THE DRIVING FACTORS OF EARNINGS MANAGEMENT

CALVIN
DEWI KURNIA INDRASTUTI
Trisakti School of Management, Jl Kyai Tapa No. 20 Jakarta 11440, Indonesia
dewiindrastuti@gmail.com

Abstract: One important part of the company’s financial statements is earnings because it provides information to stakeholders about the company’s performance. Earnings are used to evaluate management and one of the determinants of the amount of management compensation and to estimate the company’s prospects in the future. Earnings management is a practice used by businesses to enhance financial statements over time. The purpose is to attract the attention of users of financial statements to make decisions on investing and granting credit. Therefore, the aim of this study is to determine whether independent commissioners, independent audit committee, audit committee expertise, activity audit committee, size audit committee, leverage, and firm size affect earnings management. This study uses non-financial companies listed on the Indonesia Stock Exchange (IDX) during the 2018-2020 period as research objects. The sample selection method used is purposive sampling. The results of this study indicate that leverage and firm size have a positive effect on earnings management. The higher the leverage, the higher the risk of default on the debt owned by the company, among other things because there is an element of uncertainty in business conditions. This is avoided by investors and is a factor that causes the company’s management to practice profit management to beautify its financial reports. Company size has a positive effect on earnings management because large companies will tend to carry out earnings management so that the company is still considered good by investors. While independent commissioners, audit committee size, audit committee independence, audit committee expertise and audit committee activities have no effect on earnings management.

Keywords: Earnings management, independent commissioner, audit committee, leverage, company size

Abstrak: Salah satu bagian penting dalam laporan keuangan perusahaan adalah laba karena memberikan informasi kepada stakeholder mengenai kinerja perusahaan. Laba digunakan untuk mengevaluasi manajemen dan salah satu penentu besaran kompensasi manajemen serta untuk memperkirakan prospek perusahaan di masa depan. Manajemen laba merupakan salah satu praktik yang digunakan oleh perusahaan untuk mempercantik laporan keuangan dalam suatu periode. Tujuannya adalah untuk menarik perhatian para pengguna laporan keuangan, laporan keuangan digunakan oleh para investor maupun kreditor untuk mengambil keputusan dalam berinvestasi dan pemberian kredit. Oleh karena itu, tujuan dari penelitian ini adalah untuk mengetahui apakah komisaris independen, ukuran komite audit, independensi komite audit, keahlian komite audit, aktivitas komite audit, leverage, dan ukuran perusahaan memiliki pengaruh terhadap manajemen laba. Penelitian ini menggunakan perusahaan non keuangan yang sudah terdaftar di Bursa Efek Indonesia (BEI) selama periode 2018-2020 sebagai objek penelitian. Metode pemilihan sampel yang digunakan adalah purposive sampling. Hasil dari penelitian ini menunjukkan bahwa leverage dan ukuran perusahaan berpengaruh positif terhadap manajemen laba. Semakin tinggi leverage maka semakin tinggi pula risiko gagal bayar atas hutang yang dimiliki perusahaan antara lain karena kondisi bisnis terdapat unsur ketidakpastian. Hal ini dihindari oleh investor dan menjadi faktor penyebab pihak manajemen perusahaan melakukan praktik manajemen laba untuk mempercantik laporan keuangannya. Ukuran perusahaan berpengaruh positif terhadap manajemen laba karena perusahaan besar akan cenderung melakukan manajemen laba agar perusahaan tersebut tetap dinilai baik oleh investor. Sedangkan komisaris independent,
ukuran komite audit, independensi komite audit, keahlian komite audit dan aktivitas komite audit tidak memiliki pengaruh terhadap manajemen laba.

Kata kunci: Manajemen laba, komisaris independen, komite audit, leverage, ukuran perusahaan

INTRODUCTION

Financial reports serve as a valuable source of information for investors, providing them with the necessary data to make informed decisions (Saniamisha and Jin 2019). In a financial report there is a more specific scale or parameter, namely profit (Pradipta 2019). Most cases of earnings management are carried out to increase company profits in the current year at the expense of income in the coming years. According to Sebastian and Handojo (2019) earnings management is one of the factors that can reduce professionalism or can interfere with financial reports and can also disrupt users of financial statements such as investors and others. This research was conducted to find out what factors can influence the occurrence of earnings management cases.

