International Journal of Informatics, Economics, Management and Science
http://journal.stmikjayakarta.ac.id/index.php/ijiems
E-ISSN: 2809-8471 (online), **P-ISSN:** 2809-9281 (Print)
DOI: 10.52362/ijiems.v5i2.2629
Volume 5 , Issue 2, August 2026, pp. 108-119

CEO Turnover, Earnings Management, And Family Ownership (Empirical Study On Property And Real Estate Companies Listed On The Indonesia Stock Exchange, 2020-2022)

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Received: September 15, 2025; **Accepted**: January 30,2026 ; **Published**: March 30,2026

Abstract: This study aims to analyze and provide empirical evidence of the effect of CEO turnover on earnings management, with family ownership as a moderating variable, in property and real estate companies in Indonesia. The hypotheses tested are: (1) CEO turnover is positively related to earnings management, and (2) family ownership strengthens the relationship between CEO turnover and earnings management. This study uses data from property and real estate companies listed on the Indonesia Stock Exchange (IDX) during 2020-2022, selected on the criteria that they published audited financial statements denominated in rupiah, accessible on the IDX website. Samples were obtained through purposive sampling, and the data were analyzed using multiple regression analysis. The results show that (1) CEO turnover is related to earnings management, so the first hypothesis is accepted, and (2) family ownership significantly strengthens the relationship between CEO turnover and earnings management, so the second hypothesis is accepted.

Keywords: CEO Turnover, Family Ownership, Earnings Management, Size, Leverage, Asset Intensity

1. Introduction

One of the benchmarks used by users of financial statements to assess a company's performance is earnings. Earnings are a primary concern for financial statement users in evaluating the performance and accountability of the CEO as the manager of the company. A CEO is considered to perform well when the company's main objectives are achieved; consequently, CEO turnover remains a possibility, since a company will hire a new CEO if the incumbent fails to achieve those objectives. This condition is what leads CEOs to be suspected of having the potential to engage in earnings management practices.

According to Wardani & Santi (2018), earnings management is a deliberate action taken by management to obtain personal or organizational benefit within the financial reporting process. As a result, earnings management can harm external parties, since decisions based on financial statements that contain earnings management practices may lead those parties into error.

Several cases indicating earnings management practices occurred abroad in 2023, involving the Chinese property and real estate giant Evergrande Group. The China Securities Regulatory Commission (CSRC) imposed a fine of 4.175 billion yuan (approximately IDR 9.1 trillion) on Hengda Real Estate, the group's main unit. Xu Jiayin, the founder and chairman of Evergrande Group, was fined 47 million yuan (approximately IDR 102 billion) and banned for life from the securities market [17].

A similar case has also occurred in Indonesia, namely the case of PT Hanson International Tbk (MYRX), which surfaced in 2019. This property company was linked to a scandal involving two state-owned insurance companies, PT Asuransi Jiwasraya (Persero) and PT Asabri (Persero), both of which had placed substantial amounts of policyholder funds with PT Hanson International Tbk. PT Hanson International Tbk was found to have manipulated the presentation of its 2016 annual financial statements. The Financial Services Authority (OJK) imposed sanctions on both the company and its president director, Benny Tjokro. The OJK's examination found accounting manipulation related to the sale of ready-to-build land plots (Kasiba) with a gross value of IDR 732 billion, which caused the company's revenue to rise sharply. In this transaction, PT Hanson International Tbk violated Financial Accounting Standard 44 on Real Estate Activity Accounting, as the company could not prove the completion of the Sale and Purchase Binding Agreement (PPJB). As a result, the company's revenue in its 2016 financial statements was overstated by a material amount of IDR 613 billion [19].

The cases described above indicate that earnings management practices involving the CEO who bears full responsibility for the preparation of financial statements provide considerable opportunity to manipulate and engineer financial statements to achieve individual objectives.

Based on the findings and theory put forward by Scott (2015), it can be concluded that a CEO who is about to lose their position will attempt to demonstrate good performance by increasing company earnings, and the same tendency applies to a newly appointed CEO.

CEO turnover is an event that every company will inevitably experience. Several cases of earnings management and financial statement manipulation involving management make research on earnings management during CEO turnover an important subject of study. Such research is useful in providing companies with information to consider when appointing individuals to the CEO position, and it can also provide investors with additional information and considerations for investing in a company undergoing CEO turnover, particularly companies with a high level of family ownership. A report published by the Boston Consulting Group (Razzak et al., 2019b) found that companies managed and controlled by families or family alliances have become the dominant company type, accounting for between 60 and 78 percent of all companies worldwide. This condition may cause family-owned companies to pursue their own interests more than the interests of minority shareholders, creditors, and other stakeholders. Given the findings of prior research and the fact that earnings management practices are still found in property and real estate companies, as illustrated by the cases described above, this phenomenon remains relevant for further study.

