MEDIA BISNIS
Vol. 13, No. 2, September 2021, Hlm. 131-148
Akreditasi Sinta5 SK No.164/E/KPT/2021

P-ISSN: 2085 – 3106
E-ISSN: 2774 – 4280
http://jurnaltsm.id/index.php/MB

FACTORS THAT MOTIVATE THE ACT OF EARNINGS MANAGEMENT

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***Abstract**: The purpose of this research is to obtain empirical evidence about the influence of return on asset, financial leverage, firm size, firm age, fixed asset turnover, free cash flow, sales growth, audit quality, managerial ownership, institutional ownership, board size, and audit committee on earnings management. The population used in this research are non financial companies listed in Indonesia Stock Exchange from 2017 to 2019. The sample used for this research consists of 195 listed non-financial companies. The sampling technique used purposive sampling method, tested and analyzed using multiple regression method. The result of this research shows that return on asset, financial leverage, sales growth, and audit committee has positive influence while fixed asset turnover and free cash flow has negative influence on earnings management, moreover the other independent variables such as firm size, firm age, audit quality, managerial ownership, institutional ownership, and board size have no influence on earnings management.*

Keywords: earnings management, firm characteristics, corporate governance, audit quality.

Abstrak: Tujuan penelitian adalah untuk memperoleh bukti empiris terkait pengaruh *return on asset*, *leverage*, ukuran perusahaan, umur perusahaan, perputaran aset tetap, aliran kas bebas, pertumbuhan penjualan, kualitas audit, kepemilikan manajerial, kepemilikan institusional, ukuran dewan komisaris, dan komite audit terhadap manajemen laba. Populasi yang digunakan dalam penelitian ini adalah perusahaan non keuangan yang terdaftar di Bursa Efek Indonesia dari tahun 2017 sampai tahun 2019. Sampel yang digunakan dalam penelitian ini terdiri dari 195 perusahaan non keuangan. Teknik pengambilan sampel menggunakan metode *purposive* sampling, diuji dan dianalisis menggunakan metode regresi berganda. Hasil dari penelitian ini menunjukkan bahwa profitabilitas, *leverage,* pertumbuhan penjualan, dan komite audit mempunyai pengaruh positif sedangkan perputaran aktiva tetap dan aliran kas bebas mempunyai pengaruh negatif terhadap manajemen laba, sedangkan variabel independen lainnya yaitu ukuran perusahaan, umur perusahaan, kualitas audit, kepemilikan manajerial, kepemilikan institusional, dan ukuran dewan komisaris tidak mempunyai pengaruh terhadap manajemen laba.

***Kata kunci*:** Manajemen Laba, Karakteristik Perusahaan, Tata Kelola Perusahaan, Kualitas Audit

INTRODUCTION

Profit is the financial component that becomes the center's attention as well as the basis for decision making for those parties who have an interest. The firm primary purpose isn't just to increase the firm's profit but also to increase investor attractiveness.

Now, investors change their view, they not only see about the company earnings, but they see

the performance of the company. Investors are not only viewing the net income, but they also see the financial statements to predict the future of the company using the financial statement analysis tools. However, the problem is that the managers do not always have the same goals with their investors because they are interested in increasing their welfare, as result managers will create the strategies to make a good report of the financial statement that can satisfy their investors. All of the activities and plans that are related to adjust the earnings called earnings management.

Earnings management is an act to produce financial statements that give a good outlook for the company's financial position for personal interest, therefore management can use this kind of technique to attract the investors who will give bonuses to them (Subramanyam 2014, 108). Kusumawardhani (2012) stated that earnings management practices are not always harmful if done in the corridor of opportunity.

Nowadays, earnings management practice still occurred, therefore the knowledge of earnings management must be expert by the stakeholders and other users of financial statement, as a result they will not be manipulated by companies which doing earnings management while making the economic decision.

