

THE ROLE OF CORPORATE GOVERNANCE AND FIRM CHARACTERISTICS IN EARNINGS MANAGEMENT

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Abstract: The purpose of this study was to obtain empirical evidence regarding the effect of corporate governance and company characteristics on earnings management. Corporate governance consists of: managerial ownership, institutional ownership, board of directors and audit quality. Company characteristics consist of: firm size, profitability, leverage and firm age. The sample in this study was 116 non-financial companies listed on the IDX from 2019-2021. A total of 348 data were selected using purposive sampling and the hypothesis was tested using multiple regression. The results of this study indicated that two variables namely profitability which has a positive effect and audit quality has a negative effect. The remaining six variables have no effect on earnings management because the variables managerial ownership and institutional ownership are less effective in reducing earnings management in companies. The number of boards doesn't affect the function and ability of the board of directors, the existence of public attention, the company's obligation to pay debts and the age of the company which does not guarantee a company do earnings management makes company characteristics such as the size of the board of directors, firm size, leverage and company age cannot be used as an indication a company performs earnings management.

Keywords: audit quality and profitability, company characteristics, corporate governance, earnings management

INTRODUCTION

Companies use instruments such as financial reports to present a company's financial information concisely. This information will later be used as a means to communicate the financial report information to internal and external parties. External parties usually pay attention to profit information as a standard of company performance (Agustia 2013). The profit figures presented in the financial statements are considered a measure of the success or performance of a company (Jin and Millenia 2021). Investors and creditors will certainly be interested in companies with good performance.

The important role of financial reports apart from assessing management performance can also be used to predict dividends and profits, as a basis for taxation, a basis for awarding bonuses and decision-making by management (Prasetyo et al. 2019). The purpose of establishing a company is to make a profit (Braindies and Fuad 2019). Management has a responsibility to companies to submit financial reports on the results of their performance in managing company resources (Bintara 2020). In preparing financial statements, managers can use their judgment to modify financial reports. It aims to mislead stakeholders about the company's performance and influence the

results of decisions that depend on the accounting numbers reported ([Healy and Wahlen 1999](#)).

In accrual-based accounting, management is given the freedom to choose accounting methods or policies to be used in financial reports ([Wild et al. 2005](#)). Accrual-based accounting is considered more rational, fair and accurate in describing the actual financial condition of a company. Each transaction will be recognized, recorded and presented when the transaction occurs ([Wiryadi and Sebrina 2013](#)). The manager can take advantage of the situation to make a profit and fulfill their personal goals.

In Indonesia, there are not a few companies that have been entangled in earnings management cases, one of which is the manipulation case carried out by two former commissioners of PT Tiga Pilar Sejahtera Food Tbk. The manipulation was carried out as follows: the six affiliated distributor companies listed were third parties, overstatement with a value of up to Rp. 1,4 trillion in the receivables of the six companies and there was an alleged flow of funds from the company to management in the amount of Rp. 1.78 trillion which was disbursed through terms deposits, bank transfers, and others. The financial statements which are considered misleading will affect the price of securities on the Indonesia Stock Exchange, thus making Tiga Pilar shareholders lose money. This condition directly violates the aspect of protection for capital market investors ([Tendi 2021](#)).

This research was developed from the research of [Wulandari and Suganda \(2021\)](#). Previous researchers took samples from companies listed on the Jakarta Islamic Index with a sample period from 2013 – 2018, while researchers took samples from companies listed on the Indonesia Stock Exchange with a sample period from 2019 – 2021. The next difference is the addition of other variables such as managerial ownership, institutional ownership

and audit quality taken from [Handoyo and Agustianingrum's \(2017\)](#) research.

The purpose of this research is to obtain empirical evidence regarding the factors that can affect earnings management. The independent variables used consist of managerial ownership, institutional ownership, board of directors, audit quality, firm size, profitability, leverage and firm age as well as earnings management as the dependent variable. This research is expected to be useful for readers such as investors, companies and academics.

The first writing structure consists of an introduction, research objectives and benefits, and research systematics. Second, describes the theory and results of previous research as the basis for developing hypotheses, research models. Third, research methods consist of sample selection and data collection techniques, operational definitions and variable measurements. Fourth, the analysis and discussion consist of an overview of the sample, the results of variable descriptive statistical tests, data quality, classical assumptions and hypotheses. Fifth, closing which consists of conclusions, limitations and recommendations.

Agency Theory

Agency theory is a theory that involves the relationship between the owner (principal) and management (agent). The agent performs some work on behalf of the principal by giving the agent the authority to make decisions ([Jensen and Meckling 1976](#)). Principals and agents are often involved in conflicts due to the different interests of each party ([Florenca and Susanty 2019](#)). According to [Muda et al. \(2018\)](#) principals expect high returns from the investment they invest in the company, while management expects high returns and a desire to fulfill their psychological satisfaction.

