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# Does Managerial Ownership Moderate the Effect of Managerial Ability on Earnings Quality? A comparative Study of Manufacturing Companies in Indonesia and Malaysia

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## Abstract

The purpose of this study is to test the capability of managerial ownership in moderating the effect of managerial ability on earnings quality. The research sample consists of 41 manufacturing companies in Indonesia Stock Exchange and 53 in Malaysia Stock Exchange within the year of 2014–2016. Partial Least Square (PLS) method used for data analysis. The result shows that managerial ability has a positive and significant effect on earnings persistence, both in Indonesia and Malaysia. Managerial ability also has a positive and significant effect on accrual quality in both countries. Managerial ownership strengthens the effect of managerial ability on earnings persistence, but only in Malaysia. However, managerial ownership strengthens the effect of managerial ability on accrual quality in both countries. The results of this study can help investors and creditors in making decisions. Before investors invest in a company or before creditors lend funds to companies, investors and creditors need to first consider the persistence of earnings, not only see the amount of earnings the company gets to ensure that the company's earnings quality is good and the company has good prospects in the future.

**Keywords:** Managerial ownership; Managerial ability; Earnings quality.



## 1. Introduction

The main purpose of financial statements is to provide information that is useful to external parties such as investors, creditors, and financial analysts. One of the most important information to provide is earning. Earning plays an important role in assessing company performance. Earning is also used by investors as a major consideration in assessing companies (Dechow P. *et al.*, 2010; Demerjian *et al.*, 2013). Therefore, the earning presented in the financial statements must have the quality that is relevant and reliable so that it is useful for decision makers.

In Indonesia, the research on earnings quality and the factors that affect it focuses on company characteristics such as capital structure, company size, profitability, investment opportunity set (IOS), profit growth, liquidity and leverage (Risdawati and Subowo, 2015; Sadiah and Priyadi, 2015). The focus of this research is to examine aspects of managers as those who manage the company because managers play a very important role in generating earnings quality.

Some previous research shows that managers have a very important role in determining the success of the company. Aier *et al.* (2005) revealed that capable managers relate to the low level of restatement of financial statements that show earnings of low quality. Richardson *et al.* (2005) revealed that managers who have high ability to report earnings that are more persistent than managers who have low ability.

The study of Demerjian *et al.* (2013) examine the effect of managerial ability on earnings quality in the United States. In this study it was shown that managers with high ability have knowledge of their business and lead to better assessments and estimates, so that it can affect the quality of the company's earnings. The study did not consider other specific aspects that could affect the manager's decision in managing the company. These aspects include the existence of a corporate governance mechanism as a result of the separation between ownership and control.

The separation between ownership and control results in the emergence of agency conflicts that can affect the behavior of managers. In agency theory, both parties (shareholders and managers) try to maximize their respective interests (Jensen and Meckling, 1976). As an effort to align the interests of both parties, the mechanism that can be used is to give managers the opportunity to own shares (Brailsford *et al.*, 2002).

Although geographically the location of Indonesia and Malaysia is very close, the two countries have different corporate governance systems. Public companies in Indonesia adopt a two-tier board system, while Malaysia adopts a one-tier board system. The share ownership structure in Indonesia and Malaysia in general has no difference, which is relatively concentrated. Researchers are interested in examining empirically the comparison of managerial ownership in Indonesia and Malaysia, especially in their role of moderating the effect of managerial ability on earnings quality. This study uses a sample of manufacturing companies because manufacturing companies generally have a long operating cycle. The operating cycle starts from the purchase of raw materials to become finished

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products that are ready for sale. In every operational activity the company always needs manager's consideration to make effective and efficient decisions, so that it is expected to improve the quality of the company's earnings.

