

FIRM CHARACTERISTICS, PROFITABILITY AND CORPORATE GOVERNANCE EFFECT ON EARNINGS MANAGEMENT

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ABSTRACT

The objective of this research is to examine and to obtain empirical evidence regarding the effect of firm size, firm financial leverage, firm age, audit quality, growth, profitability, managerial ownership, institutional ownership, and size of board of commissioners as independent variables on earnings management as dependent variable of non-financial companies listed in the Indonesia Stock Exchange. The population used in this research was all non-financial companies listed in the Indonesia Stock Exchange from the year of 2017 to 2020. The samples in this research were obtained through purposive sampling method, in which the total data used was 303 data from 101 companies. In this research, multiple linear regressions and hypothesis testing was used as data analysis method. The result of this research indicated that firm size, firm financial leverage, firm age, growth, profitability, managerial ownership, institutional ownership, and size of board of commissioners had no effect towards earnings management. Meanwhile, audit quality had effect towards earnings management.

Keywords: Earnings management, firm characteristics, profitability, corporate governance, non-financial companies

INTRODUCTION

In the current era of globalization, economic development has increased rapidly. Competition between companies in an industry occurs when each of them try to win market positions. Many companies are competing to create new innovations with the aim that their position in the market is not threatened. This competition motivates company's management to increase the effectiveness and efficiency of their performance in order to maintain their operational activities (Sulaksono 2018). Besides that, this competition requires them to have good firm characteristics and good performance profitability with the intention to enhance their reputation.

However, the lack of certainty in economic conditions and intense competition among companies makes the company's business activities result in lower profits and poor financial reports. Therefore, according to Yunietha and Palupi (2017), company's management often commits fraud by deliberately manipulating the company's financial statements to gain personal interest or to increase the value of the company itself. This manipulation action is carried out by adding or removing data and changing accounting methods to make financial reports look profitable in order to attract the attention of related parties. This is known as earnings management. Then one of the efforts that can be made to reduce earnings management is by implementing good corporate governance (Asitalia and Trisnawati 2017).

Earnings management is a serious issue that often occurs in companies. Damage to the economic, ethical, and moral order is the result of this managerial engineering (Firnanti 2017). This is evidenced by one of the biggest earnings management scandal that rocked the economics world, the Enron scandal. According to Segal (2021), this white-collar scandal was discovered in 2001, where Enron hide billions of dollars of bad debt on their special purpose entities. Additionally by using accounting loopholes, Enron increased their company's earnings on purpose. This phenomenon caused shareholders to lose more than \$74 billion in one year as Enron's share price crashed from around \$90 to below \$1.

Another case of earnings management stated by Hartomo (2019) comes from an Indonesian company, Garuda Indonesia Tbk. (GIAA), where indications of irregularities were found in Garuda's financial statements for the year of 2018. This case began when two former commissioners of Garuda Indonesia refused to sign the financial statements because they were deemed not in accordance with the Statement of Financial Accounting Standards. It was found that there was a revenue recognition on contract with Mahata Aero Teknologi Corp which should still be a receivable for Garuda. This resulted in profits in the financial statements of the Garuda Indonesia company. Finally, Garuda Indonesia and their auditors were subject to sanctions from various parties.

Taking into account some of the case phenomena that have been previously disclosed, it can be seen that earnings management practices have a broad negative impact on the public who are stakeholders of the company. Therefore, understanding things that can reduce the impact of earnings management is a relevant matter for further research. This research is an effort to develop research that has been done previously by Bassiouny *et al.* (2016) to understand the factors that influence earnings management practices such as firm characteristics, profitability, and good corporate governance, thus the negative impact of earnings management can be anticipated. Based on the description of the research background above, this research take a topic about: "Firm Characteristics, Profitability and Corporate Governance Effect on Earnings Management".

The objective of this research is to examine and to obtain empirical evidence about the effect of firm size, firm financial leverage, firm age, audit quality, growth, profitability, managerial ownership, institutional ownership, and board of commissioners on earnings management of non-financial companies listed in the Indonesia Stock Exchange from the year of 2018 to 2020.

Agency Theory

Agency theory is a theory that describes the relationship between the owner of the company (principal) and the management (agent). According to Jensen and Meckling (1976), agency relationship is a contractual relationship between one or more principals govern another person (agent) to provide some service and then delegating decision-making authority to the agent.

