (2024) in Table 2, cases of fraud in Indonesia are spread across various departments within organizations, with varying levels of loss. The operational department ranks highest with 227 cases or 14%, followed by the accounting and sales departments, which each account for 12% of the total cases. However, the highest level of losses does not always occur in the departments with the highest number of cases. The executive or top management department shows the highest median loss, reaching USD 793,000, even though it only accounts for 9% of the total cases. This reflects that higher positions in the organizational hierarchy tend to have greater access and authority over company assets, so the potential for losses due to fraud is also greater.

Overall, this data confirms that the frequency and financial impact of fraud vary according to the level of authority and function of departments within an organization. Departments directly involved in fund management, accounting, or strategic decision-making tend to have higher fraud risk and potential losses compared to operational and service departments.

Table 3. Cases by Country or Territory in the Asia-Pacific Region

Country or Territory	Number of Cases
China	33
Australia	29
Indonesia	25
Malaysia	17
Singapore	15

Source: ACFE (2024)

According to ACFE (2024) data in Table 3, Indonesia ranks third in the Asia-Pacific region in terms of fraud cases, with a total of 25 cases in 2024. In 2025, there was breaking news from the state-owned enterprise PT Kimia Farma Tbk (KAEF), a state-owned company in the pharmaceutical sector, reporting losses amounting to trillions of rupiah. The government, through the Ministry of State-Owned Enterprises, detected alleged financial engineering at the company's subsidiaries, particularly at PT Kimia Farma Apotek (KFA) during the 2021–2022 period. The alleged manipulation involved recording sales or distribution as if they were running well when in fact they were not. In addition, operating expenses increased significantly, and operational efficiency became

an issue, including the large number of factories that were built but were considered unproductive.

This study aims to empirically analyze the effects of leverage, Risk Management Committee characteristics, and earnings persistence on REM in Indonesian banking institutions during 2020-2024. Theoretically, this study contributes to the refinement of agency theory and positive accounting theory by clarifying how contractual pressures, governance mechanisms, and earnings attributes interact within a highly regulated and high-leverage industry. Empirically, it provides updated evidence from Indonesia's post-pandemic banking sector, a context characterized by regulatory tightening and rising concerns over financial reporting credibility. The novelty of this study lies in simultaneously examining leverage, multi-dimensional RMC attributes, and earnings persistence on both REM and AEM within a single integrated model, something rarely tested in prior Indonesian or international banking research.

LITERATURE REVIEW

Agency Theory

Agency theory explains the contractual relationship between investors (principals) and managers (agents) who act on behalf of owners (Jensen & Meckling, 2019). Management tends to engage in opportunistic actions such as earnings management to maximize personal interests, while principals want to increase company value (Prasetio et al., 2023; Sarjiyono & Prasetio, 2025). This perspective on earnings management raises questions regarding the transparency and quality of a company's financial reporting.

Signal Theory

Signaling theory is an attempt by management to reduce information asymmetry by conveying reliable information to the market (Spence, 1978). Signaling theory provides an explanation of information asymmetry regarding problems that may arise between internal and external stakeholders of a company. This gap can be reduced by sending signals to external parties. High-quality financial reports, including consistency in generating profits, can be a positive signal for investors. Conversely, profit management practices damage the credibility of the signals given by the company.

Positive Accounting Theory

Positive Accounting Theory, developed by Watts and Zimmerman (1986), emphasizes that managers choose accounting policies to maximize their utility based on contracts, bonus plan hypotheses, political costs, and debt covenants (Deegan, 2014). In accordance with financial accounting standards that have adopted IFRS, corporate management is permitted to select the accounting techniques it wishes to apply. This is in line with positive accounting theory, which states that corporate management accounting procedures do not have to be identical to those of other companies, and corporations are given the freedom to select the best procedures for them in order to reduce contract costs and maximize company value (Scott, 2015). With the freedom to choose the accounting system to be used, managers have a tendency to adopt actions in positive accounting theory called opportunistic actions, which are actions that trigger a person to engage in earnings management.

Real Earnings Management (REM)

REM is the act of managers modifying the company's actual operational activities, rather than through accrual engineering, with the aim of achieving certain profit targets or avoiding reporting losses (Roychowdhury et al., 2006).