The difference in interests between the two parties is the basis of agency theory because there are interests of each party to be fulfilled to improve welfare. The conflict between the two parties can increase if information

asymmetry arises, which means that the agent has more information about the condition of the company than the principal. This can happen because agents tend to engage in dysfunctional behavior, in the context of earnings management, which is a form of manipulation (Putri 2018). Agency costs are one of the efforts to reduce agency problems. The cost is an effort by the owner of the company to supervise the actions of agents in the company (Jensen and Meckling 1976).

Earnings Management

According to Subramanyam (2014, 108) earnings management can occur for several reasons, for example to increase compensation, avoid debt agreements, fulfill analyst estimates and influence stock prices. Earnings management itself is divided into two forms, namely earnings management that is visible by changing accounting methods. In addition, there is invisible earnings management by changing accounting estimates and policies that determine accounting numbers.

According to Scott (2015, 370) earnings management can be seen from two sides, namely financial reporting and contracting. First, in terms of financial statements, earnings management is used to avoid reporting losses and meet analyst estimates regarding profits to maintain reputation as well as reactions to a decline in stock prices that can destroy investor expectations. Second, from the contract side, earnings management is a way to protect the company from unexpected events for the benefit of the parties involved in the contract.

Earnings management has a positive meaning if it can bridge the information asymmetry that occurs between management and shareholders by providing signals about the future. Earnings management has a negative meaning if it distorts the truth, that is as a result of bad corporate governance (Ronen and Yaari 2008). In financial statements, profit plays an important role as a performance appraisal tool and a form of responsibility. Managers must

make a report on the effectiveness in controlling the company's resources and the efficiency of using the flow of investors' funds which are realized in the form of profit. This results, management has a motive to do earnings management as an effort to meet all kinds of demands (Asitalia and Trisnawati 2018).

Managerial Ownership and Earnings Management

Ownership owned by management aims to increase management performance (Hartana and Putra 2017). When management has a high level of share ownership, they will act as part of the parties that also hold an interest in the company, thereby encouraging management to present quality financial reports (Gede et al. 2014). This alignment of interests will reduce management's ambition in committing fraud against financial reports. Managers are motivated to increase earnings management to improve the quality of company shares and gain benefits for themselves or shareholders (Alexander and Christina 2017). Therefore, contracts between agents and principals often contain accounting-based constraints. The point is to limit manager behavior that reduces or maximizes value when ownership and control are different (Warfield et al. 1995).

H₁: Managerial ownership has an effect on earnings management.

Institutional Ownership and Earnings Management

Institutional ownership is able to create a supervisory mechanism within the company (Gede et al. 2014). Sophisticated investors are another name for institutional investors because they have the expertise, knowledge and experience in investing and managing current information to predict future profits compared to non-institutional investors so they are difficult to be deceived by misappropriation by management (Utari and Sari 2016).

Institutional ownership has an important role in increasing optimal supervision and

monitoring of management. This will ensure the prosperity of shareholders due to supervisory pressure through investments held in the capital market ([Pricilia and Susanto 2017](#)). If institutional shareholders have a large proportion of ownership in the company, the less management action in managing earnings.

H₂: Institutional ownership has an effect on earnings management.

Board of Directors and Earnings Management

In [FCGI \(2002, II:3–4\)](#) it is explained that in Indonesia, the board structure adheres to a “two-tier board” legal system, which means that the board of directors and the board of commissioners are separated in carrying out their duties. The board of directors will be supervised and directed by the board of commissioners in carrying out their duties. The board of directors themselves are elected as leaders by shareholders as representatives in achieving interests and managing the company ([Anggraeni 2019](#)).

In a company, directors act as intermediaries between shareholders and management ([Yunietha and Palupi 2017](#)). The board of directors also plays a role as part of a system that maximizes corporate governance within the company ([Oktaviani 2016](#)). The board of directors can act as a driving force in implementing effective corporate governance so that it can influence management performance ([Susanto and Pradipta 2016](#)).

H₃: Board of directors has an effect on earnings management.

Audit Quality and Earnings Management

Audit quality is supervision originating from an external company that is directed at ensuring that the financial statements reflect the actual condition of the company. Shareholders can use financial reports as a source of information to support decision making ([T. Rahmawati 2020](#)). The definition of quality in the context of audit quality is the extent to which the

auditor can reveal errors and fraud committed by management. Auditing allows outsiders to verify the validity of financial reports, thereby reducing information asymmetries that arise between managers and stakeholders ([Becker et al. 1998](#)). The existence of an auditor plays a role in examining financial reports so that they are presented reliably and fairly so that they can produce quality information and reduce earnings management activities ([Khanh and Khuong 2018](#)).

Audit quality is seen based on the reputation and size of the Public Accounting Firm (KAP) because in general the Big Four KAPs have a better reputation than non-Big Four KAPs ([Hadi and Tifani 2020](#)). The reputation of an auditing company is crucial because a good auditor's image can be a factor in reducing the possibility of management managing earnings, and vice versa ([Widagdo et al. 2021](#)). Big Four KAPs that have a reputation are considered capable of providing better and more reliable audit quality compared to audit quality from non-Big Four KAPs ([Hadi and Tifani 2020](#)).