In agency theory, principal assign agent to manage the company because they assume that agent have a better understanding on how to run a business with the purpose of making a profit (Sutedi 2011). However, it is possible that the principal and the agent have different interests. The principal wants the agent to work to improve the welfare of investors, while the agent wants to get benefits for themselves. This conflict of interest causes agency problems (Annisa and Hapsoro 2017).

Another factor that can cause agency problems is the presence of information asymmetry, where there is an imbalance of information between the principal and the agent. This information gap can provide opportunities for the management to practice earnings management in order to deceive owners about the company's economic performance (Lidiawati and Asyik 2016).

The occurrence of conflicts of interest and information asymmetry motivates the owner of the company to conduct supervision in order to ensure that management has acted in accordance with the company's vision. This surveillance makes the owner bear a cost, which is known as agency cost that includes monitoring cost, bonding cost, and residual loss (Gitman and Zutter 2015).

Earnings Management

According to Statement of Financial Accounting Concepts (SFAC) No. 1, earnings information is the main focus for assessing performance or accountability of management. External parties such as investors are certainly more interested in investing in companies that have good performance. Not only investors, creditors also feel safer when providing loans to companies that have high returns. This is what motivates management to manipulate their financial statements with the aim of covering up the actual condition of the company, and indicating that their performance is good. Manipulation by management is known as earnings management practice. Based on the explanation above, it can be interpreted that earnings management is an action taken deliberately by management based on personal interests to determine company profits (Subramanyam 2014).

According to Watts and Zimmerman (1990), there are three hypotheses that underlie management's motivation to perform earnings management, which is known as the positive accounting theory. Those are bonus plan hypothesis, debt covenant hypothesis, and political cost hypothesis. Then Scott (2015) mention several ways to do earnings management, which are big bath, income minimizations, income maximizations, and income smoothing.

Firm Size and Earnings Management

Company or firm size is a basic parameter that reflects how big a company is. Total assets, total sales and market capitalization are some of the methods or points of view that can classify company size (Octaviani and Kartikaningdyah 2019). According to Purwanti and Rahardjo (2012), in general large companies tend to maintain a stable performance and condition of the company and involve more parties. Public perception is very influential on decision making by large companies rather than decision making by small companies. In addition, large companies also tend to get greater pressure from investors and financial analysts to obtain positive or increasing net income (Ali *et al.* 2015). Therefore, the larger the size of the company, the more likely it is that the company will practice earnings management in order to gain their own interest and attract external parties.

Ha1: Firm size has effect on earnings management.

Firm Financial Leverage and Earnings Management

According to Firmanti *et al.* (2019), financial leverage ratio represents the amount of assets owned by the company which is financed by debt. In this case, the debt used to finance the company's assets comes from creditors, not from investors or shareholders. This indicates that the higher the leverage ratio, the higher the risk that causes the company's ability to pay off debts to creditors is getting lower (Florenca and Susanty 2019). Therefore, companies that have high leverage ratios tend to take earnings management actions because the company is threatened with default, which means they cannot fulfill their debt repayment obligations on time and the company will try to avoid it by creating policies that can increase revenues and profits by providing a relatively better bargaining position in negotiating or rescheduling the company's debt (Almalita 2017).

Ha2: Firm financial leverage has effect on earnings management.

Firm Age and Earnings Management

Firm age describes how long the company has been in existence and its ability to run the business well (Jenny and Christina 2018). According to Agustia and Suryani (2018), theoretically, investors will have more confidence in a company that have been around for a long time because it is assumed that they will be able to generate high profits. Therefore, companies that have been in the market for a long time are expected to have a good understanding of corporate governance and a higher exposure to reputation risk, thus they tend to have a low level of earnings management to safeguard their reputation (Khanh and Khuong 2018). They also recognize that they must obey the codes and regulations governing their practice (Bassiouny *et al.* 2016).

Ha3: Firm age has effect on earnings management.

Audit Quality and Earnings Management

DeAngelo (1981) stated that audit quality is the auditor's competence in finding material misstatements in the financial statements and the auditor's independence in reporting these errors. In the capital market where financial statements are considered a key factor of information regarding the performance and financial position of a company, the auditor as a third party must have high accountability in assessing the fairness of the financial statements issued by the company (Yunietha and Palupi 2017).

Usually auditors who work in Big 4 public accounting firms are indicated to be more competent and have broader knowledge than auditors who work in non-Big 4 public accounting firms. There are several reasons why auditors who work in Big 4 public accounting firms have enormous incentives to maintain high audit quality: (1) They have a huge number of clients; (2) Using better resources such as technology, training programs, and experiences; (3) If they do not report misstatement or manipulation, it is likely that their reputation will be lost (DeAngelo 1981). Therefore, they can provide a higher quality audit reports that are able to reflect an industry and to give more honest and fair view. This may indicate that earnings management actions in companies that are audited by Big 4 public accounting firms are lower than those audited by non-Big 4 public accounting firms (Yuliana and Trisnawati 2015).