One example of a case of earnings management that occurred in Indonesia in 2019, PT. Tiga Pilar Sejahtera Food is suspected of inflating or managing profits of IDR 4 trillion (Syahrizal 2019). This financial report manipulation is done by showing the value of receivables related to the sale of PT. Three Pillars of Prosperous Food (AISA). The management shows the value of receivables from partner companies, which results in the sales value as if it has also increased. With these manipulated financial reports, the bank will be interested in providing loans to AISA. When this happens, there are several parties who are harmed, such as the bank and investors. Investors buy shares when the real condition of the company does not match what is reported. In the case of AISA, the the earnings management that occurred was carried out deliberately by the management of the AISA company itself. Namely by Joko Mogoginta as the former President Director of PT. Tiga Pilar Sejahtera Food Tbk (AISA), and Budhi Istanto Suwito as the former Director of AISA at that time.

This research is a development of previous research conducted by Marjono et al. (2020). In Marjono et al. (2020) research there are independent variables namely Independent Commissioner, Audit Committee Size, Audit Committee Independence, Audit Committee Expertise, Audit Committee Activity, and there are also control variables namely Revenue Growth, Asset Intensity, Debt Structure, and Company Size. This research was conducted using the independent variable of Marjono et al. (2020) namely Independent Commissioner, Audit Committee Size, Audit Committee Independence, Audit Committee Expertise and Audit Committee Activity with added Leverage and company size as independent variables from research Setyoputri and Mardiwuono (2020).

The duration of this study differs from earlier research endeavors. In contrast to prior research which examined the years between 2013 and 2018, the current study focused on the time span between 2018 and 2020. The previous study employed a manufacturing company that is registered on the Indonesia Stock Exchange as the research subject. This study revolves around a non-financial corporation that is publicly traded on the Indonesia Stock Exchange.

Theoretical framework and hypothesis development

Agency Theory

According to Jensen and Meckling (1976) agency theory is a theory which states that there is a possibility of conflict between
principals (shareholders or investors) and agents (management parties) due to differences in interests. According to Hendrawaty (2017) agency theory is caused by problems that arise between management, namely the management of the company and its owners, namely shareholders, investors, and others. Arifin and Destriana (2016) state that agency theory is a theory that underlies company business practices, where the management of the company is no longer carried out by the owner but is handed over to other parties, which can lead to potential conflicts between owners and managers which is often referred to as an agency problem.

According to Schroeder et al. (2019) agency theory will explain how the principal determines the tasks and the agent will carry out work and make decisions on behalf of the principal in an organization. The existence of a conflict between the principal and the agent will cause losses, and the losses will be borne by the business owner. Losses borne by the business owner are called agency costs. Agency costs include monitoring expenditures as costs incurred by the principal to exercise control over agent behavior, bonding costs as costs borne by the agent as a form of guarantee for his actions, namely fulfilling the interests of the principal, residual loss as a reduction in principal wealth due to actions taken by the agent (Schroeder et al. 2019).

Earnings management
Kieso et al. (2020, 4-4). state that earnings management can be described as a deliberate act of strategizing around earnings, expenses, profits, and losses with the aim of maximizing revenue. Often, companies resort to earnings management to boost their profits for the present year while compromising the potential income for future years. The manager’s behavior falls within the classifications of both fraudulent and unethical. As stated by Sebastian and Handojo in 2019. Manipulating earnings is a factor that has the potential to compromise professionalism and weaken the trust of financial report users, including investors and other interested parties. Sulistyanto (2008) classified three methods of earning management. Firstly, increasing revenue refers to the company’s efforts to boost profits in the current period. Secondly, decreasing revenue refers to the company’s plan to lower profits in the current period. Lastly, income smoothing is the organization’s strategy to maintain earnings relatively the same over multiple reporting periods.