According to Roychowdhury et al. (2006), there are three main methods involved in REM practices. The first is sales manipulation, in which companies accelerate revenue recognition or boost current-period sales, often by offering large discounts or loosening credit terms, to create a temporary increase in sales volume. The second is overproduction, where firms intentionally produce more goods than market demand requires in order to lower per-unit costs through the broader allocation of fixed costs. The third is discretionary cost-cutting, in which organizations deliberately reduce certain expenses to improve short-term profitability; however, this strategy may undermine long-term competitiveness by limiting investments in innovation, marketing activities, and the upkeep of productive assets.

Hypotheses Development

Leverage

High structure of banking debt is a normal characteristic in the banking industry as part of the banking business model (Sukma & Prasetio, 2024). Leverage can increase financial risk, but it can also encourage efficient use of capital (Paramita & Prasetio, 2025). Based on the debt covenant hypothesis of positive accounting theory, high leverage encourages managers to engage in earnings management to avoid breaching debt covenants. From an agency theory perspective, leverage can serve as a disciplinary mechanism because it limits the free cash flow available to managers, thus decreasing the probability of opportunistic actions and the engagement in earnings management practices. In other words, debt repayment obligations force managers to be more cautious in managing company resources (Awad et al., 2024). Research conducted by Pricillia et al. (2025) and Tulcanaza-Prieto et al. (2020) also shows that leverage has a positive effect on REM.

H1: Leverage has a positive effect on REM.

Risk Management Committee (RMC)

RMC is a special committee formed by the board of directors and reports directly to the directors. The RMC plays a crucial role in strengthening governance and oversight of risk management, including financial reporting. According to Musa et al. (2025), the higher the proportion of independent or non-executive members on the RMC, the higher the level of oversight of actual profit management practices. Executive involvement in the committee can influence organizational policy. Referring to agency theory, managers have incentives to manipulate profits in order to show good performance for the sake of bonuses, reputation, or to protect their positions.

H2: RMC size has a negative effect on real profit management.

Earnings Persistence

Earnings persistence reflects high earnings quality, so that the more persistent the earnings, the lower the level of manipulation in financial reporting. Within the Indonesian capital market context, firms exhibiting high earnings persistence convey a favorable signal to investors about the stability of their performance and the reliability of future earnings prospects, which in turn can attract greater investment and reduce the company's cost of equity (Ningsih et al., 2023). Conversely, low earnings persistence can send a negative signal about performance instability, thereby increasing investor risk (Setiawati et al., 2022).

H3: Earnings persistence has a negative effect on earnings management.

Figure 2. Conceptual Framework

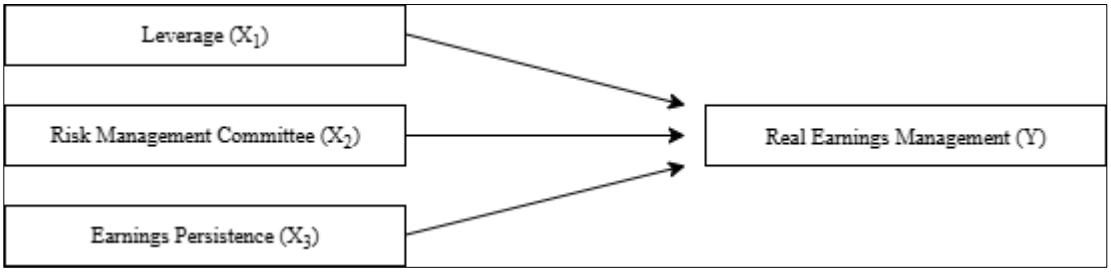


Figure 2 illustrates the conceptual model developed in this study, which investigates the effect of Green Leverage (X1), RMC (X2), and Earnings Persistence (X3) on REM (Y). This model is based on agency theory, signal theory, and positive accounting theory.

RESEARCH METHOD

This study employs a quantitative method grounded in a positivist philosophy, aiming to test hypotheses within a specific population. The population of this study consists of banking companies listed on the Indonesia Stock Exchange (IDX) during the 2020–2024 period. A purposive sampling technique is applied to select the research sample. Purposive sampling refers to a sampling method in which samples are selected based on specific considerations or predetermined criteria (Sugiyono, 2024). In this study, the sample includes banking companies that consistently publish and submit their financial reports to the Indonesia Stock Exchange from 2020 to 2024 and provide complete data for all variables examined in the research.