# 2. Literature Review and Hypotheses Development

## 2.1. Literature Review

### 2.1.1. Agency Theory

According to Jensen and Meckling (1976), agency theory is a theory that explains the cooperative relationship between principals and agents. In the agency theory, there is a separation between ownership and management of the company. This theory explains the agency relationship as a contract between one or more parties called a principal that binds another party or agent to manage the company based on the principal's interests, including the delegation of decision-making authority to the agent. According to agency theory, conflicts between principals and agents can be reduced by aligning the interests of principals and agents. The existence of share ownership by managers (insider ownership) can be used as an effort to reduce the agency cost that has the potential to arise. By owning company shares, managers are expected to be able to feel immediate benefits from every decision they make. This process is called bonding mechanism, which is a process to equalize management's interests through a program that binds management in the company's capital ownership structure.

### 2.1.2. Earnings Quality

Godfrey *et al.* (2010) explained that the earning reported by the company in each period reflects the quality of earnings. According to the conceptual framework, earning is said to be of high quality when it meets the criteria of relevance and faithful representation. Earnings quality can be affected by standard makers, selection of accounting methods of management and the use of judgment and estimation of management (Teets, 2002). Earnings quality in this study is proxied by earnings persistence and accrual quality. According to Scott (2015) earnings persistence is the company's ability to maintain earning over time. Meanwhile, according to Francis *et al.* (2005), earning is said to be quality when the accrual component of earnings is described as close to its cash flow realization.

### 2.1.3. Managerial Ability

Managers have the authority to set the right strategy to achieve organizational success. For example, (Isnugrahadi and Kusuma, 2009a) state that managers have the authority to determine the choice of accounting methods, for example managers can choose a depreciation method using a straight-line method or based on production results or managers can assess inventory using LIFO, FIFO or average. Managers can choose to charge or suspend expenses, such as research and development costs. In addition, managers can also choose to make mergers or acquisitions. Managerial ability is defined by Demerjian *et al.* (2013) as a manager's ability to affect company operations and earnings reporting quality that can produce the right earning measurement. Hambrick and Mason (1984) reveal that the outcome of an organization is determined by the background of the manager's characteristics.

### 2.1.4. Data Envelopment Analysis (DEA)

Data envelopment analysis (DEA) is a mathematical program to measure the level of relative efficiency of a decision making unit (DMU) (Taeb *et al.*, 2017). The relative efficiency of the DMU is the level of efficiency of the DMU compared to the level of efficiency of other DMUs in one population unit. In this population, all DMUs must have data sets consisting of the same input and output. Each DMU will try to achieve efficiency, which is to produce maximum output using minimal input. Efficiency measurement is usually measured by a ratio that compares the level of output produced with the level of input used. The higher the ratio, the more efficient a DMU is.

According to DEA, the company is said to be efficient if the ratio between the output combination and input combination is equal to 1 or 100%. This indicates that the company no longer wastes the use of inputs. The company is said to be less efficient if the ratio between the output combination and the input combination is less than 1 or less than 100%. This level of efficiency is the proxy for assessing managerial capabilities. The more efficient the company, the more competent a manager is in managing the company.

### 2.1.5. Managerial Ownership

Managerial ownership is defined as the percentage of ordinary shares held by company managers such as executive directors (Brailsford *et al.*, 2002). Managers in a company have the right to own company shares. In Law No. 40 of 2007 stated that if the commissioners and directors have shares in a company or in another company, then the commissioners and directors must report the amount of share ownership to the company.

## 2.2. Hypotheses Development

### 2.2.1. The Effect of Managerial Ability on Earnings Persistence

Earnings persistence describes the ability of current earnings sustainability in the future. Richardson *et al.* (2005) revealed that managers who have high ability to report earnings that are more persistent than managers with low ability. Demerjian *et al.* (2013) states that managerial ability affect earnings persistence. Current earning can be used as an indicator of future earnings, increasingly persistent earnings show more informative earnings.

The above studies show that management ability has a positive effect on earnings persistence. The capable managers have informed knowledge about changes in economic conditions and broad industrial development, so as to better estimate the future and manage the company effectively and efficiently. Managers who are capable to operate the company efficiently and estimate the better the future will produce more stable and accurate earnings, so that earnings persistence increases. High earnings persistence shows that the earnings presented by management are a quality earning. Based on the above description, the researcher proposes the following hypothesis:

$H_{1a}$: Managerial ability has a positive effect on earnings persistence in Indonesia.