H₄: Audit quality has an effect on earnings management.

Firm Size and Earnings Management

Firm size is a value that indicates the size of a company which can be seen from the total assets owned by the company ([Alexander and Hengky 2017](#)). Firm size can be categorized into large companies (large firms), medium firms (medium firms) and small firms ([Anggraeni 2019](#)). Large-scale companies will be less likely to carry out earnings management because it is likely that large companies have more effective internal controls and more competent internal auditors than small-scale companies. Good internal control in the company will support the reliability of financial reports to be disclosed to users ([Kim et al. 2003](#)). Even though large companies have strong internal control systems, management can still commit violations by reporting income as desired, for example to reduce political costs ([Karina and Soenarno](#)

[2022](#)). Even though large companies have a strong internal control system, management can still commit violations. For example, by reporting income as desired or by smoothing income to reduce political costs that seem high due to the attention from the media and consumers to company profitability ([Moses 1987](#); [Saftiana et al. 2017](#)).

H₅: Firm size has an effect on earnings management.

Profitability and Earnings Management

Profitability is management's ability to achieve profit. Profitability measures the effectiveness of management in generating profits seen from sales, assets and capital used to generate profits for the company ([Arifin and Destriana 2016](#)). Companies with high profits show the company's ability to manage company resources effectively ([Yuliana and Trisnawati 2015](#)). According to [Wiyadi et al. \(2015\)](#) the company will maintain or increase profits to prevent fluctuations in financial statements, to foster investor confidence. In addition, increased profits will also attract people to invest in companies. The company's management will try to attract investors, one of which is by doing earnings management ([Braindies and Fuad 2019](#)).

H₆: Profitability has an effect on earnings management.

Leverage and Earnings Management

Leverage is basically the effect of the company's debt on the returns obtained by shareholders ([Gitman and Zutter 2015](#)). The company's ability to pay long-term debt can be seen from the company's assets and capital ([Arifin and Destriana 2016](#)). Leverage shows the contractual relationship between management and creditors which calculates the company's assets to be financed by debt ([Wimelda and Chandra 2018](#)).

High leverage has the potential to improve earnings management to prevent breach of debt contracts. On the other hand,

there are factors that arise due to high leverage, which will limit the opportunistic behavior of managers in managing earnings to reduce the impact of interest fluctuations due to this high-risk behavior ([Moghaddam and Abbaspour 2017](#)). The high level of corporate debt can increase dependence on creditors and has a high interest expense as well. If the debt cannot be managed properly, the company will slowly go bankrupt ([Saniamisha and Jin 2019](#)).

H₇: Leverage has an effect on earnings management.

Firm Age and Earnings Management

Company age is the length of time a company is listed on the Indonesia Stock Exchange (IDX) ([Hendric and Jin 2019](#)). Company age can show the company's ability to compete in the market (competitive advantage) as well as factors that can affect company performance ([Chandra and Djashan 2018](#)). Investors have great trust in companies that have been established for a long time because they have higher and more stable profits ([Jin and Millenia 2021](#)). Companies that have been around for a long time are more susceptible to reputation risk and have more skilled corporate governance. Therefore, management tends to maintain the company's reputation by managing earnings ([Khanh and Khuong 2018](#)).

H₈: Firm age has an effect on earnings management.

RESEARCH METHODS

The form of this research is causality, where this study describes a causal relationship between the independent variables and the dependent variable ([Sekaran and Bougie 2016](#)). The population in this study are non-financial companies listed on the Indonesia Stock Exchange (IDX) consistently from 2019-2021. Sampling in this study used a purposive sampling method (samples were selected using certain criteria). The sample selection procedure is detailed in Table 1.