Agency Theory

There is a strong relationship between earnings management and agency theory which is caused by a relationship between principals and agents to perform their services on principal(s)' behalf for business decision making. Companies are no longer operated directly by the owners (principals) of the company, as a result they hired people (agents) to run the company on their behalf. This situation can lead to conflict about the desires of principals, but the agents do not act like the principals' desires. In reality, agents concerned about their wealth, fringe benefits, and also job security (Gitman and Zutter 2015, 67). To manage this kind of situation, principals need to increase monitoring cost or agency cost. The argued of Jensen and Meckling (1976) is the conflict of agency theory arises because of the separation of ownership and the control function. Thus, the managers or agents act to benefits their interests only instead of the shareholders.

Earnings Management

Subramanyam (2014, 108) defined earnings management as an act used by management for determining the profits and usually used to satisfy their interest which often involves the act of window-dressing about financial statements. In doing earnings management, the management can satisfy their interests, therefore managements produce the financial statements that give a good outlook for the company's financial position for personal benefit. Scott (2015, 447) stated that earnings management consists of four patterns, which are 1) taking a bath, 2) income minimization, 3) income maximization, and also 4) income smoothing.

Return on Asset and Earnings Management

Return on Assets (ROA), is a ratio that is used to measure profitability. It measures the effectiveness of the management in providing and generating earnings with its available assets (Yuliana and Trisnawati 2015). Firnanti et al. (2019) stated that the result of their research is that there is a positive relationship which means the larger the earnings, the motives to do earnings management is also high to attract the investors and increase their income. Profit is one of the critical indicators that can motivate the act of earnings management. When profit-based bonuses are applied, managers are likely to increase the amount of profit reported in the

financial statements, therefore they can get a little extra additional income (Godfrey et al. 2010, 9-10). On the other hand, Alzoubi (2016) stated that there is a negative influence between return on assets and earnings management, which also suggested by Asward and Lina (2015). Meanwhile, Susanto (2013) also stated that there is no influence of return on assets on earnings management, which also suggested by Chandra and Djashan (2018).

H_1: Return on asset has influence on earnings management.

Financial Leverage and Earnings Management

Yuliana & Trisnawati (2015) defined that leverage is the ratio between total liabilities and total assets of the firm. The higher the level of leverage, it will result a company's difficulties in obtaining additional capital, therefore the company would try to do earnings management to beautify their financial statement, so there is a positive influence as shown from the prior research conducted by Firnanti (2017). On the other hand, Yuliana and Trisnawati (2015) stated that there is a negative influence between financial leverage and earnings management, which also suggested by Firnanti et al. (2019). Meanwhile, Christiani and Nugrahanti (2014) stated that leverage does not influence on earnings management, which also suggested by Lidiawati and Asyik (2016).

H_2: Financial leverage has influence on earnings management.

Firm Size and Earnings Management

Based on Agustia (2013), company size influences the financing structure. The additional funds needed can be obtained through the issuance of new shares or by having new debt, hence it will motivate management to do earnings management by increasing the number of reported profits to attract investors to invest their money. This result also suggested by Jatiningrum et al. (2016), and Lidiawati and Asyik (2016). On a contrary, Jao and Pagalung (2011) stated that firm size has a negative influence on earnings management, which also suggested by Debnath (2017). While, Firnanti et al. (2019) stated that firm size does not influence on earnings management, which also stated by Arifin and Destriana (2016).

H_3: Firm size has influence on earnings management.

Firm Age and Earnings Management

Ilaboya and Ohioka (2016) stated that age means the length of time during things exist, hence, firm age means a number of years in which firm is incorporated. Debnath (2017) stated that there is a positive relationship between firm age and earnings management. It means the older the companies, the larger motives to do earnings management, because they have to manage their earnings to compete in the business world. This result also suggested by Bakht et al. (2014) and Khanh and Khuong (2018). On the other hand, Alzoubi (2016) stated that there is a negative relationship between firm age and earnings management, which also suggested by Kusumaningtyas (2012). While, Alexander and Hengky (2017) stated there is no relationship between firm age and earnings management, which also suggested by Bassiouny et al. (2016).