Earnings information is one part of the financial statements that is considered the most important, because there is company information that is seen as a representation of company performance. Information about company profits is a matter of concern, especially for investors because it increases investor wealth. Earning is also an important part of the financial statements because it is the most specific parameter for measuring the performance of a company. Company demands that must achieve targets can be a reason or motivation to carry out earnings management, financial reports are the object of earnings management practices, because financial reports reflect the performance of a company (Asitalia and Trisnawati 2017)

Independent Commissioner
According to the regulation of the financial services authority (Otoritas Jasa Keuangan) number 55/POJK.04/2015 article 1 paragraph 6, it states that an independent commissioner is a member of the board of commissioners who comes from outside a securities company and fulfills the requirements as an independent commissioner as referred to in this OJK regulation. Independent commissioners are members of the board of commissioners who have no family relationship.
with other boards of directors, other commissioners, have no relationship with finance, share ownership and management. Independent commissioners do not own or own shares in the company, this independent commissioner will also be responsible for oversight and represent the interests of minority shareholders (Mardjono et al. 2020). According to Firnanti (2017), Independent commissioners are members of the commissioners who have no relationship with management, and the existence of independent commissioners is a protector for minority shareholders and parties related to the company.

**Audit Committee Size**
According to the regulation of the financial services authority (Otoritas Jasa Keuangan) number 55/POJK.04/2015 titled Establishment and Guidelines for The Audit Committee article 4, states that the audit committee consists of at least 3 (three) members from independent commissioners and parties from outside public companies. The audit committee is part of the company's board of commissioners. The audit committee has the task of monitoring the financial statements and accounting policies implemented by management. Thus, the number of audit committee members will affect the performance of the audit committee (Mardjono et al. 2020). The existence of an audit committee in a company is a control system and a liaison between shareholders and the board of commissioners. With the audit committee is expected to reduce the occurrence of earnings management (Sebastian and Handojo 2019).

**Audit Committee Independence**
According to Adiati and Adiwibowo (2017) the independence of the audit committee is considered to be more prepared in maintaining the integrity of financial reports because it has no relationship with the company’s executive management. The independence of the audit committee can encourage the quality of financial reports and increase the informativeness of financial reports. The independence of the audit committee is a key factor in enhancing its role in preventing misstatements in financial reports (Edi and Michel 2018).

**Audit Committee expertise**
In carrying out the duties of the audit committee, expertise in accounting is required so that the duties as an audit committee can be productive. the audit committee can more professional in monitoring the process of preparing financial reports by management (Mardjono et al. 2020). The Audit Committee Expertise is an expertise in accounting or finance education. Audit committee members who have expertise in accounting and finance are very important for the credibility of the company's financial statements and expected to minimize errors. (Edi and Michell 2018).

**Audit Committee Activities**
According to the regulation of the financial services authority (Otoritas Jasa Keuangan) number 55/POJK.04/2015 in chapter IV article 13-14, states that the audit committee holds regular meetings at least 1 (one) time in 3 (three) months and meetings can be held if attended by more than 1/2 (one half) of the number of members. Audit committee activity is seen using the frequency of meetings with the board of commissioners and external auditors in one year (Mardjono et al. 2020). An effective audit committee meeting is one that is held regularly, to ensure that the preparation of financial reports functions as it should. By holding regular effective meetings, the audit committee can minimize earnings management (Edi and Michell 2018).

**Leverage**
Leverage is the debt structure related to the source of funds originating from the loan. If the company's leverage ratio is high, then the company can be suspected of carrying out earnings management because it has the
possibility of not fulfilling its obligations to pay debts on time (Mahawyahriti and Budiasih, 2016). Setyoputri and Mardijuwono (2020) said a company that has a high leverage ratio will tend to do earnings management. Hasty and Herawaty (2017) state that leverage is a company's ability to manage assets or funds that have a fixed liability (such as debt) or preferred shares so that in realizing a goal, the company can maximize the wealth of the company owner.

**Company Size**
According to Pradipta (2019) Firm size is one of the scales used to classify companies. Setyoputri and Mardijuwono (2020) said large companies will receive attention from external parties such as investors. Conversely, small companies tend to do earnings management to attract investors, creditors and other parties that their companies have satisfactory financial performance.