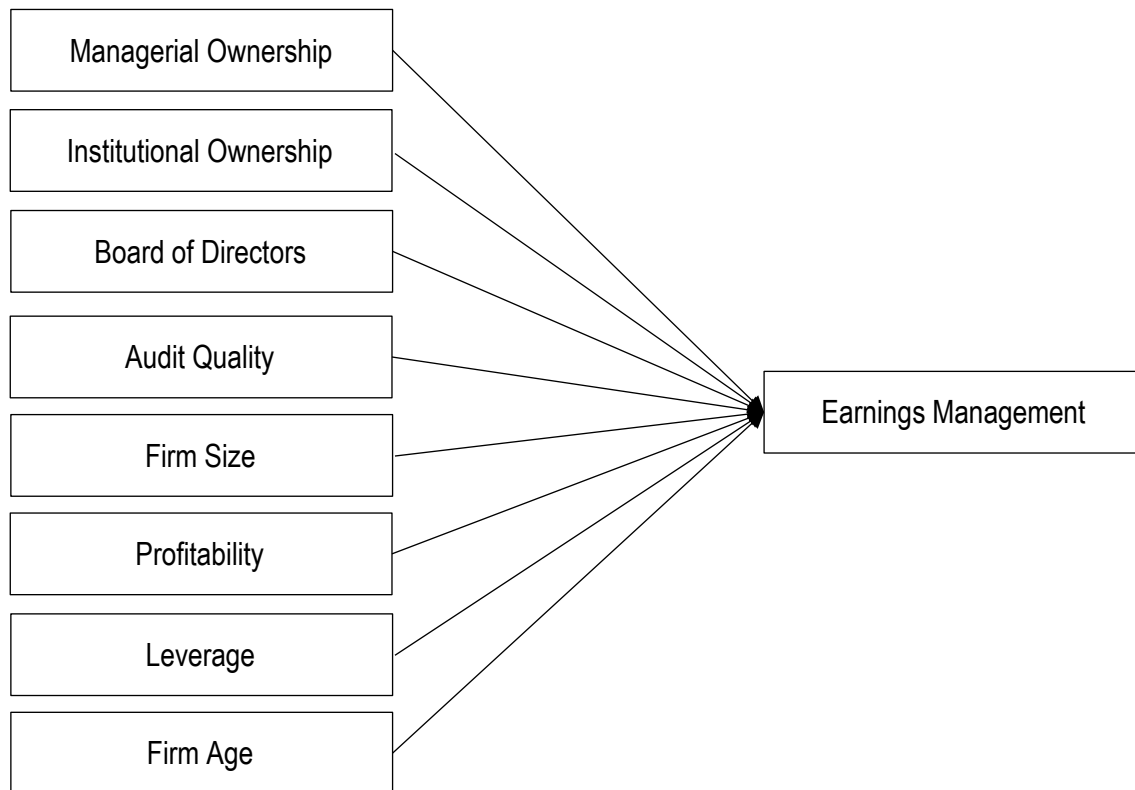


Figure. 1 Research Model

Table 1. Sample Selection

No.	Description	Total Firms	Total Data
1	Non-financial firms consistently listed in Indonesia Stock Exchange (IDX) in the period 2018 to 2021.	528	1584
2	Non-financial firms which do not publish financial reports with a book closing period as of December 31 in the period 2018 to 2021.	(50)	(150)
3	Non-financial firms which do not consistently present their financial statements use Rupiah currency in the period 2018 to 2021.	(84)	(252)
4	Non-financial firms which do not consistently present net income in the period 2019 to 2021.	(211)	(633)
5	Non-financial firms which do not consistently have managerial ownership in the period 2019 to 2021.	(64)	(192)
6	Non-financial firms which do not consistently have institutional ownership in the period 2019 to 2021.	(3)	(9)
Number of sample firms used		166	348

Earnings Management

The dependent variable in this study was measured using Discretionary Accruals which were calculated using the Modified Jones Model 1995 ([Bassiouny 2016](#)) from [Wulandari and Suganda's \(2021\)](#) research. The formula for calculating earnings management variables is described as follows:

1. $TA_t = NI_t - CFO_t$
2. $NDA_t = \beta_{1j} \left[\frac{1}{A_{t-1}} \right] + \beta_{2j} \left[\Delta REV_t - \frac{\Delta AR_t}{A_{t-1}} \right] + \beta_{3j} \left[\frac{PPE_t}{A_{t-1}} \right]$
3. $\frac{TAC_t}{A_{t-1}} = \beta_{1j} \left[\frac{1}{A_{t-1}} \right] + \beta_{2j} \left[\Delta REV_t - \frac{\Delta AR_t}{A_{t-1}} \right] + \beta_{3j} \left[\frac{PPE_t}{A_{t-1}} \right] + \varepsilon_t$
4. $DA_{jt} = \frac{TAC_t}{A_{t-1}} - NDA_{jt}$

Explanation:

- TA_t : Total Accruals year t
 NI_t : Net Income year t
 CFO_t : Cash Flow from Operating Activities year t
 NDA_t : *Non-Discretionary Accruals* year t
 A_{t-1} : Total Assets for company year t-1
 ΔREV_t : Change in revenue / sales of company year t minus year t-1
 ΔAR_t : Change in company's receivables year t minus year t-1
 PPE_t : The company's gross fixed assets year t
 $\beta_{1j}, \beta_{2j}, \beta_{3j}$: Firm specific parameters

Managerial Ownership

Managerial ownership is ownership of company shares owned by management including managers, commissioners and the board of [directors \(Dimarcia and Krisnadewi 2016\)](#). Managerial ownership uses the KM symbol as measured by a ratio scale and uses a formula that refers to the research of [Handoyo and Agustianingrum \(2017\)](#), which is as follows:

$$KM = \frac{\text{Shares owned by management}}{\text{Total outstanding shares}}$$