H_4: Firm age has influence on earnings management.

Fixed Asset Turnover and Earnings Management

According to Warrad and Omari (2015), fixed asset turnover is a ratio reflecting how much sales are generated in any investment planted in the production capacity for measuring the efficiency of the long-term capital investment. Rachman (2015) stated there is a negative relationship between fixed asset turnover and earnings management. This indicates that the higher the asset ratio turnover in a company, increasingly encouraging management to stay

away or not to motivate the act of earnings management practices. On the other hand, Alexander and Hengky (2017) stated that fixed asset turnover does not influence on earnings management.
H_5: Fixed asset turnover has influence on earnings management.

Free Cash Flow and Earnings Management

According to Agustia (2013), free cash flow is the actual cash flow that is available to distribute the cash to investors after paying all of the operational expenses. Firnanti et al. (2019) stated that there is a negative relationship between free cash flow and earnings management, because they are already confident about their financial report and there is no need to attract investors, which also suggested by Yogi and Damayanthi (2016), and Wimelda and Chandra (2018). On the other hand, Cardoso et al. (2014) stated that there is a positive relationship between free cash flow and earnings management. While, Herlambang (2017) stated that free cash flow does not influence on earnings management.
H_6: Free cash flow has influence on earnings management.

Sales Growth and Earnings Management

Sales growth means the sales rate that can change from year to year (Mahapsari and Taman 2013). Companies that have stable sales from year to year are easier to get more loans. Firnanti et al. (2019) stated that there is a negative relationship between sales growth and earnings management. It means companies that have a high level of sales growth will attract the investors easily, but it will reduce the act of doing earnings management. On the other hand, Heidarpoor et al. (2014) stated that there is a positive relationship between sales growth and earnings management, which also suggested by Gonzalez and Meca (2013). While, Savitri (2014) stated that sales growth does not influence on earnings management, which also suggested by Linasmi (2017).
H_7: Sales growth has influence on earnings management.

Audit Quality and Earnings Management

Effendi and Daljono (2013) stated that auditors from big-4 audit company have been trained to provide an effective and accurate result of audit procedures rather than auditors from non-big 4 company, therefore they are considered to provide a higher quality of audit, which also suggested by Kingsley et al. (2016). On the other hand, Firnanti (2017) stated that there is a positive relationship between audit quality and earnings management, which also suggested by Indriastuti (2012). While, Susanto and Yangrico (2020) stated that audit quality does not influence on earnings management, which also suggested by Firnanti et al. (2019).
H_8: Audit quality has influence on earnings management.

Managerial Ownership and Earnings Management

Firnanti et al. (2019) defined that managerial ownership refers to the proportion of a company's shares owned by management (managers, directors, and commissioners) in the company itself. Based on Alves (2012), managerial ownership can reduce motivation in doing earnings management because managerial ownership in a company can be seen to minimize conflict of interests between them, so there is a negative influence on earnings management which also suggested by Sari and Asyik (2013). On the other hand, Aygun et al. (2014) stated that there is a positive influence between managerial ownership and earnings management, which also suggested by Asward and Lina (2015). While, Firnanti et al. (2019) stated that managerial ownership does not

influence on earnings management, which also suggested by Guna and Herawaty (2010), Susanto (2013), and Firnanti (2017).
H_9: Managerial ownership has influence on earnings management.

Institutional Ownership and Earnings Management

According to Chung & Zhang (2009), institutional ownership is the proportion of the company's shares owned by institutions investors. Kamran and Shah (2014) stated that the institutional investors have an important role in monitoring company managements' activities by using their knowledge and dominant ownership, which also suggested by Kamran and Shah (2014), and Alzoubi (2016). On the other hand, Jao and Pagalung (2011) stated that there is a positive influence between institutional ownership and earnings management, which also suggested by Arifin and Destriana (2016). While, Firnanti et al. (2019) stated that institutional ownership does not influence on earnings management, which also suggested by Wimelda and Chandra (2018), and Florencia and Susanty (2019).
H_{10}: Institutional ownership has influence on earnings management.