In this research, outlier treatment was performed by removing 37 samples identified as extreme data. These samples had values that deviated significantly from the normal distribution, potentially disrupting the fulfillment of classical assumptions and reducing the accuracy of regression estimates. The removal was carried out to prevent distortion of results, ensure a more stable model, and make the research findings more reliable and representative of the conditions of the majority of samples.

Table 4. Research Sample Criteria

No	Criteria	Number
1	Banking sub-sector companies listed on the Indonesia Stock Exchange (IDX) from 2020 to 2024.	47
2.	Companies that consistently release and submit financial reports to the Indonesia Stock Exchange (IDX) from 2020 to 2024.	(0)
3.	Companies that provide complete data related to the variables.	(0)
Number of Research Samples		235
Observation data (n x 5-year research period)		235
Outlier data		(37)
Number of observation data after outliers		198

As summarized in Table 4, the initial population consists of 47 banking sub-sector companies listed on the Indonesia Stock Exchange during the 2020–2024 period. All companies met the purposive sampling criteria, as they consistently submitted financial reports to the IDX and provided complete data related to the research variables; therefore, no firms were excluded at this stage. With a five-year observation period, the total number of firm-year observations amounts to 235 data points. Following the outlier testing process, 37 observations were excluded, resulting in a final sample of 198 firm-year observations used in the empirical analysis. This final dataset is considered sufficient to represent the population and support robust hypothesis testing.

The present investigation applies multiple regression to analyze the data, which is basically a study of dependent variables with one or more independent variables. The SPSS 27 program is also used in this regression research. The regression equation of this research is:

$$REM = \alpha + \beta_1 LEV + \beta_2 RMC + \beta_3 PRST + e_i$$

REM	:	Real earnings management
α	:	Constant
$\beta_1, \beta_2, \beta_3$	:	Regression coefficient
LEV	:	Leverage
RMC	:	Risk managament committee
PRST	:	Earnings persistence
ε	:	Error term

Leverage

Leverage is the use of debt in a company's capital structure, which is generally measured by the ratio of debt-to-equity or total assets. A high degree of leverage reflects a larger proportion of the company's financing that comes from debt rather than equity (Maulana & Prasetio, 2025; Religiosa & Surjandari, 2021). From an agency theory perspective, leverage can serve as a disciplinary mechanism because it limits the free cash flow available to managers, thus decreasing the probability of opportunistic behavior and earnings management practices. In other words, debt repayment obligations force managers to be more cautious in managing company resources (Awad et al., 2024). However, high leverage can also encourage managers to engage in earnings management to avoid violating debt covenants and maintain the company's reputation in the eyes of creditors (Al-Shattarat, 2024). According to Kashmir (2010), in a study by Darmawan et al. (2021), the leverage ratio is measured by:

$$Debt\ to\ Equity\ Ratio = \frac{Total\ Debt}{Equity}$$

Risk Management Committee (RMC)

The RMC variable in this study was measured by counting the number of board members serving on the company's risk committee at the end of the annual reporting period. A higher number of committee members indicates an enhanced capacity for oversight and decision-making within the committee (Musa et al., 2025). In the study by Awad et al. (2024), RMC was measured by:

$$RMC\ SIZE = Number\ of\ board\ members\ serving\ on\ the\ RMC$$

Earnings Persistence

Persistent earnings indicate a firm's capability to sustain stable and long-term financial performance while conveying a favorable signal to the market regarding its future prospects (Setiawati et al., 2022). The higher the profit persistence, the higher the profit quality because it reflects sustainable economic performance, not just transitory events or accrual management (Putra, 2021). In the study conducted by Setiawati et al. (2022), the formula used in previous studies was:

$$PRST = \frac{EBT_{t-1} - EBT_t}{Total\ Asset}$$

Real Earnings Management (REM)

According to Roychowdhury et al. (2006), REM is a form of deviation from normal

operational activities. This practice is carried out by managers with the aim of misleading some stakeholders into believing that certain financial reporting targets have been achieved through normal business operations. REM is carried out through operational decisions such as sales, production, and discretionary expenditure policies, thus having direct consequences on the company's cash flow and economic performance over both the short and long term. The regression model for normal operating cash flow, according to Roychowdhury et al. (2006), is as follows:

$$\frac{CFO_t}{TA_{t-1}} = a_0 + a_1\left(\frac{1}{TA_{t-1}}\right) + a_2\left(\frac{S_t}{TA_{t-1}}\right) + a_3\left(\frac{\Delta S_t}{TA_{t-1}}\right) + \varepsilon_t$$

RESULTS

Descriptive Statistics Analysis

According to Sugiyono (2024), descriptive statistics are statistics used to analyze data by describing or depicting the data that has been collected as it is, without the aim of drawing general conclusions or making generalizations.

