INTERNATIONAL JOURNAL OF SOCIAL SCIENCE, EDUCATIONAL, ECONOMICS, AGRICULTURE RESEARCH AND TECHNOLOGY (IJSET) | ISSN (E): 2827-766X
Website: https://ijset.org/ | Volume 5 No. 11 (2026)

# MODERATING EFFECT OF INSTITUTIONAL OWNERSHIP ON THE RELATIONSHIP BETWEEN BOARD OF COMMISSIONERS COMPOSITION AND EARNINGS PREDICTABILITY: EVIDENCE FROM INDONESIAN BANKING COMPANIES

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**Received:** 05/11/2026 | **Revised:**10/11/2026 | **Accepted:**19/11/2026 | **Published:** 27/11/2026

**Abstract**

Background. Earnings predictability important measure of earnings quality, it relates to how well past earnings can explain current and future earnings. Accounting income as a predictive tool for forecasting future profits, uncertainty as a difficulty and cause of forecasting banking performance. Aim. Objective of this study was to investigate the influence the board of commissioners composition, institutional ownership on the predictability of earnings of banking companies listed on the Stock Exchange Indonesia by considering the moderating effect of institutional ownership. Method.The analysis is based on 39 firm of banking, annual data accros 3 years observations from 2022 to 2024, with the Moderating Regression Analysis. Results.The finding how the board of commissioners composition, institutional ownership in influencing earnings predictability. Board of commissioners composition significant influence earnings predictability (β = -0.291; p = 0.002), influence of the institutional ownership on earnings predictability not significant (β = -0.022; p = 0.806). Institutional ownership isn't able to moderate the influence of the board of commissioners composition on earnings predictability (β = -0.117; p= 0.889). R Square 0.087 can be explained that the composition of the board of commissioners, the institutional ownership has an influence of 8% on the earnings predictability and while 92% is influenced by other factors outside this study. Conclusions.This research offers theoretical and managerial contributions that emphasize the importance of predictability to strengthen banking governance. The originality of this research lies in the inability institutional ownership to act as a moderator..

***Keywords:*** ***Agency Theory; Board of Commissioners Composition; Earnings Predictability; Institutional Ownership; Moderating Effect***

## INTRODUCTION

Earnings is crucial information for investors. It demonstrates a company's financial performance. Earnings generally serves as a guide for internal and external users in making optimal decisions. A company that achieves high earnings can be said to be executing its strategy effectively and maintaining a competitive business advantage. Earnings predictability is an important measure of earnings quality because it relates to how well past earnings can explain current and future earnings. This can lead to more accurate valuations by allowing investors to better anticipate expected future earnings.One measure of a company's success is its earnings or loss from generating profits. In addition to high earnings, earning quality are also essential, as they serve as a benchmark for companies to determine the quality of their accounting information (Anggraeni et al, 2025). Earnings quality is measured by the extent to which profits are earned repeatedly. Earnings quality reflects a company's financial performance. (Hendrayati, et al, 2025). Achieving good financial performance is a crucial factor. To achieve this, a company's top priorities are good corporate governance, status, and complete and honest financial information provided to