Institutional Ownership

Institutional ownership according to [Siregar and Utama \(2005\)](#) is share ownership owned by financial institutions such as insurance companies, pension funds, banks and investment banking. Institutional ownership uses the KI symbol as measured by a ratio scale and uses a formula that refers to the research of [Handoyo and Agustianingrum \(2017\)](#), which is as follows:

$$KI = \frac{\text{Shares owned by institutions}}{\text{Total outstanding shares}}$$

Board of Directors

The size of the board of directors can be measured by the number of directors in a company, both from within and outside the company ([Nasution and Setiawan 2007](#)). The size of the board of directors uses the BOARD symbol which is measured using a ratio scale with a formula that refers to the research of [Wulandari and Suganda \(2021\)](#), which is as follows:

$$BOARD = \frac{\text{Number of board of directors in the company}}{\text{Total outstanding shares}}$$

Audit Quality

Audit quality can be measured by several criteria, one of which is based on the size of the KAP auditing a company ([Prasetyo et al. 2019](#)). Audit quality in this study is marked with the AQ symbol and uses a dummy variable which is measured using a nominal scale with a formula that refers to [Handoyo and Agustianingrum \(2017\)](#), which is as follows:

- 0 = Firms audited by non-Big Four KAPs
1 = Firms audited by Big Four KAPs

Firm Size

The size of a company can be calculated by total assets, sales and market capitalization ([Griselda and Sjarief 2019](#)). According to [Widyaningsih \(2017\)](#) the consideration of using total assets as a proxy for size calculations is because company assets tend to be more stable than sales and market capitalization. Firm size uses the SIZE symbol which is measured using a formula that refers to research by [Wulandari and Suganda \(2021\)](#), which is as follows:

$$\text{SIZE} = \ln(\text{Total Assets})$$

Profitability

Profitability shows the company's ability to generate profits ([Widyaningsih 2017](#)). Profitability measures the effectiveness of management in generating profits seen from the profits generated from sales and investments ([Augustine and Dwianika 2019](#)). Profitability uses the KI symbol which is measured by the ROA ratio scale and uses a formula that refers to the research of [Wulandari and Suganda \(2021\)](#), which is as follows:

$$\text{ROA} = \frac{\text{Net profit after tax}}{\text{Total assets}}$$

Leverage

Leverage is the ratio between total liabilities (debt) and total assets ([Guna and Herawaty 2010](#)). Leverage can show how much operating funds are used to guarantee debt and estimate profits for investors ([Asitalia and Trisnawati 2018](#)). Leverage uses the LEV symbol which is measured using a ratio scale with a formula that refers to [Wulandari and Suganda \(2021\)](#), which is as follows:

$$\text{LEV} = \frac{\text{Total debt}}{\text{Total assets}}$$

Firm Age

Company age is the length of time a company has been established. It is assumed that the profit generated by companies that have

been established for a long time will be higher than companies that have not been established for a long time ([Gozali et al. 2021](#)). The age of the company uses the FAGE symbol which is measured using a formula that refers to the research of [Felicya and Sutrisno \(2020\)](#), which is as follows:

$$\text{FAGE} = \text{Current year} - \text{The company was formed}$$

RESEARCH RESULT

The samples that met the research criteria were 116 companies with a total data or total sample of 348 data. The results of the residual data normality test with the One Sample Kolmogorov-Smirnov non-parametric test found that the data were not normally distributed, so it was necessary to perform an outlier test. After conducting the outlier test, the researcher must eliminate 5 data, so that the remaining 343 data. However, the data is still not normally distributed, so this research is continued using the data before the outlier test.

Table 2 is the result of the descriptive statistical test of the dependent and independent variables. From a total of 348 data, the results of the dependent variable earnings management (DACC) with a minimum value of -0,302104197 are owned by Alakasa Industrindo Tbk. (ALKA) in 2021, the maximum value of 0,8778133951 is owned by Nusantara Voucher Distribution Tbk. (DIVA) in 2021, the mean is 0,000000000 and the standard deviation is 0,0936953662.

Managerial ownership (KM) with a minimum value of 0,0000001404 is owned by Adhi Karya (Persero) Tbk. (ADHI) in 2020, the maximum value of 0,8944444444 is owned by Betonjaya Manunggal Tbk. (BTON) from 2019 to 2021, the mean value is 0,0756762509 and the standard deviation value is 0,1457668101.

Institutional ownership (KI) with a minimum value of 0.0002611111 is owned by Betonjaya Manunggal Tbk. (BTON) in 2021, the maximum value of 0.9965793458 will be owned by Mitra Keluarga Karyasehat Tbk. (MIKA) in

2020, the mean value is 0.7611311635 and the standard deviation value is 0.2156962986.