$H_{1b}$: Managerial ability has a positive effect on earnings persistence in Malaysia.

### 2.2.2. The Effect of Managerial Ability on Accrual Quality

According to Waskito *et al.* (2011), requires managerial ability in estimating accruals because every decision taken will provide different information values. The uncertainty associated with accruals requires high managerial ability in judgment ability and accurate estimation, so that there is no noise in earnings. According to Dichev *et al.* (2017), managerial ability affects accrual quality when managers are capable accurately estimating accrual adjustments, so there is no gap between accruals and future cash flows. The level of managerial ability possessed by managers in a company shows the level of manager's knowledge of the company's business conditions, so that errors in estimating accruals can be minimized.

The above studies show that capable managers have an understanding of the company's business operations, so as to make judgment and make accrual estimates appropriate through established policies. A capable manager is expected to be able to make decisions that can maximize the quality of the company's earnings. High managerial ability is expected to help achieve high performance, so that it will affect earnings quality and good accrual estimates. In other words, the higher managerial ability, the higher the quality of accruals and the lower the level of errors that occur in estimating accruals. Based on the above description, the researcher proposes the following hypothesis:

$H_{2a}$: Managerial ability has a positive effect on the quality of accruals in Indonesia.

$H_{2b}$: Managerial ability has a positive effect on the quality of accruals in Malaysia.

### 2.2.3. The Effect of Managerial Ability on Earnings Persistence with Managerial Ownership as Moderating Variables

Contracts between agents and principals in agency relationships are based on accounting or earning figures Earning-based contracts result in managers being responsible for the sustainability of future earnings. Managers must utilize the resources owned by the company and create opportunities to earn income through their products. However, the contract can lead to conflict between the agent and the principal because both parties try to maximize their respective interests.

Jensen and Meckling (1976) reveal that share ownership by managers can reduce incentives to consume excessive earnings, take over shareholder wealth and take actions that do not aim to maximize shareholder welfare. Share ownership by managers makes managers have a dual role in a company, namely as owners and managers of companies. Therefore, the greater proportion of managerial ownership encourages managers to act to improve the quality of future earnings as reflected in their earnings persistence. Based on the above description, the researcher proposes the following hypothesis:

$H_{3a}$: Managerial ownership strengthens the effect of managerial ability on earnings persistence in Indonesia.

$H_{3b}$: Managerial ownership strengthens the effect of managerial ability on earnings persistence in Malaysia.

### 2.2.4. The Effect of Managerial Ability on Accrual Quality with Managerial Ownership as Moderating Variables

Even though the company has capable managers, the quality of earnings cannot necessarily be fulfilled because of one of the obstacles, namely agency conflict. Agency conflicts are conflicts of interest between managers and shareholders. Managers who are capable of trying to use their ability to fulfill personal interests by ignoring the interests of shareholders. Isnugrahadi and Kusuma (2009b) show that the more competent the manager is, the higher the earnings engineering by the manager.

Jensen and Meckling (1976) reveal that share ownership by managers can reduce managers' incentives to consume excessive earnings, take over shareholder wealth and take actions that do not aim to maximize shareholder welfare. The ownership of shares by managers makes managers have a dual role in the company, namely as owners and managers of the company. Therefore, it is predicted that the great proportion of managerial ownership will encourage managers to act to improve the quality of company accruals. Based on the above description, the researcher proposes the following hypothesis:

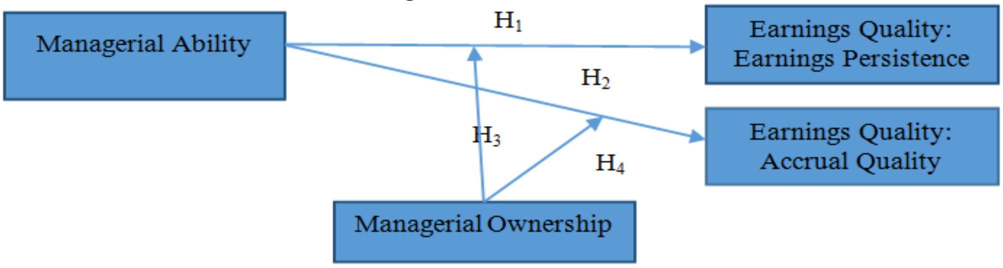
$H_{4a}$: Managerial ownership strengthens the effect of managerial ability on accrual quality in Indonesia.