Table 5. Descriptive Statistics Result

Variables	N	Minimum	Maximum	Mean	Std. Deviation
Leverage	198	0.06	115.06	5.2325	0.06569
RMC	198	1	12	5.92	2.732
Earnings Persistence	198	-0.25	0.35	0.0001	0.03771
REM	198	-0.13	0.17	0.0178	0.06569
Valid N (listwise)	198				

Source: SPSS Data Processing Result (2025)

Table 5 presents a total of 198 observations used in this research. The descriptive analysis indicates that leverage, measured by the debt-to-equity ratio, ranges from a minimum of 0.06 to a maximum of 115.06, with a mean value of 5.2325 and a standard deviation of 0.06569. The RMC variable shows a minimum value of 1 and a maximum of 12, with an average of 5.92 and a standard deviation of 2.732. Furthermore, profit persistence has a mean value of 0.0001, ranging from -0.25 to 0.35, and a standard deviation of 0.03771. The dependent variable, REM, records a mean of 0.0178, a minimum of -0.013, a maximum of 0.17, and a standard deviation of 0.06569.

Classic Assumption Test

Table 6. Classic Assumption Test

Normality	Asymp Sig. (2-Tailed)	0.066	Normal
Multicollinearity	Tolerance		Multicollinearity Free
	Leverage	1.000	
	RMC	1.000	
	Earnings Persistence	0.999	
	VIF		Multicollinearity Free
	Leverage	1.000	
	RMC	1.000	
	Earnings Persistence	1.001	
Autocorrelation	Durbin Watson	2.020	No Autocorrelation
Heteroscedasticity	Significance		Free of Heteroscedasticity
	Leverage	0.116	
	RMC	0.725	
	Earnings Persistence	0.886	

Source: SPSS Data Processing Result (2025)

Based on the results of the classical assumption test shown in Table 6, the research data are deemed normally distributed when the Asymp. Sig. (2-tailed) value exceeds 0.05, while a value below 0.05 indicates a non-normal distribution. Accordingly, the data in this study satisfy the normality assumption, as the Asymp. Sig. (2-tailed) The value obtained is 0.066.

The results of the multicollinearity test indicate that the tolerance value for leverage is 1.000 (>0.1) with a VIF value of 1.000 (<10). Similarly, the RMC variable has a tolerance value of 1.000 (>0.1) and a VIF value of 1.000 (<10). Meanwhile, the earnings persistence variable records a tolerance value of 0.999 (>0.1) and a VIF value of 1.000 (<10). Therefore, these results confirm that no multicollinearity exists among the independent variables in this model.

Based on the results of the autocorrelation test, the Durbin–Watson statistic obtained is 2.020. The decision-making criteria based on this test are that if the DW value is in the range of DU < DW < 4-DU, it can be concluded that there is no autocorrelation in the regression model. With a sample size of 198 and three independent variables (k=3), the lower limit (dL) is 1.641, while the upper limit (dU) is 1.758. The value of 4–dU is calculated to be 2.242. This shows that 1.758 < 2.020 < 2.242, so it can be concluded that there is no indication of autocorrelation in this study.

Based on the results of the heteroscedasticity test, the variable of leverage shows a significance value of 0.116, the RMC variable shows a significance value of 0.725, and the earnings persistence variable shows a significance value of 0.886. Based on these test results, it can be concluded that this regression model is free from heteroscedasticity.

Multiple Linear Regression Analysis

Table 7. Multiple Linear Regression

Coefficients[a]						
Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	-0.010	0.011		-0.848	0.398
	Leverage	0.001	0.001	0.172	2.467	0.014
	RMC	0.003	0.002	0.143	2.049	0.042
	Earnings Persistence	0.161	0.121	0.093	1.328	0.186

Source: SPSS Data Processing Result (2025)

$$Y = -0.010 + 0.001\ X1 + 0.003\ X2 + 0.161\ X3 + 0.011$$

Based on the regression equation, the constant value of -0.010 indicates that in the absence of any influence from the independent variables, the earnings management value would be -0.010. The regression coefficient for the leverage variable is 0.001, suggesting that a one-unit increase in leverage leads to an increase in earnings management by 0.001, assuming other variables remain constant. The regression coefficient for the RMC variable is 0.003, implying that a one-unit increase in the committee size results in a 0.003 increase in earnings management, with other variables held constant. Meanwhile, the regression coefficient for the earnings persistence variable is 0.161, meaning that each one-unit increase in earnings persistence raises earnings management by 0.161, assuming other variables remain constant (see Table 7).