shareholders. (Sittichanbuncha, Silpcharu & Wattanakomol, 2024; Jirawuttinunt, Issarapaiboon, Mueangjum, & Pataraarechachai, 2024). Providing high-quality financial information is paramount and remains the primary objective of financial reporting (Srijanphet, 2008). The quality of earnings, which primarily derives from normal business operations, is a critical focus for various stakeholders in assessing a company's current and future performance (Entwistle & Phillips, 2003; Schipper & Vincent, 2003). Earnings quality is the main indicator used as a basis for decision making and is also important information to be able to see the success of a company. (Widiatmoko, Indarti, & Nuswandari, 2023; Anggraeni, et al, 2025). The low quality of a company's earnings can bias the information presented, potentially misleading stakeholders when making decisions. A company's earnings are high-quality, reflecting its current state. Earnings are considered high-quality if they can serve as a predictor of sustainable earnings, and vice versa. In other words, high-quality earnings reflect a company's ability to survive in the future. The quality of a company's earnings is directly related to the quality of its corporate governance. (Chofsoh, Z. A., & Syafruddin, M., 2025; Baxter & Cotter, 2009; Bentley et al., 2013; Dey, 2008; Habbash et al., 2013; Kent et al., 2010; Lo et al.,2010; Saenz Gonzalez & García-Meca, 2014; Zhong et al., 2007). In order for company performance to improve, it is necessary to have an important role of good corporate governance to encourage management to improve the company's operational efficiency (Elzahaby, 2021). Corporate governance quality directly impacts performance. In addition to the direct relationship between performance and earnings quality, there is a potential mediating effect of performance on the relationship between corporate governance quality and earnings quality, corporate governance quality impacts performance level, and then performance impacts earnings quality, respectively. (Chofsoh, Z. A., & Syafruddin, M., 2025). Another opinion says that weak corporate governance principles and a lack of supervision from management open up opportunities for financial report manipulation (Nindito et al. 2019). Therefore, there is a need to improve the monitoring system and implement stricter governance. (Tanjaya & Kwarto, 2022). The implementation of the principles of Good Corporate Governance is considered capable of increasing company accountability and transparency (Pangestu, 2025). The effectiveness of corporate governance is largely determined by the strength of the supervisory mechanisms implemented

## LITERATURE REVIEW

The role of independent commissioners and the audit committee is crucial in strengthening oversight of a company's financial reporting. The presence of these two elements is believed to increase transparency and accountability in financial reporting. Furthermore, a clear ownership structure also encourages management to be more accountable for its actions and decisions. (Hatane et al. 2019). This creates a complex dynamic for corporate governance and the quality of financial reporting. The composition of the board of commissioners influences the quality of earnings, while the quality of earnings, as a reflection of the accuracy and reliability of financial reporting, becomes an indicator that provides the information needed by stakeholders. Ownership structure, which is depicted by the distribution of equity among shareholders, especially block shareholders and institutional investors, plays an important role in shaping corporate governance outcomes. (Sangchan et al, 2023). The proportion of shares owned by members of a company's management, such as the board of directors and the board of commissioners, is known as management ownership. In the agency theory paradigm proposed by Jensen & Meckling (1976), Management share ownership is considered a tool that can help align the interests of shareholders and management. When managers have a stake in a company, they tend to make decisions that lead to an increase in the company's overall value. Saraphat et al (2025) stated that directors are entrusted with the responsibility to carry out their duties transparently and to encourage desirable managerial behavior by ensuring the quality of financial reporting, particularly within an effective ownership structure. Specifically, larger board sizes and CEO duality are associated with lower earnings quality, while ownership structure can exacerbate or mitigate these effects. In their research, they offer theoretical and managerial contributions, emphasizing the importance of strengthening corporate governance to improve earnings quality. This research is a replication of several previous studies with various research results, the direct influence of board structure and ownership structure on earnings quality, so that this research will examine the influence of board structure on earnings predictability with ownership structure as a moderator.

Gap analysis**:**

This research is a combination and development of several previous studies that analyzed the influence of the board of directors on earnings quality with corporate ownership structure as a moderator. Exploration of board composition and earnings quality is still little explored. Understanding this interaction is crucial, because the


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effectiveness of board monitoring can depend on the nature and concentration of ownership. In a study by Saraphat et al. (2025), a study resulted in valuable insights into how corporate governance practices affect earnings quality. Specifically, larger board size and CEO duality are associated with lower earnings quality, while ownership structure can exacerbate or mitigate these effects. Their research offers theoretical and managerial contributions, emphasizing the importance of strengthening corporate governance to improve earnings quality in business. In this study, how governance practices remain an issue in influencing earnings quality using predictability can explore alternative approaches to assessing earnings quality. Examining the moderating role of institutional ownership in the influence of board of commissioner composition on earnings predictability in banking companies in Indonesia.

Rationale of the study:

The research problem formulated is solved using the agency theory approach and identifying factors related to corporate governance, by improving effective corporate governance mechanisms that can act as monitors to limit the tendency of managers to behave opportunistically through earnings management practices which then experience an increase in the quality of reported earnings and reduce agency costs..