$H_{4b}$: Managerial ownership strengthens the effect of managerial ability on accrual quality in Malaysia.

### 2.3. Research Model

The research model is shown in Figure 1 below.

**Figure-1.** Research Model




# 3. Methodology

## 3.1. Population and Samples

The population in this study are all manufacturing companies listing on the Indonesia and Malaysia Stock Exchanges. Sample selection is done by using purposive sampling method, which is sampling based on certain criteria. The criteria for determining samples are as follows:

1. Manufacturing companies listed on the Indonesia Stock Exchange and Malaysia Stock Exchange during the 2014-2016 period in the Osiris database.
2. Companies that issue financial statements in rupiah for Indonesia and ringgit for Malaysia.
3. Companies that publish financial statements and annual reports that end on December 31 during the period 2014-2016.
4. In calculating DEA, companies are classified into each manufacturing industry sub-sector with a minimum number of five companies in each industry. Classification is intended to give a variation on the DEA score. The company classification refers to the ICMD (Indonesia Capital Market Directory) for Indonesia and classification based on the Osiris database for Malaysia.
5. The company has complete data related to the variables used in the study.

## 3.2. Operational Definitions and Variable Measurements

## 3.2.1. Dependent Variables

### 3.2.1.1. Earnings Persistence

Penman and Zhang (2002); define earnings before extraordinary items that are categorized as net earnings is good earnings quality if it can be used as an indicator to predict future earnings.

$$\text{Earnings}_t = \frac{\text{Earnings before extraordinary itemst}}{\text{Average Total Assets}}$$

$$\text{Earnings}_{t+1} = \frac{\text{Earnings before extraordinary items t+1}}{\text{Average Total Assets}}$$

Sloan (1996) states that empirical analysis requires a cross-sectional and temporal comparison of the amount of earnings. Therefore, researchers standardize these variables with company size. The size of the company in this study is measured using average total assets.

### 3.2.1.2. Accrual Quality

Accrual quality will be measured using the Dechow P. M. and Dichev. (2002) model which measures earnings quality through low accrual estimation errors. High earnings quality is indicated by the low absolute value of accrual estimation errors from the regression results performed. The measured variable of earnings quality is divided by the average asset. Accrual estimation calculation formulas are as follows:

$$\Delta WCt = \alpha 0 + \alpha 1CFOit{-}1 + \alpha 2CFOit + \alpha 3CFOi_{t+1} + \alpha 4\Delta REVi,t + \alpha 5PPEi,t + \varepsilon t$$

Description:

$\Delta WCit$ : $\Delta AR + \Delta Inv - \Delta AP - \Delta TP + \Delta OA$
$\Delta WCt$ : Changes in working capital of the company i in year t
$CFOi_{,t-1}$ : The company's operating cash flow i in year t-1
$CFOi_{,t}$ : The company's operating cash flow i in year t
$CFOi_{,t+1}$ : The company's operating cash flow i in year t + 1
REV : Change in sales of the company i year t to year t-1
PPEi,t : Total fixed assets of company i in year t
AR : Change in trade receivables of company i year t to year t-1
Inv : Change in inventory of company i year t to year t-1
AP : Changes in the company's trade debt i year t to year t-1
TP : Change in corporate tax debt i year t to year t-1
OA : Changes in other assets of the company i year t to year t-1
$\varepsilon t$ : Error

### 3.2.2. Independent Variables
#### 3.2.2.1. Managerial Ability

The independent variable in this study is managerial ability. Managerial ability is defined as the relative efficiency level of a company in managing inputs (resource and operational factors) to increase output (sales). Managerial ability is measured using data envelopment analysis (DEA). DEA is an optimization program used to evaluate the relative efficiency level of a Decision Making Unit (DMU) in the form of a comparison between output and input. This level of relative efficiency, then proxied as a result of manager's ability.