Board Size and Earnings Management

The more member boards of commissioners originate from outside the company or independent parties, the better the supervisory function carried out more quality along with the many demands from independent parties who want transparency, therefore that it is expected to avoid earnings management practices (Asward and Lina 2015). Thus, there is a negative influence on earnings management, which also suggested by Aygun et al. (2014). On the other hand, Gulzar and Wang (2011) stated that there is a positive influence between board size and earnings management. While, Firnanti et al. (2019) stated that board size does not influence on earnings management, which also suggested by Susanto (2013).
H_{11}: Board size has influence on earnings management.

Audit Committee and Earnings Management

Lin and Hwang (2010) stated that more audits could represent reliable resources for the financial process, hence reducing the act of earnings management which also supported by Susanto (2013). On the other hand, Asward and Lina (2015) stated that there is a positive influence between audit committee and earnings management. While, Firnanti et al. (2019) stated that the audit committee does not influence on earnings management, which also suggested by Wimelda and Chandra (2018) and Florencia and Susanty (2019).
H_{12}: Audit committee has influence on earnings management.

RESEARCH METHODS

This research is taken from all non-financial companies listed in Indonesia Stock Exchange from 2017 to 2019 as population. The sample used 195 listed non-financial companies, and used purposive sampling method for the sampling technique with the criteria for this research sample in table 1 as follows:

Table 1
Sample Selection Procedure

Criteria Description	Total Firms	Total Data
1. Non-financial companies that are consistently listed in Indonesia Stock Exchange from 2016 to 2019.	439	1317
2. Companies which do not used IDR currency in their financial statements from 2016 to 2019.	(114)	(342)
3. Companies which do not published financial statements ended as of 31st December from 2016 to 2019.	(1)	(3)
4. Companies which do not consistently earned profit from 2017 to 2019.	(126)	(378)
5. Companies which do not consistently have institutional ownership in the financial statement from 2017 to 2019.	(3)	(6)
Number of sample firms used	195	585

Source: Data is obtained and processed from IDX (www.idx.co.id)

In this research, earnings management is measured using discretionary accruals from the Jones Model (Dechow et al. 1995). The computation of the accruals component of earnings based on Firnanti et al. (2019) as follows:

$$\text{TACCit} = \text{NIit} - \text{OCFit}$$

Where:
TACCit = Total Accruals in year t
NIit = Net Income in year t
OCFit = Operating Cash Flow in year t

$$DACCit = TACC_{it}/A_{it-1} - [\alpha_t(1/A_{it-1})] + \alpha_{1i}[(\Delta REV_{it} - \Delta REC_{it})/A_{it-1}] + \alpha_{2i}[PPE_{it}/A_{it-1}]$$

Where:
DACCit = Discretionary accruals
Ait-1 = Total Asset t-1
ΔREVit = Change in Revenue
ΔRECit = Change in Receivable
PPEit = Gross Property, Plant and Equipment in year t
αt- α2 = Regression Parameters

Based on Firnanti et al. (2019), return on asset can be measured following the formula as follows:

$$\text{ROA} = \frac{\text{Net Income After Tax}}{\text{Total Assets}}$$

Based on Firnanti et al. (2019), financial leverage can be measured following the formula as follows:

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

Firm size explains about how big the firm is (Alexander and Hengky 2017). Based on Firnanti et al. (2019), firm size can be measured following the formula as follows:

$$\text{FSIZE} = \text{Natural Log of Total Assets}$$

Based on Khanh and Khuong (2018), firm age is can be measured following the formula as follows:

$$FAGE = \text{the number of years since the firm's established in the market}$$

Alexander and Hengky (2017) stated that fixed asset can be measured using this formula:

$$FAT = \frac{\text{Sales}}{\text{Fixed Asset}}$$

According to Wimelda and Chandra (2018), free cash flow is measured using this formula:

$$FCF = \frac{\text{Cash Flow Operating - Cash Flow Investing}}{\text{Total Assets}}$$

According to Savitri (2014), sales growth can be measured following the formula as follows:

$$SG = \frac{\text{Net Sales t} - \text{Net Sales t-1}}{\text{Net Sales t-1}}$$

Based on Firnanti et al. (2019), audit quality is measured by using dummy variable: 1 for companies that are audited by Big Four and number 0 for companies that are audited by Non-Big Four.