Purpose or Hypotheses of the study:

Based on the information in the research background there are still weaknesses in the implementation of good corporate governance, the trust and ability of managers in achieving company goals not to manipulate earnings, directors are entrusted with the responsibility to carry out their duties transparently and to encourage desired managerial behavior by ensuring the quality of financial reporting, we form the basis and propose the following hypothesis:

H1: Board of Commissioners Composition influences Earnings Predictability
H2: Institutional Ownership Influences Earnings Predictability
H3: Institutional Ownership Moderates the Influence of Board of Commissioners Composition on Earnings Predictability

## METHOD

The Research Design:

This research employs a quantitative research method. This research is causal in nature, meaning it aims to determine the cause-and-effect relationship between variables. Generally, this cause-and-effect relationship can be predicted by the researcher, allowing the researcher to classify the causal variables, intervening variables, and dependent variables(Sugiyono, 2019). The data source for this research is data obtained from the official website of the Indonesia Stock Exchange. The data were taken from the company's annual financial reports for 2022-2024, published by company management on the official website. www.idx.co.id.

Variabel Measurement

Institutional ownership was defined as total amount of share ownership by institutional shareholders is measured by the percentage of the number of shares owned by institutional shareholders to the total number of shares outstanding. The composition of the board of commissioners is measured by the percentage of the number of independent (external) members of the board of commissioners to the total number of members of the board of commissioners (internal + external). Earnings predictability is measured by the proportion of earnings quality that depends on the ability of earnings to predict profits. This can be defined as the difference between the revenue earned in a period and the costs incurred to earn that revenue. The variance of accounting earnings shocks from time-series accounting earnings or the residual value of the regression equation in calculating earnings persistence is calculated using the formula : $E_{it} = a + bE_{it-1} + \varepsilon$, t as accounting profit of firm i in year t , $E_{it-1}$ as accounting profit of firm i in a year earlier than year t, ε as variance of accounting profit shocks from time series accounting profits. (Ginting, 2014); (Khafid, M., & Arief, S., 2017); (Rahayu et al, 2021).

Participant:

The population period used was 2022-2024, with a total of 46 companies. The sampling technique used in this study was purposive sampling, namely banking companies with positive profits, resulting in a sample of 39 companies.


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Instrument:

Multiple regression analysis is an extension of simple regression analysis where more than one independent variable is used to determine the dependent variable. Using SPSS software, regression analysis aims to determine the influence of various independent variables (metrics) on a single dependent variable (metric). Regression analysis determines the degree of association between two or more variables and the direction of the relationship. Before conducting regression analysis, a series of classical assumption tests are performed to ensure the validity of the data.

The regression analysis model is as follows:

$$Y = a + b_1X1 + b_2X2 + \mathbf{e}$$

$$Y = a + b_1X1 + b_2M + b_3(X1 \times M) + e$$

## RESULTS AND DISCUSSION

Descriptive Statistics

Table 1 Descriptive Statistics

| Variable | Min | Max | Mean | SD |
|---|---|---|---|---|
| BoC C (X1) | 0.33 | 1 | 0.6155 | 0.1764 |
| Ins O (X2) | 0.41 | 0.97 | 0.7823 | 0.1458 |
| EP (Y) | 0.001 | 0.08 | 0.0129 | 0.0116 |

The descriptive statistics show the following values for the variables used in the study:
Board of Commissioners Composition (X1) has a mean of 0.6155 with a standard deviation of 0.1764, with a range of 0.33 to 1. Institutional Ownership (X2) has a mean of 0.7823 with a standard deviation of 0.1458, with a range of 0.41 to 0.97. Earnings Predictability (Y) has a mean of 0.0129 with a standard deviation of 0.0116, with a range of 0.001 to 0.08.

Multiple Regression Analysis

Panel data regression analysis is a regression analysis using a panel data structure. In this study, parameter estimation using cross-sectional data was performed using the Ordinary Least Squares (OLS) method.