The size of the board of directors (BOARD) with a minimum score of 2 is owned by Batavia Prosperindo Trans Tbk. (BPTR) in 2019-2021, Cahayaputra Asa Keramik Tbk. (CAKK) In 2019-2021, Jaya Trishindo Tbk. (HELI) in 2019-2021, Roda Vivatex Tbk. (RDTX) in 2019-2021, Superkrane Mitra Utama Tbk. (SKRN) in 2019-2021, Duta Pertiwi Nusantara Tbk. (DPNS) in 2020-2021, Kedawung Setia Industrial Tbk. (KDSI) in 2020-2021, and Royal Prima Tbk. (PRIM) in 2020-2021, the maximum value of 11 is owned by Astra International Tbk. (ASII) in 2019, Unilever Indonesia Tbk. (UNVR) in 2019, and Indofood Sukses Makmur Tbk. (INDF) in 2021, the mean value is 5.05 and the standard deviation value is 1.950.

The results of the descriptive statistical test for audit quality (AQ) in table 3 show that

companies that use auditor services from non-Big Four KAPs have a percentage of 66.1% and companies that use auditor services from Big Four KAPs have a percentage of 33.9%.

Firm size (SIZE) with a minimum value of 25.45499792 is owned by Perdana Bangun Pusaka Tbk. (KONI) in 2020, the maximum value of 33.53723002 is owned by Astra International Tbk. (ASII) in 2021, the mean value is 29.25656354 and the standard deviation value is 1.607358550.

Profitability (ROA) with a minimum value of 0.0004068841 is owned by Cahayaputra Asa Keramik Tbk. (CAKK) in 2020, the maximum value of 0.5365857234 is owned by Nusantara Voucher Distribution Tbk. (DIVA) in 2021, the mean is 0.0645626448 and the standard deviation is 0.0635007456.

Table 2. Statistic Descriptive Result

Variable	N	Minimum	Maximum	Mean	Standard Deviation
DACC	348	-0,302104197	0,8778133951	0,000000000	0,0936953662
KM	348	0,0000001404	0,8944444444	0,0756762509	0,1457668101
KI	348	0,0002611111	0,9965793458	0,7611311635	0,2156962986
BOARD	348	2	11	5,05	1,950
AQ	348	0	1	0,34	0,474
SIZE	348	25,45499792	33,53723002	29,25656354	1,607358550
ROA	348	0,0004068841	0,5365857234	0,0645626448	0,0635007456
LEV	348	0,0630294375	0,8582040276	0,4321524487	0,1908858604
FAGE	348	4	88	34,96	15,554

Table 3. Distribution of Quality Audit Frequency (AQ)

	Frekuensi	Presentase
KAP "Non-Big Four" (0)	230	66,1
KAP "Big Four" (1)	118	33,9
Total	348	100

Table 4. Multifunction Table

Model	R	Adjusted R ²	Sig. (F)
1	0,290	0,063	0,000

Source: SPSS 25 Data Processing Results

Leverage (LEV) with a minimum value of 0.0630294375 is owned by Supreme Cable Manufacturing & Commerce Tbk. (SCCO) in 2021, the maximum value of 0.8582040276 is owned by Adhi Karya (Persero) Tbk. (ADHI) in 2021, the mean value is 0.4321524487 and the standard deviation value is 0.1908858604.

Company age (FAGE) with a minimum value of 8 is owned by MapActive Adiperkasa Tbk. (MAPA) in 2019, the maximum value of 88 is owned by Unilever Indonesia Tbk. (UNVR) in 2021, the mean value is 34.96 and the standard deviation value is 15.554

The results of the classical assumption test show that there is no multicollinearity and autocorrelation in the eight independent variables. In the heteroscedasticity test, the variables firm size (SIZE), profitability (ROA) and leverage (LEV) occur heteroscedasticity, while the variables managerial ownership (KM) and institutional ownership (KI), board of directors (BOARD), audit quality (AQ) and firm age (FAGE) does not occur heteroscedasticity.

The results of the correlation coefficient (R) have a value of 0.290. These results indicate that statistically the relationship between the dependent variable and the independent

variables tends to have a low and positive relationship. The results of the analysis of the Coefficient of Determination (Adjusted R²) show that the variation in the dependent variable that can be explained by the independent variables is 6.3%, while the remaining 93.7% is explained by the variation in the independent variables which are not included in the research regression model. The results of the F test have a significance value (Sig.) 0.000 < 0.05. Based on the provisions in the F test, this value indicates that the regression model is fit and feasible to use in research or has a simultaneous effect on the dependent variable. The results of the t test can be seen in Table 3.

Managerial ownership (KM) has a coefficient of -0.058 with a significance value (Sig.) of 0.258. The significance value is more than alpha 0.05 (5%) so that H₁ cannot be accepted, which means that managerial ownership (KM) has no effect on earnings management. This happens because managerial ownership is unable to become a corporate governance mechanism that can reduce the differences in interests between owners and shareholders ([Susanto 2013](#)).