Aygun et al. (2014), managerial ownership is calculated as the proportion of the company's shares owned by the manager. According to Firnanti et al. (2019), managerial ownership is measured using dummy variable: 1 for companies with managerial ownership while 0 for firms with no managerial ownership.

According to Firnanti et al. (2019), institutional ownership refers to the proportion of company's shares owned by institutions, such as governments, financial institutions, legal institutions, foreign institutions, trust funds, and others. According to Wimelda and Chandra (2018), the formula used for institutional ownership is as follows:

$$IO = \frac{\text{Institutional Share Ownership}}{\text{Outstanding Shares}}$$

Based on Firnanti et al. (2019), board size can be measured following this formula:

$$BSIZE = \text{Total Board of Commissioner}$$

Based on Firnanti et al. (2019), audit committee can be measured following this formula as follows:

$$AC = \text{Number of audit committee members of a company}$$

The hypotheses test in the research will use multiple regression models to evaluate the influence of independent variables towards the dependent variable. In this research, the empirical models that is used to test the hypotheses are:

$EM = \alpha + \beta1(ROA) + \beta2(LEV) + \beta3(FSIZE) + \beta4(FAGE) + \beta5(FAT) + \beta6(FCF) + \beta7(SG) + \beta8(AQ) + \beta9(MO) + \beta10(IO) + \beta11(BSIZE) + \beta12(AC) + \varepsilon$

Where:

EM = Earnings management
α = Constant
β1- β12 = Variable coefficients
ROA = Return on asset
LEV = Financial leverage
FSIZE = Firm size
FAGE = Firm age
FAT = Fixed asset turnover
FCF = Free cash flow
SG = Sales growth
AQ = Audit quality
MO = Managerial ownership
IO = Institutional ownership
BSIZE = Board size
AC = Audit Committee

RESEARCH RESULTS

The result for descriptive statistics test in this research in the table 2, table 3, and table 4 as follows:

Table 2
Descriptive Statistics Result

Variable	N	*Minimum*	*Maximum*	*Mean*	*Standard Deviation*
EM	585	-0.368487	1.168228	-0.000000	0.094363
ROA	585	0.000085	0.920997	0.069612	0.080168
LEV	585	0.041537	1.947497	0.420756	0.205412
FSIZE	585	24.623623	33.494533	29.012391	1.575284
FAGE	585	3	135	35.54	16.456
FAT	585	0.074009	98.248769	3.877768	8.162506
FCF	585	-1.003190	0.665302	0.124012	0.139521
SG	585	-0.912302	2.303599	0.100955	0.255276
AQ	585	0	1	0.39	0.488
MO	585	0	1	0.66	0.472
IO	585	0.050975	0.999803	0.798183	0.199249
BSIZE	585	2	18	4.30	1.862
AC	585	2	6	3.09	0.405

Source: Data output SPSS 25.0

Table 3
Audit Quality Frequency Table

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Non-Big Four	358	61.2	61.2	61.2
	Big Four Total	227	38.8	38.8	100.0
		585	100.0	100.0	

Source: Data output SPSS 25.0

Table 4
Managerial Ownership Frequency Table

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	No Managerial Ownership	196	33.5	33.5	33.5
	Managerial Ownership	389	66.5	66.5	100.0
	Total	585	100.0	100.0	

Source: Data output SPSS 25.0

Mean value shows the average value from the entire sample of the research. Standard deviation value shows the amount of deviation from the observation to the mean value. Minimum value shows the smallest amount from the entire sample of the research. Maximum value shows the highest amount from the entire sample of the research.