Table 2 Pearson Correlation Matrix Among Variables

| Variable | BoC C | Ins O | EP |
|---|---|---|---|
| BoC C | 1 | | |
| Ins O | -.035 | 1 | |
| EP | .130 | .037 | 1 |

Table. 3 Moderating Regression Analysis

| Variable | Model 1 | | Model 2 | |
|---|---|---|---|---|
| Constant | Standardized coefficients ($\beta$) | p-value | Standardized coefficients ($\beta$) | p-value |
| BoC C | -0.291 | 0.002 | -0.194 | 0.780 |
| Ins O | -0.022 | 0.806 | 0.034 | 0.934 |
| BoC C x Ins O | | | -0.117 | 0.889 |
| F-Value | 3.07 | | 2.68 | |
| Adjusted R Square | 0.087 | | 0.087 | |
| Tolerance | 0.990 | | 0.917 | |
| | 0.990 | | 0.948 | |
| | | | 0.912 | |
| VIF | 1.010 | | 1.956 | |
| | 1.010 | | 1.716 | |


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| | | | | |
|---|---|---|---|---|
| | | | 1.497 | |
| Durbin Watson | 1.773 | | 1.776 | |

The output results of the regression equation for model 1

1. The significance value of the Board of Commissioners Composition variable on Earnings Predictability is 0.002 < 0.05, which means that the Board of Commissioners Composition variable significantly influences Earnings Predictability.
2. The significance value of the Institutional Ownership variable on Earnings Predictability is 0.806 > 0.05, which means that the Institutional Ownership Structure variable does not affect Earnings Predictability

Based on the table, it can be concluded that the level of influence of board of commissioners composition, institutional ownership on earnings predictability is 0,087. From the results of the calculation of the coefficient of determination, it can be explained that the board of commissioners composition, institutional ownership has an influence of 8% on earnings predictability and while 92% is influenced by other factors outside of this research..

The output results of the regression equation for model 2

It is known that the significance value of the interaction between the Board of Commissioners Composition variable and the institutional ownership is 0.889>0.05, which means that the institutional ownership variable is not able to moderate the influence board of commissioners composition on earnings predictability.

Based on the table, it can be concluded that the level of influence board of commissioners composition, institutional ownership on the earnings predictability after the moderating variable is 0.087. From the results of the calculation of the coefficient of determination, it can be explained that the board of commissioners composition, institutional ownership has an influence of 8% on the earnings predictability and while 92% is influenced by other factors outside this study.

Discussion :

The significance value of Board of Commissioners Composition variable on Earnings Predictability is 0.002 < 0.05, which means that the Board of Commissioners Composition variable significantly affects Earning Predictability. Accounting profit can be defined as the difference between the income earned in a period and the costs incurred to obtain that income. One of the predictive tools to help predict future profits is earnings. Future profits can be assessed based on past profits based on historical costs and current values. Based on this, it can be concluded that profit comes from the subtraction of the company's income and costs in a certain period. Reported profits have the property of being able to increase information content, namely including predictive ability and feedback value. Profit is a predictive tool that helps in forecasting future profits and future economic events. Earnings information serves to assess financial and management performance, helps estimate long-term earning capabilities, predict earnings, and assess investment risks. The composition of the board of commissioners is the comparison of the number of board members from outside the company to the total number of board members. The composition of the board of commissioners is one of the board characteristics related to the content of earnings information. Through its role in carrying out its supervisory function, the composition of the board can influence management in preparing financial reports, thus obtaining a quality earnings report. Rahayu (2018) stated that the size of the board of commissioners influences earning predictability. Based on data from the board of commissioners of banking in Indonesia from 2022 to 2024, it ranges from 3 to 10 people, with the percentage of independent commissioners ranging from 33% to 100%. The placement or addition of board members from outside the company is carried out to comply with formal requirements, while the majority/controlling shareholders (founders) still play a significant role so that board performance does not improve, and may even decline. The greater the composition of board commissioners from outside the company, it is likely to cause a decline in the board's ability to carry out supervision due to problems in coordination, communication, and decision-making. On the other hand, Anastasya (2025) stated that the independent board of commissioners does not affect the financial performance of banks. Pramudityo & Sofie (2023), who indicate that the role of the independent board of commissioners is limited to conducting supervision and does not directly encourage an increase in the bank's financial performance.