2. Literature Review

Accounting provides information to interested parties after carrying out three basic activities: identifying, recording, and communicating economic events [7]. Based on this definition, it can be concluded that accounting is the process of recording, classifying, summarizing, and reporting financial statements so that they can be used by parties with an interest in a company.

According to Raymond Budiman (2020), financial statements are documents that describe a company's financial condition and performance over a given period. In general, financial statements consist of five types of reports: the balance sheet, the income statement, the statement of changes in equity, the cash flow statement, and the notes to the financial statements.

One piece of information in financial statements that draws particular attention from users is information regarding company earnings. According to Syafrida Hani (2014), earnings are the result of operating activities that measure the change in shareholders' wealth over a period and reflect a company's ability to generate profit. Earnings play an important role for a company

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because they serve as a tool for measuring business success, which can be used as a basis for management decision-making and as an investment guideline for investors and prospective investors.

Agency theory is a principle used to explain and resolve problems arising in the relationship between business owners and their agents. Generally, this relationship exists between shareholders as principals and company executives as agents [10]. In companies whose capital consists of shares, shareholders act as principals and the CEO (Chief Executive Officer) acts as their agent. Shareholders employ a CEO to act in accordance with the principal's interests.

According to Scott (2015), earnings management is an effort made to increase management's incentives in a given period, since the higher the company's earnings, the higher the bonus received by management resulting in the company's cash expenditures being misrepresented relative to actual conditions.

In Indonesia, the Chief Executive Officer (CEO) is more commonly referred to as the director or the board of directors. According to Law of the Republic of Indonesia No. 40 of 2007 on Limited Liability Companies, the Board of Directors is the organ of the company that has full authority and responsibility for managing the company in its interest, in accordance with the company's purposes and objectives, and for representing the company both in and out of court in accordance with its articles of association.

According to the same law, members of the Board of Directors are appointed through the General Meeting of Shareholders (GMS). The first appointment of Board members is carried out by the shareholders in the deed of establishment. Board members are appointed for a specific term and may be reappointed at a subsequent GMS. According to Rosenberg et al., a change in a company's executive leadership is an event that significantly affects the company's continuity. The abilities, choices, and key decisions made by a CEO have a substantial impact on project selection, financial policy, and corporate culture. Because each individual produces different decisions, CEO turnover can change the direction and performance of a company [2]. If management performance is inadequate, or conversely, if the CEO's role and activities result in sound decisions or strategies that lead the company toward effective and efficient implementation, the CEO may be reappointed for the following term. However, if the CEO fails, the owners will replace them with a new CEO.

Anderson & Reeb state that family ownership can be defined as ownership held by a family, and/or ownership in which family members serve as members of the company's board [4]. Share

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ownership in companies in developing countries, including those in Indonesia, is largely controlled by families. According to Susanto, family business enterprises are the most common company type in Indonesia [13]. The greater the family ownership, the greater the control the family holds over the company.

Firm size can generally be defined as a scale used to classify a company as large or small based on various aspects, including total assets, average total assets, stock market value, total sales/revenue, average sales, total earnings, number of employees, and others [1]. Larger companies have a broader base of stakeholders, so the policies of large companies have a greater impact on public interest compared with those of smaller companies.

Leverage refers to a company's ability to use assets or capital that carry fixed costs (debt or equity) to achieve the company's objective of maximizing firm value. Companies with a higher leverage level and poor performance are more likely to engage in earnings manipulation, because companies with high leverage and low performance face a greater risk of bankruptcy.

According to Burgstahler and Dichev, asset intensity can be defined as the proportion of non-current assets to a company's total assets used [6]. When asset intensity is low, the likelihood of earnings management is high. Companies with larger current assets and/or current liabilities are more likely to manipulate and engineer earnings compared with companies that have smaller current assets and/or current liabilities.