Hypotheses Test

Table 8. Hypothesis Test Results

Simultant Significance (F Test)	Significance Anova		X_1, X_2, X_3 simultaneously influences the dependent variable
	Model of Regression	0.008	
Partial Significance (T Test)	Standardized Coefficients Beta		
	Leverage	0.172	Positive Affect
	RMC	0.143	Positive Affect
	Earnings Persistence	0.093	Positive Affect
	Significance		
	Leverage	0.014	Affect
	RMC	0.042	Affect
	Earnings Persistence	0.186	Does Not Affect
Determination Coefficient	Adjusted R Square	0.044	X_1, X_2, X_3 simultaneously able to influence or provide an explanation for the dependent variable, by 4.4%

Source: SPSS Data Processing Result (2025)

Based on Table 8, the simultaneous significance test (F-test) produces a significance value of 0.008, which is below the 0.05 threshold. This result indicates that leverage, RMC size, and earnings persistence simultaneously have a statistically significant effect on REM. Therefore, the regression model is considered valid and appropriate for further analysis.

The results of the partial significance test (t-test) show that leverage has a significance value of 0.014, which is less than 0.05, accompanied by a positive standardized coefficient (β = 0.172). This finding indicates that leverage has a positive and statistically significant effect on REM, supporting H1, which proposes that leverage positively influences real earnings management.

Similarly, the RMC size variable shows a significance value of 0.042, which is below the 0.05 level, with a positive standardized coefficient (β = 0.143). This result confirms that RMC size has a statistically significant effect on REM. Thus, H2 is accepted in terms of statistical significance; however, the positive direction of the coefficient indicates that the effect is opposite to the hypothesized negative relationship.

In contrast, earnings persistence has a significance value of 0.186, which exceeds the 0.05 threshold, despite having a positive standardized coefficient (β = 0.093). This result suggests that earnings persistence does not have a statistically significant effect on REM. Consequently, H3 is rejected, as the empirical evidence does not support the proposed negative influence of earnings persistence on earnings management.

Finally, the coefficient of determination indicates that the adjusted R-square value is 0.044, meaning that leverage, RMC size, and earnings persistence jointly explain 4.4% of the variation in real earnings management. The remaining 95.6% of the variation is attributable to other factors not included in the research model.

DISCUSSION

The Effect of Leverage on REM

In Table 8 regarding the partial test results, the significance value of the leverage variable measured by the debt-to-equity ratio is 0.014 < 0.05 with a regression coefficient (B) value of leverage of 0.172. This value indicates a one-way relationship between the leverage variable and REM. Thus, the leverage variable has a significant positive effect on REM.

The results of this study are in line with previous studies conducted by Pricillia et al. (2025). When debt covenant pressure increases, managers will be encouraged to increase profits so as not to violate debt agreements and maintain the company's image in the eyes of creditors and investors. Regulatory conditions during the 2020–2024 period further strengthened these incentives. During the COVID-19 pandemic, the OJK implemented various stimulus policies such as asset quality relaxation, credit restructuring policies, and a moratorium on collectability. Although aimed at maintaining banking stability, these policies created more flexible managerial space so that banks could manage their operating income to maintain good performance ratios. After the recovery period, when stimulus began to be reduced, pressure to maintain health indicators such as Capital Adequacy Ratio (CAR), Non-Performing Loan (NPL), and Return on Assets (ROA) increased again. This situation encouraged highly leveraged banks to conduct REM to maintain their financial position and market confidence. Meanwhile, these results differ from studies conducted by Al-Shattarat (2024) and Awad et al. (2024), which show that leverage has no effect on REM.