The significance value of the Institutional Ownership variable on Earnings Predictability is 0.806 > 0.05, which means that the Institutional Ownership variable does not affect Earnings Predictability. This result differs


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from the research conducted by Wardhani (2009); Jiang and Anandarajan, (2009). Institutional shareholders, due to their high percentage of share ownership are in a position to exert control over managers' actions. Institutional ownership significantly influences earnings predictability (Rahayu et al, 2021). Institutional ownership is a crucial and effective external governance mechanism. This group of investors is in a position to influence the practices adopted by the company, and their presence can lead to changes in corporate behavior. This is due to the more effective oversight carried out by institutional investors. One party that can monitor the performance of agents is institutional ownership. The large presence of institutional investors can restrain and pressure managers from engaging in earnings management. Institutional share ownership plays a role when independent commissioners are ineffective in overseeing company performance, or vice versa. On the other hand, institutional ownership itself does not affect earnings quality. Ownership structure can exacerbate or mitigate the effects of earnings quality (Saraphat, 2025). Ownership structure can influence the activities carried out by management; thus, it can improve the quality of earnings. (Khafid & Arief, 2017; Ahmad et all., 2023; Alsultan & Hussainey, 2024) or weaken it (Sofia & Murwaningsari, 2019), It depends on the specific context. Institutional ownership is a group that monitors managers with large ownership, thus preventing and reducing the desire of managers to manipulate accounting numbers in financial reports. Managers' actions in manipulating accounting numbers can be prevented by effective monitoring mechanisms as institutional ownership increases, as stated by agency theory (Jensen & Meckling, 1976). Institutional investors have sophisticated management mechanisms that facilitate effective monitoring of business operations, along with superior analytical expertise and data processing capabilities (Brickley et all., 1988; Sofia & Murwaningsari, 2019). These attributes enable them to actively monitor and enforce compliance with regulatory and policy requirements through a robust monitoring framework. Furthermore, institutional investors play a critical role in mitigating the risk of self-serving financial reporting by management, thereby enhancing the integrity of financial disclosures. (Ferreira & Matos, 2008; Putra & Mela, 2019).

The significance value of the interaction between the Board of Commissioners Composition variable and institutional ownership is 0.889 > 0.05, which means that the institutional ownership variable is unable to moderate the influence of the board of commissioners structure on earnings predictability. This occurs because not all institutional investors actively monitor management. As explained in the study by Lin and Fu (2017). Large and foreign institutional shareholders who are not sensitive to pressure tend to have a more positive influence on company performance compared to domestic, small, and pressure-sensitive shareholders. The presence of a board of commissioners and institutional investors can influence management's behavioral activities.

Implications :

Regulators can utilize the findings of this study to improve corporate governance practices. This could include improving the composition of the board of commissioners, increasing the role of institutional investors with adequate knowledge and expertise, and emphasizing the importance of oversight in corporate governance implementation, as not all institutional investors actively monitor management

Research contribution :

The significant influence of the board of commissioners structure on earning predictability supports agency theory. The placement or addition of board members from outside the company is done to fulfill formal requirements, while the majority/controlling shareholder still plays an important role so that the board's performance does not improve, and may even decline. The greater the composition of board of commissioners members who come from outside the company, the possibility can cause a decline in the board's ability to carry out supervision due to the emergence of problems in coordination, communication, and decision-making.

Limitations :

This study has certain limitations. First, the sample only included banking companies with positive earnings performance, with a sample of 39 banking companies selected based on market capitalization. This limitation reduces the generalizability of the findings. The data collection period spanned only three years, which may not adequately capture long-term trends and changes. Extending the data collection period in future research could improve the reliability and accuracy of the findings.

Suggestions :

It is necessary to conduct research with different types of companies and additional data collection may be allowed with long-term trends, namely 5 or up to 7 years.


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## CONCLUSION

The results of the study on the significant influence of the board of commissioners composition variable on earnings predictability support the research hypothesis. The influence of the institutional ownership variable on earnings predictability is not in line with the research hypothesis. Institutional ownership is unable to moderate the influence of the board of commissioners composition on earnings predictability. Earnings predictability is an important measure of earnings quality because it relates to how well past earnings can explain current and future earnings and this can lead to more accurate valuations because it allows investors to better anticipate expected future earnings.

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