The input and output used in this study use input and output according to Isnugrahadi and Kusuma (2009b), namely:

**Input**

Components used as inputs are grouped into two factors, namely resource factors (total assets and total labor) and operational factors (days cost of good sold in inventory and outstanding days sales).

1. Total Assets

Total assets are included as inputs because assets are a very important resource factor in generating output. A capable manager will be able to manage the amount of assets needed to produce maximum sales.

2. Number of Workers

In addition to assets, other resource factors that play a role in generating sales are labor. In general, to assess sales, the smaller the number of workers that generate sales, the more efficient the company is.

3. Days Cost of Good Sold in Inventory (DCI)

This variable measures the accuracy of the company's inventory turnover in units of days. The smaller the time (days) needed for inventory turnover, the more efficient the company is. Reliable managers are expected to be able to take the steps needed to minimize the DCI magnitude. The formula for calculating DCI is as follows:

DCI = 365/(COGS/Inventory)

4. Days Sales Outstanding (DSO)

DSO measures the time it takes for a company to get cash after making a sale. The faster the company gets the better cash. The DSO formula is as follows:

DSO = Account Receivables/ (Sales/365)

**Output**

The output used is only one, namely sales. Sales are used as output because sales represents the nominal value of the company's products which are the company's fundamental output.

### 3.2.3. Moderating Variable
#### 3.2.3.1. Managerial Ownership

The moderating variable used in this study is managerial ownership. Managerial ownership is defined as the percentage of ordinary shares held by company managers, such as executive and non-executive directors (Brailsford *et al.*, 2002). The managerial ownership calculation formula is as follows:

$$MOW=\frac{\text{Number of managerial shares}}{\text{Number of outstanding shares}} \text{ x } 100\%$$

### 3.3. Data Analysis Methods and Techniques

The analytical method used in this study is the structural equation modeling (SEM) method and the analysis tool used is partial least squares (PLS) software. SEM is one type of multivariate analysis in social science. The software used as an analysis tool is WarpPLS version 4.0.

## 4. Results and Findings
### 4.1. Company Sample

Based on predetermined sample selection criteria, the sample companies used in this study were 41 manufacturing companies in Indonesia and 53 manufacturing companies in Malaysia. The total number of samples with a three-year research period is 123 manufacturing companies in Indonesia and 159 manufacturing companies in Malaysia.

### 4.2. Descriptive Analysis

Descriptive analysis for sample data of manufacturing companies in Indonesia and Malaysia is shown in Table 1 and Table 2.

**Table-1.** Descriptive Analysis of Indonesia

| | N | Minimum | Maximum | Mean | Std. Deviation |
|---|---|---|---|---|---|
| MAB | 123 | 0.04 | 1.00 | 0.5126 | 0.33976 |
| MOW | 123 | 0.00 | 17.91 | 1.1470 | 3.37945 |
| AQU | 123 | 0.00 | 0.63 | 0.0514 | 0.09745 |
| ERt | 123 | -0.21 | 0.43 | 0.0467 | 0.09232 |
| ERt1 | 123 | -0.21 | 0.61 | 0.0524 | 0.11646 |
| Valid N (listwise) | 123 | | | | |

**Sources:** Output SPSS

**Table-2.** Descriptive Analysis of Malaysia

| | N | Minimum | Maximum | Mean | Std. Deviation |
|---|---|---|---|---|---|
| MAB | 159 | 0.01 | 1.00 | 0.5569 | 0.31999 |
| MOW | 159 | 0.00 | 57.70 | 8.5059 | 11.14779 |
| AQU | 159 | 0.00 | 0.47 | 0.0596 | 0.08678 |
| ERt | 159 | -0.38 | 0.36 | 0.0522 | 0.07349 |
| ERt1 | 159 | -0.38 | 0.36 | 0.0636 | 0.07932 |
| Valid N (listwise) | 159 | | | | |

**Sources:** Output SPSS

The managerial ability variable (MAB) in manufacturing companies in Indonesia has a minimum value of 0.04, a maximum value of 1.00 and an average value of 0.5126 with a standard deviation of 0.33976, whereas in manufacturing companies in Malaysia has a minimum value of 0.01, the maximum value is 1.00 and the average value is 0.5569 with a standard deviation of 0.31999.