The higher a company's leverage ratio, the greater the risk of default. Therefore, managers will choose to signal high profits to appear capable of meeting the company's financial obligations. This is because it is difficult for external parties to assess the actual financial condition, thus creating room for managers to manipulate the company's profits. As a result, management is encouraged to engage in earnings management to present stable and healthy financial performance in order to appear capable of meeting the company's financial obligations. Thus, the first hypothesis is accepted.

The Effect of RMC on REM

Referring to Table 8 of the partial test results, the RMC has a significance value of 0.042 < 0.05 with a regression coefficient (B) value of 0.143, indicating that the RMC variable has a significant positive effect on the REM variable. This finding confirms that RMC size significantly influences REM; however, the direction of the effect is positive. The results of this study differ from previous studies conducted by Awad et al. (2024), which show that the size of the RMC has a negative effect on earnings management.

Research findings showing the positive effect of RMC size on REM can be explained through the institutional context of Indonesian banking. In practice, large committees do not always reflect strong risk oversight. The composition of RMC members is often dominated by executives or individuals who lack independence, thereby weakening the control function and making the committee more of a formality than an effective oversight mechanism. In addition, the potential for overlapping roles between RMC members and the board structure can also reduce the focus of oversight, so that a large committee actually opens up space for activity-based profit management practices.

To further examine this mechanism, future research could separate samples based on the level of independence, expertise, or frequency of RMC meetings. Testing the interaction between RMC size and these attributes could also help identify whether the positive effect on REM only appears in committees that are weak in governance. This approach allows for a more accurate assessment of whether RMC size truly reflects supervisory effectiveness or merely symbolic compliance in banking governance.

Accordingly, although RMC size is statistically significant, the second hypothesis, which proposes a negative effect of RMC size on real earnings management, is not supported in terms of effect direction.

The Effect of Earnings Persistence on REM

Earnings persistence is the ability of a company's current earnings to predict future earnings. The higher the earnings persistence value, the more stable and higher quality a company's earnings are. Referring to the partial test results in Table 8, the significance value of the earnings persistence variable is 0.186 > 0.05, which indicates that earnings persistence does not have a significant effect on earnings management. The results of this study are in line with the research conducted by Kalbuana et al. (2020) and differ from the research conducted by Setiawati et al. (2022).

The earnings persistence variable does not have a significant effect on REM because the measure of persistence calculated from changes in earnings before tax to total assets is quite sensitive to fluctuations in interest income, credit loss provisions, and macro banking conditions. As a result, this indicator does not always reflect the long-term profit stability that is relevant to management decisions on REM. High or low earnings persistence does not always influence managers' opportunistic behavior if the principal's monitoring mechanism is effective because the agency conflict space has been reduced. When investors or external parties no longer consider profit stability as the main indicator of company quality, generating consistent profits may not necessarily attract market attention because there are other indicators, such as financial or non-financial information disclosure. Thus, the third hypothesis in this study is rejected.

CONCLUSION

This study examines the effect of leverage, RMC, and earnings persistence on REM in Indonesian banking companies during 2020–2024. The findings indicate that leverage positively affects REM, suggesting that banks with higher leverage face stronger pressure to meet regulatory financial ratios, which can encourage manipulation of operating activities. The RMC also shows a positive effect on REM, likely due to limited independence and weak monitoring effectiveness. Meanwhile, earnings persistence does not have a significant influence on REM, indicating that stable earnings are no longer a primary signal of firm quality in the banking sector. Theoretically, the study highlights that governance proxies, especially RMC characteristics, can behave heterogeneously across contexts, and that using RMC size alone may be an inadequate indicator of governance effectiveness. For practitioners and regulators, the findings suggest the need to monitor the composition of RMCs more closely and to require disclosures on member independence and committee activities to strengthen oversight.

LIMITATION

This research has limitations because the variables of leverage, RMC, and earnings persistence can only explain 4.4% of the REM variable, while 95.6% is influenced by other factors that were not examined. This shows that the independent variables in this study have a very limited ability to explain the dependent variable. Furthermore, this study uses REM in banking, which tends to be difficult to identify because most of the bank's operational activities are highly dependent on strict regulatory policies and accounting standards. This is due to the characteristics of the banking industry, which differ from other sectors, particularly in terms of financial structure, regulations, and financial reporting methods. Based on the results of testing and analysis in this study, it is hoped that future research can use data from a broader time frame in order to increase the validity and reliability of the findings obtained and use other independent variables that are able to explain REM more broadly.

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No potential contradictions related to interests have been made known by the authors of this article.

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