According to Arifin and Destriana (2016) states the size of the company to be a measurement that reflects the size of the level of sales and internal control of a company. According to Agustia and Suryani (2018) Company size is indicated by total assets, total sales, and company capitalization. Large companies will generally be more transparent in reporting their financial reports because external parties, such as the government, investors and creditors will pay more attention to the company, so large companies tend not to manage earnings.

**RESEARCH METHODS**
In this study the samples used were non-financial companies listed on the Indonesia Stock Exchange for the 2018-2020 period. This research uses purposive sampling method. Based on sampling criteria selection 495 data can be used in this research.

**Earnings management**
According to Kieso et al. (2020, 4-4) Earnings management is defined as an activity that has been planned regarding revenues, expenses, profits and losses to increase revenue. The proxy for calculating earnings management is using the Modified Jones Model taken from researchMarjono et al. (2020).

\[
TA_{it} = N_{it} - CFO_{it} \\
\frac{TA_{it}}{A_{it-1}} = \beta_1(1/A_{it-1}) + \beta_2(\Delta REV_{it}/A_{it-1}) + \beta_3(PPE_{it}/A_{it-1}) + e \\
NDA_{it} = \beta_1(1/A_{it-1}) + \beta_2(\Delta REV_{it}/A_{it-1} - \Delta REC_{it}/A_{it-1}) + \beta_3(PPE_{it}/A_{it-1}) \\
DA_{it} = \frac{TA_{it}}{A_{it-1}} - NDA_{it}
\]

Information:
- \(DA_{it}\) = Discretionary accruals of company \(i\) in period \(t\)
- \(NDA_{it}\) = Non-Discretionary Accruals of company \(i\) in period \(t\)
- \(TA_{it}\) = Total accruals of company \(i\) in period \(t\)
- \(N_{it}\) = net profit of company \(i\) in period \(t\)
- \(CFO_{it}\) = cash flow from company \(i\)'s operating activities in period \(t\)
- \(A_{it} - 1\) = Total assets of company \(i\) in period \(t\)
- \(\Delta REV_{it}\) = Change in company income \(i\) in period \(t\)
- \(PPE_{it}\) = Fixed assets of company \(i\) in period \(t\)
- \(\Delta REC_{it}\) = Change in company receivables \(i\) in period \(t\)
- \(e\) = Errors

**Independent Commissioner**
Independent commissioners are members of the board of commissioners who do not have family relations with other members of the board of directors, do not have other commissioner relationship with finance, share ownership and management. Independent commissioners do not have shares in the company, this independent commissioner will also be responsible for oversight and represent the interests of minority shareholders (Mardjono et al. 2020).

\[ IC = \frac{Total \text{ Independent Commissioner}}{Total \text{ Commissioner}} \]
Audit Committee Size
The audit committee is part of the company’s board of commissioners. The audit committee has the task of monitoring the financial reports and accounting policies adopted by management. Thus, the number of audit committee members will affect the performance of the audit committee (Mardjono et al. 2020). The size of the audit committee in this study is measured by the current number of audit committee members (Mardjono et al. 2020).

$$SAC = \text{Total Audit Committee}$$

Audit Committee Independence
In carrying out the duties of the audit committee, expertise in accounting is required so that the duties as an audit committee can be productive. The audit committee can be more professional in monitoring the process of preparing financial reports by management if the audit committee has expertise in accounting and finance (Mardjono et al. 2020). The independence of the audit committee in this study is measured by dividing the audit committee members who are independent from the audit committee members who are non-executive directors without any transactions from parties related to the company (Mardjono et al. 2020).

$$ACE = \frac{\text{score}}{\text{total score}}$$

Audit Committee Activities
The activity of the Audit Committee is the number of audit committee meetings in one year. It is hoped that holding audit committee meetings can reduce earnings management. Audit committee activity in this study was measured by the number of audit committee meetings throughout the year (Mardjono et al. 2020).

$$IAC = \frac{\text{Non Executive Audit Committee}}{\text{Total Audit Committee}}$$

Leverage
*Leverage* is the ratio used to measure how much the company is financed by debt (Riyanto 1995 in Mahawyahrti and Budiasih 2016). Companies whose assets are mostly financed using debt will tend to take action to increase the amount of profits earned due to high interest expenses (Agustia and Suryani 2018). Leverage in this study is measured by dividing total debt by total assets.