The managerial ownership variable (MOW) in manufacturing companies in Indonesia has a minimum value of 0.00, a maximum value of 17.91 and an average value of 1.1470 with a standard deviation of 3.37945, whereas in manufacturing companies in Malaysia has a minimum value of 0.00, the maximum value is 57.70 and the average value is 8.5059 with a standard deviation of 11.14779.

The accrual quality variable (AQU) in manufacturing companies in Indonesia has a minimum value of 0.0, a maximum value of 0.63 and an average value of 0.0514 with a standard deviation of 0.9745, whereas in manufacturing companies in Malaysia has a minimum value of 0.0, the maximum value is 0.47 and the average value is 0.0596 with a standard deviation of 0.08678.

The current year's earning variable ($ER_t$) in manufacturing companies in Indonesia has a minimum value of -0.21, a maximum value of 0.43 and an average value of 0.0467 with a standard deviation of 0.09232, whereas in manufacturing companies in Malaysia has a minimum value - 0.38, the maximum value is 0.36 and the average value is 0.0636 with a standard deviation of 0.07932.

The earning persistence variable ($Er_{t+1}$) in manufacturing companies in Indonesia has a minimum value of -0.21, a maximum value of 0.61 and an average value of 0.0524 with a standard deviation of 0.11646, whereas in manufacturing companies in Malaysia has a minimum value of -0.38, the maximum value is 0.36 and the average value is 0.0636 with a standard deviation of 0.07932.

## 4.3. Partial Least Square Analysis

Based on the PLS analysis, R-Square for Indonesia was 18.16%, while for Malaysia it was 18.1%. This shows that managerial ability and managerial ownership variables are able to explain earnings quality of 18.16% for Indonesia and the remaining 81.84% is explained by other variables, then managerial ability and managerial ownership variables can explain the quality of earnings of 18.1% for Malaysia and the remaining 81.9% are explained by other variables.

**Table-3:** Goodness Value of Indonesia Fit Model

| Result | P-Value | Criteria | Explanation |
|---|---|---|---|
| APC= 0,209 | P < 0,001 | Good if P < 0,05 | Supported |
| ARS= 0,099 | P = 0,040 | Good if P < 0,05 | Supported |
| AVIF= 1,159 | | P< 5 | Supported |

**Table-4:** Goodness Value of Malaysia Fit Model

| Result | P-Value | Criteria | Explanation |
|---|---|---|---|
| APC= 0,203 | P < 0,001 | Good if P < 0,05 | Supported |
| ARS= 0,092 | P = 0,038 | Good if P < 0,05 | Supported |
| AVIF= 1,082 | | P < 5 | Supported |

The fit indices model is a very important measure in data management with WarpPLS because fit indices show the suitability of the model with the data and shows the quality of the model under study.

### 4.4. Hypothesis Testing

Hypothesis testing is done to determine the effect of endogenous variables and moderating variables on exogenous variables. The exogenous variable in this study is the quality of earnings. Figure 2 shows the results of hypothesis testing for Indonesia and Figure 3 shows the results of hypothesis testing for Malaysia.