The result of the residual normality test before the outlier test is 585 data. After conducting the outlier test, the results of the normality test after the outlier test using 577 data. The data that has been tested for outliers are still not normally distributed, so this research will use the data before outlier test. For the classical assumption tests, there is no autocorrelation and no multicollinearity problem, but there is heteroscedasticity problem for four independent variables which are return on asset, firm age, fixed asset turnover, and free cash flow.

The hypotheses tests result from coefficient of correlation test shows that the R value is 0.841, so there is very strong and positive relationship between independent variables toward dependent variable. The result of the coefficient of determination (Adjusted R-Square) analysis shows that adjusted R-Square value is 0.701, so the variation of dependent variable earnings management (EM) that can be explained by variation of independent variables which are return on asset (ROA), leverage (LEV), firm size (FSIZE), firm age (FAGE), fixed asset turnover (FAT), free cash flow (FCF), sales growth (SG), audit quality (AQ), managerial ownership (MO), institutional ownership (IO), board size (BSIZE), and audit committee (AC) is 70.1%, while the remaining 29.9% can be explained by other variables that are not included in the regression model. The result of F test is fit to be used in this research.

The result of t test is shown in the table 5 as follows:

Table 5
t Test Result

Variable	Coefficient	Significance	Decision	Conclusion
(Constant)	-0.021	0.657		
ROA	0.567	0.000	Ha_1 Supported	Has Influence
LEV	0.023	0.034	Ha_2 Supported	Has Influence
FSIZE	-0.001	0.705	Ha_3 Not Supported	No Influence
FAGE	-0.000	0.889	Ha_4 Not Supported	No Influence
FAT	-0.002	0.000	Ha_5 Supported	Has Influence
FCF	-0.533	0.000	Ha_6 Supported	Has Influence
SG	0.025	0.003	Ha_7 Supported	Has Influence
AQ	0.000	0.948	Ha_8 Not Supported	No Influence
MO	-0.006	0.196	Ha_9 Not Supported	No Influence
IO	0.010	0.387	Ha_{10} Not Supported	No Influence
BSIZE	0.000	0.931	Ha_{11} Not Supported	No Influence
AC	0.019	0.001	Ha_{12} Supported	Has Influence

Source: Data output SPSS 25.0

The result of the t test indicates that return on asset (ROA) has a significance value of 0.000. The significance value is lower than alpha (α) 0.05, so it can be concluded that H_1 is supported. The coefficient (B) value is 0.567 means that return on asset has positive influence on earnings management. The larger the earnings, the motives to do earnings management is also high to attract the investors and increase their income. Profit is one of the critical indicators that can motivate the act of earnings management. When profit-based

bonuses are applied, managers are likely to increase the amount of profit reported in the financial statements, therefore they can get a little extra additional income (Godfrey et al. 2010, 9-10). This result is consistent with Firnanti et al. (2019) but not consistent with Asward and Lina (2015) who found negative influence, and Susanto (2013) who found no influence on earnings management.

The result of the t test indicates that leverage (LEV) has a significance value of 0.034. The significance value is lower than alpha (α) 0.05, so it can be concluded that H_2 is supported. The coefficient (B) value is 0.023 means that leverage has positive influence on earnings management. Firnanti (2017) stated that it is because the higher the level of leverage, it will result a company's difficulties in obtaining additional capital, therefore the company would try to do earnings management to beautify their financial statements. This result is consistent with Florencia and Susanty (2019) but not consistent with Firnanti et al. (2019) who found negative influence and Lidiawati and Asyik (2016) who found no influence on earnings management.

The result of the t test indicates that firm size (FSIZE) has a coefficient (B) value of -0.001 and a significance value of 0.705. The significance value is greater than alpha (α) 0.05, so it can be concluded that H_3 is not supported. It implies that firm size has no influence on earnings management. According to Arifin and Destriana (2016), either a large firm or small firm has the same opportunity to do the earnings management. This result is consistent with Susanto (2013) but not consistent with Yuliana and Trisnawati (2015) who found positive influence and Susanto (2016) who found negative influence on earnings management.