The emergence of earnings management can be explained through agency theory. As an agent, the CEO is morally responsible for optimizing the profits of the owners (principals). As a company grows, it becomes impossible for the owners to carry out all the functions required to manage the company, due to limitations in ability, time, and other factors; under such conditions, owners need to appoint another party (an agent) who is professional in carrying out the tasks of managing the company's activities more effectively, and in return, the agent employed by the owners receives compensation in accordance with their contract. Based on the description above, it can be said that within a company there are two differing interests, with each party seeking to achieve or maintain its desired level of prosperity or profit. One way an agent may maximize their own profit is by engaging in earnings management.

More than two-thirds of companies in Asia, including Indonesia, are concentrated and controlled by families. According to the Family Business Survey [8], approximately 95% of companies in Indonesia are family-owned. Family owners hold significant power to constrain the

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rights of minority shareholders, creditors, and other stakeholders. In addition, family owners typically hold important positions within the company, such as on the board of directors or the board of commissioners, further increasing their opportunity to influence or restrict the rights of other parties, including the CEO, who is employed to manage the company. Based on the above description, it can be concluded that earnings management carried out by the CEO is more strongly influenced when family ownership is present in a company, because majority shareholders in family-owned companies can influence management's decisions and policies, including the company's earnings reporting.

Based on the discussion above, the research hypotheses can be formulated as follows:

H1: CEO turnover has a positive effect on earnings management.

H2: Family ownership strengthens the relationship between CEO turnover and earnings management.

3. Research Method

According to Sugiyono (2021), a population is a generalized region consisting of a phenomenon or topic with specific characteristics determined by the researcher for study, from which conclusions are subsequently drawn. In this study, the population consists of all property and real estate companies listed on the Indonesia Stock Exchange during 2020-2022, totaling 84 companies.

According to Sugiyono (2021), a sample is a portion of the population that serves as the data source for research, representing a subset of the characteristics possessed by the population. Sampling in this study was carried out using the purposive sampling method, with the aim of obtaining a representative sample that met the predetermined criteria. After the selection process, 57 companies met the specified criteria and were used as the sample, observed over a period of 3 years, resulting in 171 observational data points.

Data collection in this study was carried out using the library research method, in which data are gathered by studying theoretical material from the literature, required textbooks, and research journals relevant to the research object and the problem under discussion. In this study, secondary data were obtained by accessing the official website www.idx.co.id. The data obtained consisted of annual financial statements for the period 2020 to 2022 from the 57 companies sampled.

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In this study, the interaction test, or Moderated Regression Analysis (MRA), was used to test the regression with a moderating variable. MRA is a specific application of multiple linear regression in which the regression equation contains an interaction term (the multiplication of two or more independent variables). In addition, to test the research model, descriptive analysis, classical assumption tests that consisting of normality, multicollinearity, autocorrelation, and heteroscedasticity tests, and goodness-of-fit tests that consisting of the F statistical test and the coefficient of determination (R^2) test. Data processing in this study used SPSS 26.

4. Results and Discussion

This study aims to provide evidence of the effect of CEO turnover on earnings management, as well as evidence of the effect of CEO turnover on earnings management as strengthened by family ownership.

Descriptive statistical analysis in this study describes the research data in terms of the minimum, maximum, mean, and standard deviation values of the research variables. In this study, the dependent variable is earnings management (ADAC), the independent variable is CEO turnover (CEOTURN), the moderating variable is family ownership (FAMOWN), and the control variables are firm size (SIZE), leverage (LEV), and asset intensity (ASSET).

Table 1. Results of the Descriptive Statistical Analysis

Variable	N	Minimum	Maximum	Mean	Std. Deviation
ADAC	171	0.00	1.39	0.0522	0.13136
CEOTURN	171	0.00	1.00	0.1170	0.32232
FAMOWN	171	0.00	0.97	0.5757	0.24507
SIZE	171	21.11	31.81	27.8849	2.27486
LEV	171	0.00	1.16	0.3637	0.24945
ASSET	171	0.00	0.99	0.6031	0.24813
Valid N (listwise)	171				

Source: Data processed using SPSS 26, June 2024

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The F statistical test was conducted to determine whether all independent variables included in the model jointly (simultaneously) affect the dependent variable. The results of the simultaneous significance test (F statistical test) using SPSS for the research variables are as follows:

Table 2. Simultaneous Significance Test (F Statistical Test) – ANOVA[a]

Model	Sum of Squares	df	Mean Square	F	Sig.
Regression	300.588	6	50.098	6210.323	.000
Residual	1.323	164	0.008		
Total	301.911	170			

a. Predictors: (Constant), CEOTURN, FAMOWN, SIZE, LEV, ASSET, CEOTURN*FAMOWN
b. Dependent Variable: ADAC
Source: Data processed using SPSS 26, June 2024