$$LEV = \frac{\text{Total Liabilities}}{\text{Total Asset}}$$

Company Size
According to Pradipta (2019) company size is wrong a scale used to classify companies. According to Agustia and Suryani (2018).
Company size is indicated by total assets, total sales, and company capitalization. Firm size in this study is measured using the natural logarithm of the company's total assets.

\[ \text{SIZE} = \log(\text{total assets}) \]

**RESEARCH RESULT**

<table>
<thead>
<tr>
<th>Sample Selection Procedure</th>
<th>Number of Companies</th>
<th>Amount Data</th>
</tr>
</thead>
<tbody>
<tr>
<td>Non-financial companies that are not listed on the Indonesia Stock Exchange during the 2018-2020 period.</td>
<td>521</td>
<td>1563</td>
</tr>
<tr>
<td>Non-financial companies do not use Rupiah currency units.</td>
<td>(100)</td>
<td>(300)</td>
</tr>
<tr>
<td>Non-financial companies whose financial statements do not end on December 31.</td>
<td>(6)</td>
<td>(18)</td>
</tr>
<tr>
<td>Non-financial companies that do not record profits during the research year.</td>
<td>(230)</td>
<td>(690)</td>
</tr>
<tr>
<td>Non-financial companies that do not have financial statements in 3 years during the 2018-2020 period</td>
<td>(14)</td>
<td>(42)</td>
</tr>
<tr>
<td>Company data released after outlier test</td>
<td>(18)</td>
<td></td>
</tr>
</tbody>
</table>

**Total companies selected as samples**

171

495

<table>
<thead>
<tr>
<th>Variable</th>
<th>N</th>
<th>Minimum</th>
<th>Maximum</th>
<th>Means</th>
<th>std. Deviation</th>
</tr>
</thead>
<tbody>
<tr>
<td>EM</td>
<td>495</td>
<td>-0.5084</td>
<td>1.5251</td>
<td>-0.0106</td>
<td>0.1681</td>
</tr>
<tr>
<td>IC</td>
<td>495</td>
<td>0.2500</td>
<td>0.8333</td>
<td>0.3963</td>
<td>0.1201</td>
</tr>
<tr>
<td>SAC</td>
<td>495</td>
<td>2.0000</td>
<td>6.0000</td>
<td>3.0604</td>
<td>0.2902</td>
</tr>
<tr>
<td>IAC</td>
<td>495</td>
<td>0.6667</td>
<td>1.0000</td>
<td>0.9938</td>
<td>0.0364</td>
</tr>
<tr>
<td>ACE</td>
<td>495</td>
<td>0.0000</td>
<td>1.0000</td>
<td>0.5261</td>
<td>0.1904</td>
</tr>
<tr>
<td>AAC</td>
<td>495</td>
<td>0.0000</td>
<td>43.000</td>
<td>6.4055</td>
<td>6.1568</td>
</tr>
<tr>
<td>Lev</td>
<td>495</td>
<td>0.0035</td>
<td>0.8736</td>
<td>0.4172</td>
<td>0.1919</td>
</tr>
<tr>
<td>SIZE</td>
<td>495</td>
<td>25.9870</td>
<td>33.4945</td>
<td>29.0417</td>
<td>1.5316</td>
</tr>
</tbody>
</table>

Source: Data Processed

<table>
<thead>
<tr>
<th>Variable</th>
<th>B</th>
<th>Sig.</th>
<th>Conclusion</th>
</tr>
</thead>
<tbody>
<tr>
<td>Constant</td>
<td>-0.0246</td>
<td>0.9433</td>
<td></td>
</tr>
<tr>
<td>IC</td>
<td>0.0755</td>
<td>0.2184</td>
<td>Ha1 rejected</td>
</tr>
<tr>
<td>SAC</td>
<td>0.0128</td>
<td>0.7336</td>
<td>Ha2 rejected</td>
</tr>
</tbody>
</table>
Independent commissioner (IC) has a sig value of 0.2184. sig. value is greater than 0.05 so that there is no influence from the independent commissioner variable on earnings management, so Ha1 is rejected. This research in line with Zurriah (2017).