**Figure-2.** Test Results of the Indonesian Hypothesis

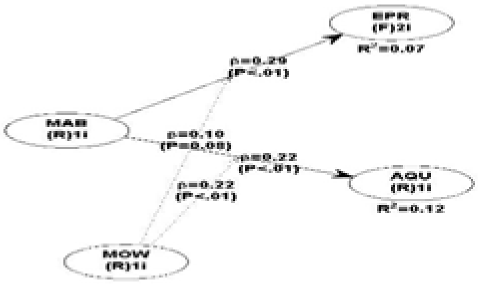
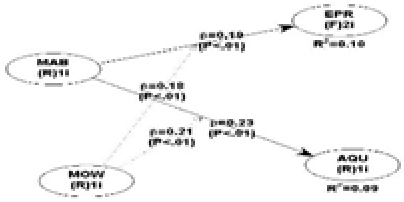



**Figure-3.** Test Results of the Malaysian Hypothesis




### 4.5. Discussion

### 4.5.1. Managerial Ability Affect the Persistence of Earnings

The results of testing $H_{1a}$ and $H_{1b}$ show that managerial ability has a positive effect on earnings persistence in Indonesia and in Malaysia. This is evident from the results of hypothesis testing which shows that the P-value <0.01 is smaller than the specified level of significance (≤ 0.05) and the path coefficient value is positive 0.29 for $H_{1a}$ and 0.19 for $H_{1b}$. Therefore, it can be concluded that the hypothesis which states managerial ability has a positive effect on earnings persistence is supported. The test results show that the higher managerial ability, the higher the stability of earnings so that the quality of corporate earnings is also higher.

These results are in accordance with the research of Demerjian *et al.* (2013) which states that the persistence of earnings will increase with increasing of managerial ability. The positive and significant effect of managerial ability on earnings persistence indicates that managers have good operational capabilities, so as to minimize the occurrence of losses. With the managerial ability they have, managers are able to utilize company resources and create opportunities to earn income through their production both now and in the future.

### 4.5.2. Managerial Ability Affect the Quality of Accruals

$H_{2a}$ and $H_{2b}$ test results show that managerial ability positively affects accrual quality in Indonesia and in Malaysia. This is evident from the results of testing the hypothesis which shows that the P-value <0.01 is smaller than the specified level of significance (≤ 0.05) and the path coefficient value is positive 0.22 for $H_{2a}$ and 0.23 for $H_{2b}$. Therefore, it can be concluded that the hypothesis which states managerial ability positively affect accrual quality is supported.

The results of this study support the research of Demerjian *et al.* (2013) which examined the effect of managerial ability on earnings quality. In the study it was mentioned that capable managers were able to manage the company by using company resources efficiently, so as to produce high quality earnings. In particular, capable managers are better at estimating accruals, so that they can affect the increase in current accrual mapping to future cash flows.

### 4.5.3. Managerial Ownership Strengthens the Effect of Managerial Ability on Earnings Persistence

The $H_{3a}$ test results show that managerial ownership does not strengthen the effect of managerial ability on earnings persistence. This is evident from the results of hypothesis testing which shows that the P-value $H_{3a}$ is 0.08 greater than the specified level of significance (≤ 0.05) and the path coefficient value is positive 0.10. Therefore, it can be concluded that the hypothesis that managerial ownership strengthens the effect of managerial ability on earnings persistence is not supported.

The results of this study support agency theory which states that the low level of share ownership by management causes managers to feel less having the same interests as shareholders, so that the resulting earnings are not persistent because there is a possibility that managers do earnings manipulation This can be proven by looking at managerial ownership data in Indonesia which has a small percentage, even most of them are 0%. With this small percentage, the manager's ability to exercise control over the company becomes relatively weak. In addition, Indonesia adopted a two tier board system that separates the role of the board of commissioners and the board of directors. This separation of roles increases the difference of interests between managers and shareholders.

Unlike H3a, the results of the $H_{3b}$ test show that managerial ownership strengthens the effect of managerial ability on earnings persistence. This is evident from the results of hypothesis testing which shows that the P-value $H_{3b}$ (< 0.01) is smaller than the level of significance set (≤0.05) and the path coefficient is positive 0.18. Therefore, it can be concluded that the hypothesis that managerial ownership strengthens the effect of managerial ability on earnings persistence is supported.