Table 2 above shows that the calculated F-value is 6,210.323 with a p-value of 0.000. Since this p-value is smaller than 0.05, and the calculated F-value is greater than the F-table value for df(171) of 2.27, it can be stated that the combination of the independent variables, CEO turnover (CEOTURN), family ownership (FAMOWN), and the interaction between CEO turnover and family ownership (CEOTURN*FAMOWN), together with the control variables of firm size (SIZE), leverage (LEV), and asset intensity (ASSET), simultaneously affects earnings management. It can therefore be concluded that this regression model is a good multiple regression model, as it satisfies the goodness-of-fit requirement.

The coefficient of determination (R^2) is used to measure the extent to which the model can explain the variation in the dependent variable. The value of the coefficient of determination ranges between zero and one ($0 \leq R^2 \leq 1$); the closer the R^2 value is to one, the more the independent variables provide nearly all the information needed to predict the variation in the dependent variable. The results of the coefficient of determination using SPSS for the research variables are as follows:

Table 3. Results of the Coefficient of Determination – Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate

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1	.998	0.995	0.995	0.09211

a. Predictors: (Constant), CEOTURN, FAMOWN, SIZE, LEV, ASSET
b. Dependent Variable: ADAC

Source: Data processed using SPSS 26, June 2024

Table 3 above shows that the coefficient of determination, or adjusted R^2, is 0.995. The degree of determination reflects the predictive power of the model, as represented by the adjusted R^2 value. It can therefore be stated that this model is able to explain approximately 99.5% of earnings management, in other words, 99.5% of earnings management is explained by the independent variables, while the remaining share is explained by other factors outside the model.

Hypothesis testing in this study was conducted by examining the significance value of each independent variable resulting from the regression analysis. This test employed the interaction test, known as Moderated Regression Analysis (MRA), along with the t-statistical test. The results of the MRA regression analysis using SPSS 26 for the research variables are as follows:

Table 4. Results of the Moderated Regression Analysis (MRA) – Coefficients[a]

Model	B	Std. Error	Beta	t	Sig.
(Constant)	-4.356	0.031		-142.749	0.000
CEOTURN	-0.305	0.044	-0.074	-6.866	0.000
FAMOWN	0.978	0.031	0.180	31.504	0.000
CEOTURN*FAMOWN	-0.226	0.073	-0.034	-3.087	0.002
SIZE	0.142	0.001	0.959	185.475	0.000
LEV	0.898	0.029	0.168	31.179	0.000
ASSET	-0.512	0.028	-0.095	-18.035	0.000

a. Dependent Variable: ADAC

Source: Data processed using SPSS 26, June 2024

Table 4 above shows that CEO turnover has a significant positive effect on earnings management. The results of the multiple regression show that the CEO turnover variable (CEOTURN) has a regression coefficient of -0.305 with a significance level of 0.000, which is

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smaller than $\alpha = 0.05$. Furthermore, the resulting t-value is -6.866, with an absolute value of 6.866, which is greater than the t-table value for df(171) of 1.6538 (the t-value table can be seen in Appendix 5). Since t-calculated > t-table (6.866 > 1.6538), it can be concluded from these calculations that the hypothesis is accepted. In addition, Table 4 above also shows that family ownership strengthens the relationship between CEO turnover and earnings management. The results of the multiple regression show that the family ownership moderating variable, CEOTURN*FAMOWN, calculated by multiplying the CEOTURN and FAMOWN variables, has a regression coefficient of -0.226 with a significance level of 0.002, which is smaller than $\alpha = 0.05$. Furthermore, the resulting t-value is -3.087, with an absolute value of 3.087, which is greater than the t-table value for df(171) of 1.6538 (the t-value table can be seen in Appendix 5). Since t-calculated > t-table (3.087 > 1.6538), it can be concluded that the hypothesis is accepted.

5. Conclusion

Based on the results of the multiple regression analysis discussed in the previous section, several conclusions can be drawn as follows:

1. CEO turnover has a significant effect on earnings management in property and real estate companies listed on the Indonesia Stock Exchange that were sampled in this study during the 2020-2022 observation period.
2. Family ownership significantly strengthens the relationship between CEO turnover and earnings management in property and real estate companies listed on the Indonesia Stock Exchange that were sampled in this study during the 2020-2022 observation period.

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DOI: 10.52362/ijiems.v5i2.2629