The size of the audit committee (SAC) has a sig value of 0.7336. sig. value is greater than 0.05 so the audit committee size variable does not have influence on earnings management, and Ha2 is rejected. This is support research by Edi and Michell (2018), Sebastian and Handojo (2019).

Audit committee independence (IAC) has a sig value of 0.3142. sig. value is greater than 0.05 so that there is no influence of the audit committee independence variable on earnings management, so Ha3 is rejected. This result in line with Mardjono et.al (2020), Juhmani (2017), Fimanti (2017), Edi and Michell (2018), Zurriah (2017).

Audit committee expertise (ACE) has a sig value of 0.4872. sig. value is greater than 0.05. The audit committee expertise variable has no influence on earnings management, so Ha4 is rejected. This is consistent with Adiati and Adiwibowo (2017)

Audit committee activity (AAC) has a sig value of 0.9848. sig. value is greater than 0.05 so that there is no effect of the audit committee activity variable on earnings management, so Ha5 is rejected. This shows that audit committee meetings have no effect on earnings management and support Adiati and Adiwibowo (2017).

Leverage (LEV) has a sig value of 0.0051. sig. value is smaller than 0.05 so that there is influence from the leverage variable on earnings management, thereby leading to the acceptance of Ha6. The utilization of leverage has a beneficial impact on the practice of earnings management. This phenomenon illustrates that an increase in leverage ratio leads to a concomitant increase in the probability of default regarding the debt obligations of the organization, thereby rendering the investment proposition less appealing to potential investors. This could potentially be a contributing factor for a company engaging in earnings management to enhance the presentation of its financial statements. This empirical finding is consistent with the research findings of Sebastian and Handojo (2019), Astari and Suryanawa (2017), and Almalita (2017).

The results indicate that there exists a statistically significant relationship between company size (SIZE) and earnings management. With a value of 0.0006, falling below the significance level of 0.05, it can be concluded that the variable of company size influences earnings management. Consequently, hypothesis Ha7, pertaining to this relationship, can be deemed as accepted. The magnitude of a firm's size exerts a positive impact on earnings management. It is widely observed that organizations with larger financial stature are more likely to engage in earnings management, with the aim of upholding a positive financial performance that would be attractive to potential investors. The aforementioned statement is consistent with the findings reported by Astari and Suryanawa (2017).

<table>
<thead>
<tr>
<th>Variable</th>
<th>Sig Value</th>
<th>P-value</th>
<th>Conclusion</th>
</tr>
</thead>
<tbody>
<tr>
<td>IAC</td>
<td>0.2454</td>
<td>0.3142</td>
<td>Ha3 was rejected</td>
</tr>
<tr>
<td>ACE</td>
<td>-0.0268</td>
<td>0.4872</td>
<td>Ha4 was rejected</td>
</tr>
<tr>
<td>AAC</td>
<td>0.0000</td>
<td>0.9848</td>
<td>Ha5 rejected</td>
</tr>
<tr>
<td>Lev</td>
<td>0.0903</td>
<td>0.0051</td>
<td>Ha6 accepted</td>
</tr>
<tr>
<td>SIZE</td>
<td>0.0182</td>
<td>0.0006</td>
<td>Ha7 accepted</td>
</tr>
</tbody>
</table>

Source: Data Processed
CONCLUSION

Based on the results of this study it can be concluded that leverage and firm size influence earnings management in a positive direction on earnings management, meanwhile dependent commissioners, audit committee size, audit committee independence, audit committee expertise and audit committee activity have no effect on earnings management. This research has limitations: (1) The observation period in this study was only carried out for 3 years, from 2018 to 2020. (2) Only two independent variables, namely leverage and company size, were shown to have an influence on the dependent variable. Recommendations for future researchers: (1) Extend the observation period to more than 3 years to get more accurate and comprehensive results and be able to describe the actual state of the company. (2) Adding or changing independent variables that have a possible influence on earnings management, such as profitability, managerial ownership, institutional ownership.

REFERENCE


Mahawyahrni, Putu Tiya, dan I Gusti Ayu Nyoman Budiasih. 2016. “Asimetri Informasi, Leverage, Dan