The result of the t test indicates that firm age (FAGE) has a coefficient (B) value of -0.000 and a significance value of 0.889. The significance value is greater than alpha (α) 0.05, so it can be concluded that H_4 is not supported. It implies that firm age has no influence on earnings management. Bassiouny et al. (2016) stated that the old companies do not ensure freedom from the act of earnings management to maintain their reputation and image, and new companies also are not proven to do earnings management that caused by their lack of experience. This result is consistent with Savitri (2014), Bassiouny et al. (2016) but not consistent with Debnath (2017) who found positive influence and Alzoubi (2016) who found negative influence on earnings management.

The result of the t test indicates that fixed asset turnover (FAT) has a significance value of 0.000. The significance value is lower than alpha (α) 0.05, so it can be concluded that H_5 is supported. The coefficient (B) value is -0.002 means that fixed asset turnover has negative influence on earnings management. Rachman (2015) stated that the higher the asset ratio turnover in a company, increasingly encouraging management to stay away or not to motivate the act of earnings management practices. This is because the ability of an asset to convert into profit represents that asset productive. Companies with high rates conversions from their own assets are less likely to perform earnings management which consistent with Rachman (2015) but not consistent with Alexander and Hengky (2017) found no influence on earnings management.

The result of the t test indicates that free cash flow (FCF) has a significance value of 0.000. The significance value is lower than alpha (α) 0.05, so it can be concluded that H_6 is supported. The coefficient (B) value is -0.533 means that free cash flow has negative influence on earnings management. Firnanti et al. (2019) stated that the higher free cash flow means that the company has sufficient capital to meet its needs in its operations. Companies with

a higher free cash flow will decrease the motives to do earnings management, because they are already confident about their financial report and there is no need to attract investors. This result is consistent with Wimelda and Chandra (2018) but not consistent with Cardoso et al. (2014) who found positive influence, and Herlambang (2017) who found no influence on earnings management.

The result of the t test indicates that sales growth (SG) has a significance value of 0.003. The significance value is lower than alpha (α) 0.05, so it can be concluded that H_7 is supported. The coefficient (B) value is 0.025 means that sales growth has positive influence on earnings management. It shows that the higher level of sales growth, the act of doing earnings management also becomes more significant. If the company has a high sales growth rate, company management can use it to get a bigger bonus, so management may take earnings management actions. Another reason is that the higher the sales growth of the company, the greater the income the company earns so that the tax the company must pay will be even greater. This result is consistent with Yunietha and Palupi (2017) but not consistent with Firnanti et al. (2019) who found negative influence and Savitri (2014) who found no influence on earnings management.

The result of the t test indicates that audit quality (AQ) has a coefficient (B) value of 0.000 and a significance value of 0.948. The significance value is greater than alpha (α) 0.05, so it can be concluded that H_8 is not supported. It implies that audit quality has no influence on earnings management. Susanto and Yangrico (2020) stated that audit quality does not influence on earnings management. This result means companies that have been audited by big-4 audit companies do not have a guarantee to reduce earnings management practices, because companies still have intention to gain attraction from investors, so companies will beautify their financial statement. This result is consistent with Yuliana and Trisnawati (2015) but not consistent with Firnanti (2017) who found positive influence and Effendi and Daljono (2013) who found negative influence on earnings management.

The result of the t test indicates that managerial ownership (MO) has a coefficient (B) value of -0.006 and a significance value of 0.196. The significance value is higher than alpha (α) 0.05, so it can be concluded that H_9 is not supported. It implies that managerial ownership has no influence on earnings management. This is because the proportion of managements' ownership in the company is small compared to the overall equity owned by investors (Agustia 2013). This result is consistent with Firnanti (2017) but not consistent with Asward and Lina (2015) who found positive influence and Alves (2012) who found negative influence on earnings management.