Table 5. Test Results

Variabel	B	Sig	Kesimpulan
(Constant)	0,022	0,852	-
KM	-0,058	0,258	Ha ₇ is not accepted
KI	-0,004	0,897	Ha ₈ is not accepted
BOARD	-0,002	0,656	Ha ₂ is not accepted
AQ	-0,041	0,001	Ha ₃ is accepted
SIZE	0,000	0,939	Ha ₅ is not accepted
ROA	0,317	0,000	Ha ₆ is accepted
LEV	-0,008	0,794	Ha ₁ is not accepted
FAGE	-0,00001335	0,969	Ha ₄ is not accepted

The results of this study are consistent with the research of [Felicya and Sutrisno \(2020\)](#), [Chandra and Djashan \(2018\)](#), [Firnanti \(2017\)](#), [Susanto et al. \(2019\)](#) and [Almalita \(2017\)](#). However, these results are inconsistent with research conducted by [Aygün et al. \(2014\)](#), [Paramitha and Firnanti \(2018\)](#) and [Liu \(2012\)](#) which state that managerial ownership has a positive influence on earnings management. It is different from the research by [Handoyo and Agustianingrum \(2017\)](#), [Jao and Pagalung \(2011\)](#), [Purnama \(2017\)](#) and [Asyati and Farida \(2020\)](#) which state that managerial ownership has a negative effect on earnings management.

Institutional ownership (KI) has a coefficient of -0.004 with a significance value (Sig.) of 0.897. The significance value is more than alpha 0.05 (5%) so that H₂ is unacceptable, which means that institutional ownership (KI) has no effect on earnings management. This happens because not all institutional investors have the expertise, knowledge and experience related to investment, so this does not become an obstacle for management to carry out earnings management ([Felicya and Sutrisno 2020](#)).

The results of this study are consistent with the research of [Felicya and Sutrisno \(2020\)](#), [Purnama \(2017\)](#), [Firnanti \(2017\)](#) and [Guna and Herawaty \(2010\)](#). However, these results are inconsistent with research conducted by [Arifin and Destriana \(2016\)](#), [Jao and Pagalung \(2011\)](#), [Paramitha and Firnanti \(2018\)](#) and [Perdana \(2019\)](#) which state that institutional ownership has a positive influence on earnings management. It is different from the research by [Handoyo and Agustianingrum \(2017\)](#), [Dwijayanti and Suryanawa \(2017\)](#) and [Asyati and Farida \(2020\)](#) which state that institutional ownership has a negative effect on earnings management.

The size of the board of directors (BOARD) has a coefficient value of -0.002 with a significance value (Sig.) of 0.656. The significance value is more than alpha 0.05 (5%) so that H₂ cannot be accepted, which means that the size of the board of directors (BOARD) has

no effect on earnings management. This happens because the number of the board of directors cannot affect their ability and cannot be used as an indication that a company can commit fraud against financial statements ([Arifin and Destriana 2016](#)).

The results of this study are consistent with research by [Wulandari and Suganda \(2021\)](#), [Yunietha and Palupi \(2017\)](#), [Chandra and Djashan \(2018\)](#), [Putra \(2019\)](#), dan [Arifin and Destriana \(2016\)](#). However, these results are inconsistent with research conducted by [Swastika \(2013\)](#) and [Alexander and Christina \(2017\)](#) which state that institutional ownership has a positive effect on earnings management. In contrast to the research by [Pradipta \(2011\)](#) and [Aygün et al. \(2014\)](#) which states that the size of the board of directors has a negative effect on earnings management.

Audit quality (AQ) has a coefficient of -0.041 with a significance value (Sig.) of 0.001. The significance value is less than alpha 0.05 (5%) so that H₃ can be accepted, which means audit quality (AQ) has a negative effect on earnings management. This happens because auditors from Big Four KAPs are equipped with training and procedures so that they have the quality and ability to carry out the audit process accurately and effectively compared to auditors from non-Big Four KAPs ([Guna and Herawaty 2010](#)).

The results of this study are consistent with the research of [Handoyo and Agustianingrum \(2017\)](#), [Alzoubi \(2016\)](#), [Santoso \(2016\)](#) and [Fandriani and Tunjung \(2019\)](#). However, these results are inconsistent with research conducted by [Firnanti \(2017\)](#) and [Annisa and Hapsoro \(2017\)](#) which state that audit quality has a positive effect on earnings management. It is different from the research of [Felicya and Sutrisno \(2020\)](#), [Asyati and Farida \(2020\)](#), [Chandra and Djashan \(2018\)](#), [Guna and Herawaty \(2010\)](#) and [Yunietha and Palupi \(2017\)](#) which state that audit quality has no effect on earnings management.

Firm size (SIZE) has a coefficient value of 0.000 with a significance value (Sig.) of 0.939. The significance value is more than alpha 0.05 (5%) so that H_5 is unacceptable, which means that firm size (SIZE) has no effect on earnings management. This happens because some companies think that a large increase in total assets will attract the attention of external parties so they are reluctant to do earnings management, on the one hand this is an advantageous situation when they want to do earnings management ([Fandriani and Tunjung 2019](#)).