The results of this study prove that high managerial ownership can minimize conflicts of interest between shareholders and managers. Malaysia adopts a one tier board system, so managerial ownership is relatively high because the board of directors and board of commissioners are collected in a container called the board of directors. The existence of considerable managerial ownership makes the interests of shareholders and managers in harmony. Managerial ownership makes the managers act in the interests of shareholders. Managers will manage the company well, so they are able to estimate future earnings and utilize company resources. That way, managers can increase the persistence of earnings that will make quality company earnings.

### 4.5.4. Managerial Ownership Strengthens the Effect of Managerial Ability on Accrual Quality

The results of testing $H_{4a}$ and $H_{4b}$ show that managerial ownership strengthens the effect of managerial ability on accrual quality in Indonesia and in Malaysia. This is evident from the results of hypothesis testing which shows that the P-value (<0.01) is smaller than the specified level of significance (≤ 0.05) and the path coefficient value is positive 0.22 for $H_{4a}$ and 0.21 for $H_{4b}$. Therefore, it can be concluded that the hypothesis that managerial ownership strengthens the effect of managerial ability on accrual quality is supported. Managers who own shares will minimize agency problems because managers and shareholders have the same interests.

The results of this study support the study of Jensen and Meckling (1976) which revealed that managerial ownership is able to relieve agency conflicts that occur, so managerial ownership can reduce incentives to consume excessive earnings and be able to reduce opportunistic actions of managers to take over corporate wealth. Therefore, it can be concluded that capable managers and owning shares in a company will encourage the ability of managers to manage the company efficiently with the aim of improving the quality of company earnings.

# 5. Closing

## 5.1. Conclusions

The results of this study showed that managerial ability had a positive and significant effect on earnings persistence in Indonesia and in Malaysia. Managerial ability has a positive and significant effect on the quality of accruals in Indonesia and in Malaysia. Managerial ownership strengthens the effect of managerial ability on earnings persistence in Malaysia, but not in Indonesia. Managerial ownership strengthens the effect of managerial ability on accrual quality in Indonesia and in Malaysia.

## 5.2. Limitations

In this study there are several limitations, namely:

1. The data listed in Malaysia's annual report are limited, for example the number of workers is not attached.
2. Measurement of input and output factors in calculating the DEA score can only be used in manufacturing companies. The input and output factors in this study cannot be applied in calculating the DEA score in other industries, so this study does not include companies from other industries as sample companies.
3. The classification of the manufacturing industry sub-sector as the basis for grouping companies only follows the classification of the Osiris database for Malaysia. The author does not further evaluate whether the grouping reflects the reality of the company's main operations.

## 5.3. Suggestions

Based on existing limitations, suggestions for further research are:

1. Future research is expected to use a sample that presents all the data needed for measuring managerial ability.
2. Further research using non-manufacturing samples can use other proxies in measuring managerial ability. The general ability index (GAI) proxy used by Custodio *et al.* (2013) appropriately applied to public companies and private companies, while the BOPO proxy used by Dendawijaya (2005) is appropriate for banking companies.
3. Subsequent research using Malaysian data needs to obtain data in accordance with the sub-sector in the classification of companies to categorize manufacturing companies in measuring managerial ability.

## 5.4. Implications

The results of this study provide the following implications:

1. The results of this study can help investors and creditors in making decisions. Before investors invest in a company or before creditors lend funds to companies, investors and creditors need to first consider the persistence of

earnings, not only see the amount of earnings the company gets to ensure that the company's earnings quality is good and the company has good prospects in the future.

2. The results of this study can encourage company owners to be more selective in choosing managers, because proven managerial ability has a positive effect on earnings quality. The company owner also needs to consider non-technical aspects such as integrity and honesty of the manager as an agent who manages the company so that it can improve the quality of the company's earnings.

3. The results of the study stating that managerial ownership strengthens the effect of managerial ability on earnings quality can be used as a consideration for companies to provide compensation in the form of shares to managers because share ownership by managers is proven to minimize conflicts of interest between shareholders and agents.

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