The result of the t test indicates that institutional ownership (IO) has a coefficient (B) value of 0.010 and a significance value of 0.387. The significance value is higher than alpha (α) 0.05, so it can be concluded that H_{10} is not supported. It implies that institutional ownership has no influence on earnings management. This is because institutional investors cannot control the managements' activities. Institutional investors are more likely to be concerned about their short-term profit than monitoring the management's activities (Agustia 2013). This result is consistent with Florencia and Susanty (2019) but not consistent with Arifin and Destriana (2016) who found positive influence and Aygun et al. (2014) who found negative influence on earnings management.

The result of the t test indicates that board size (BSIZE) has a coefficient (B) value of 0.000 and a significance value of 0.931. The significance value is higher than alpha (α) 0.05, so it can be concluded that H_{11} is not supported. It implies that board size has no influence on earnings management. Susanto (2013) stated that the size of members on the board does not

affect in detecting the act of earnings management which is carried out by management. This result is consistent with Firnanti et al. (2019) but not consistent with Gulzar and Wang (2011) who found positive influence and Aygun et al. (2014) who found negative influence on earnings management.

The result of the t test indicates that audit committee (AC) has a significance value of 0.001. The significance value is lower than alpha (α) 0.05, so it can be concluded that H_{12} is supported. The coefficient (B) value is 0.019 means that audit committee has positive influence on earnings management. Asward and Lina (2015) stated that there is a positive influence between audit committee and earnings management. This indicates that the function of the committee audit in conducting supervision of the process of preparing financial statements has not run effectively which consistent with Asward and Lina (2015) but not consistent with Lidiawati and Asyik (2016) who found negative influence and Wimelda and Chandra (2018) who found no influence on earnings management.

CLOSING

Related to the research which examined 195 non-financial companies listed in Indonesia Stock Exchange from 2017 to 2019, the result of this research shows empirical evidence that return on asset, financial leverage, sales growth, and audit committee has positive influence while fixed asset turnover and free cash flow has negative influence on earnings management, moreover the other independent variables such as firm size, firm age, audit quality, managerial ownership, institutional ownership, and board size have no influence on earnings management.

The implications of this research can be useful for the readers to have managerial overview that will lead to the possibility of the company manipulate their earnings. First, this research proves that return on asset has positive influence on earnings management. To achieve the objective to get more funds, they would be given the incentive to manipulate the profits. From this information, this research is expected to give knowledge and information about earnings management. Second, this research proves that financial leverage has positive influence on earnings management. It caused by high debt fund of the company to be used for operating activities may trigger the management to act window dressing their profit to look profitable. Third, this research proves that fixed asset turnover has negative influence on earnings management. Companies that have a small result of the ratio tend to change their financial documents to make it as managers have already worked as well as they did, so investors should be more careful about their decisions when investing their money to companies.

Fourth, this research proves that free cash flow has negative influence on earnings management. If the company has a low value of free cash flow, company will tend to manipulate earnings, so it might impact the investors judgment and investment purposes due to having a perception the company has free cash flow that has a chance to be cash attributable as a replacement of dividend payment. Fifth, this research proves that sales growth has positive influence on earnings management. The sales growth of the company increasing each year constant might give a positive overview to investor faith investing in the company will grow steadily and will give a good return on investment in the future. Knowing this information, investors should be more careful because the company might manipulate the financial statement. Last, this research proves that audit committee has positive influence on

earnings management. Appointment or the increase in the number of audit committee done by the company maybe only for compliance with regulations purposes but not considering the sufficient competency and performance result affecting to reliability information stated on the financial statement.

This research has some limitations which are, (1) There is heteroscedasticity problem for the independent variables; (2) The data not normally distributed even after conducting outlier test; (3) The variation of dependent variable which is earnings management that can be explained by variation of independent variables is only 70.1%, so it means that there are still 29.9% variation of dependent variable which can be explained by other variables which are not included in the regression model. Therefore, the recommendations for this research are do transformation of data, adding the sample of data such as lengthen the sample period to overcome data which is not normally distributed, and change the independent variables that might have influence on earnings management, such as operating cash flows.

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