The results of this study are consistent with the research of [Felicya and Sutrisno \(2020\)](#), [Chandra and Djashan \(2018\)](#), [Fauziah and Wijaya \(2016\)](#), [Guna and Herawaty \(2010\)](#) and [Fandriani and Tunjung \(2019\)](#). However, these results are inconsistent with research conducted by [Khairunnisa \(2015\)](#) and [Lidiawati and Asyik \(2016\)](#) which state that firm size has a positive influence on earnings management. It is different from the research [Firnanti \(2017\)](#) and [Lestari and Murtanto \(2018\)](#) which states that firm size has a negative effect on earnings management.

Profitability (ROA) has a coefficient value of 0.317 with a significance value (Sig.) of 0.000. The significance value is less than alpha 0.05 (5%) so that H_6 can be accepted, which means that profitability (ROA) has a positive effect on earnings management. This happens because companies have reasons to carry out earnings management either when company profitability increases or decreases, for example to avoid paying taxes to improve company performance ([Fandriani and Tunjung 2019](#)).

The results of this study are consistent with research by [Wulandari and Suganda \(2021\)](#), [Firnanti \(2017\)](#), [Yunietha and Palupi \(2017\)](#), [Asyati and Farida \(2020\)](#) and [Aygün et al. \(2014\)](#). However, these results are inconsistent with research conducted by [Yovianti and Dermawan \(2020\)](#) which states that profitability has a negative effect on earnings management. This is different from the research by [Chandra and Djashan \(2018\)](#), [Guna and](#)

[Herawaty \(2010\)](#) and [Fandriani and Tunjung \(2019\)](#) which state that profitability has a negative effect on earnings management.

Leverage (LEV) has a coefficient of -0.008 with a significance value (Sig.) of 0.794. The significance value is more than alpha 0.05 (5%) so H_7 is unacceptable, which means leverage (LEV) has no effect on earnings management. This happens because with a high level of leverage the company will be in danger of not being able to fulfill its obligations, and this cannot be solved simply by carrying out earnings management, because the company still has to pay debts even though it continues to manage earnings ([Jao and Pagalung 2011](#)).

The results of this study are consistent with the research of [Yunietha and Palupi \(2017\)](#), [Asyati and Farida \(2020\)](#), [Chandra and Djashan \(2018\)](#), [Jao and Pagalung \(2011\)](#), [Paramitha and Firmanti \(2018\)](#) and [Wulandari and Suganda \(2021\)](#). However, these results are inconsistent with research conducted by [Fandriani and Tunjung \(2019\)](#), [Agustia and Suryani \(2018\)](#), [Prawida and Sutrisno \(2021\)](#) and [Firnanti \(2017\)](#) which state that leverage has a positive effect on earnings management. In contrast to the research by [Aygün et al. \(2014\)](#), [Asitalia and Trisnawati \(2018\)](#), [Yuliana and Trisnawati \(2015\)](#), [Millenia and Jin \(2021\)](#), [Fauziah and Wijaya \(2016\)](#) and [Guna and Herawaty \(2010\)](#) which state that leverage has a negative effect on earnings management.

Firm age (FAGE) has a coefficient of -0.00001335 with a significance value (Sig.) of 0.969. The significance value is more than alpha 0.05 (5%) so that H_8 is unacceptable, which means that firm age (FAGE) has no effect on earnings management. This happens because it is not certain that companies carry out earnings management even though they have been established for a long time, as well as companies that have just been established ([Lekok and Febrina 2021](#)).

The results of this study are consistent with the research of [Felicya and Sutrisno \(2020\)](#), [Chandra and Djashan \(2018\)](#), [Yunietha and](#)

[Palupi \(2017\)](#) and [Indrastuti and Djojo \(2020\)](#). However, these results are inconsistent with research conducted by [Wulandari and Suganda \(2021\)](#), [Rahmawati and Destriana \(2019\)](#), [Debnath \(2017\)](#) and [Agustia dan Suryani \(2018\)](#) which state that firm size has a positive influence on earnings management. Unlike the research by [Das et al. \(2018\)](#), Alzoubi (2016) and Wardani and Isbela (2018) which state that firm size has a negative effect on earnings management.

CONCLUSION

Based on the test results, it can be concluded that the profitability variable has a positive effect on earnings management and audit quality has a negative effect. Other independent variables, namely managerial ownership, institutional ownership, board of directors, firm size, leverage, and company age have no effect on earnings management.

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This study has several limitations, including the data used in this study are not normally distributed before or after carrying out the outlier test, the adjusted R2 value in this study is very small at 6.3% and there is a problem of heteroscedasticity in the firm size (SIZE), profitability (ROA) and leverage (LEV).

From the existing limitations, the recommendations that can be made are to overcome research data that is not normally distributed by increasing the number of research samples, adding or replacing independent variables that can affect earnings management for further research, such as free cash flow, audit committee size, growth company, sales growth, and accounting conservatism in order to be able to explain the dependent variable specifically, and overcome the problem of heteroscedasticity by transforming the data.

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