Ha4: Audit quality has effect on earnings management.

Growth and Earnings Management

The value that shows how much the company has grown from the time the company was established until now is called firm growth (Alexander and Hengky 2017). One of the measure of firm growth is asset growth. According to Annisa and Hapsoro (2017), asset growth indicates that the company has funds to pay debts to related parties or investors. If there is growth in assets, investors will invest their funds in companies that have higher assets. If the company has low assets, investors can see it from another side of the company's financial statements, for instance sales growth. However, high or low assets are not a guarantee of achieving company profits. Hence, in order for convincing investors to trust and continue to invest their funds in a company, management must keep the firm's profit stable or increase from year to year by implementing an earnings management strategy.

Ha5: Growth has effect on earnings management.

Profitability and Earnings Management

Siregar and Widyawati (2016) defines profitability as a measure of the management's performance in managing the company's wealth, which is indicated by how much profit is generated. Profitability is considered to be able to influence management's decision to practice earnings management because profitability showed management's ability to generate profit. This is related to the bonus plan hypothesis which is part of the positive accounting theory by Watts and Zimmerman (1990), where the principal will give bonus to management if they succeed in achieving the target that have been set by the principal. If the profitability obtained by the company in a certain period is low, then management tends to be involved in earnings management actions by choosing accounting procedures that can increase profits for the current year with the aim of improving their bad performance and reaching the minimum level of target to get a bonus. This is also closely related to the strong desire of the management to show the best performance of the company they lead (Aljana and Purwanto 2017).

Ha6: Profitability has effect on earnings management.

Managerial Ownership and Earnings Management

According to Hatang and Hapsari (2020), managerial ownership is part of the company's shares owned by management who actively participates in the decision-making process in the company, such as the board of commissioners and the board of directors. Agency problems between principals and agents can be reduced by implementing managerial ownership mechanisms, specifically by aligning the interests of management and shareholders (Jensen and Meckling 1976). In other words, there are similar parallels between the interests of managers and shareholders, hence management will be more careful in making decisions. This is because if the manager makes a wrong decision it will not only hurt him as a manager but also as the owner of the company (Firnanti 2017). Therefore, it can be concluded that the higher the managerial ownership, the higher the management's motivation to improve their performance, and not by practicing earnings management (Anggana and Prastiwi 2013).

But on the other side, according to Asitalia and Trisnawati (2017), a high level of managerial ownership can give management the power to make decisions for their own interest, such as maintaining their position as top management or increasing their own wealth. Thus, the level of occurrence of earnings management practices carried out by managers is getting higher.

Ha7: Managerial ownership has effect on earnings management.

Institutional Ownership and Earnings Management

Institutional ownership is the ownership of company shares owned by the institution. There are two types of institutional investors, namely institutional investors as transient investors (temporary owners of companies) and institutional investors as sophisticated investors. Institutions that are sophisticated investors tend to invest their funds for a long-term orientation, therefore they have a strong motivation to gather information about the companies they invest in. This motivation is getting stronger as the amount of investment increases. This type of institutional investors can be an effective supervisory mechanism for management because they have the ability and resources needed to carry out supervision (Kamran and Shah 2014). Thus, earnings management practices are more difficult to implement.

Meanwhile, institutional investors who act as transient investors tend to be more focused on the company's short-term earnings and do not monitor the company optimally. This motivates management to take earnings management actions with the aim of achieving these profit targets, thus the company looks profitable for a moment in the eyes of investors (Alzoubi 2016).

Ha8: Institutional ownership has effect on earnings management.

Board of Commissioners and Earnings Management

Asitalia and Trisnawati (2017) define a board of commissioners as a group of people selected to oversee the company's operational activities. According to Putri *et al.* (2016), the board of commissioners is considered the highest internal control mechanism, which has the responsibility to oversee the actions of top management. The large size of the board of commissioners is indicated by the large number of board members. The increase in the size of the board of commissioners also tends to be accompanied by an increase in the competence and ability of its members, thus the supervision carried out becomes more optimal. Therefore, the larger the size of the board of commissioners in a company, the probability of the occurrence of earnings management actions can be reduced (Hsu and Wen 2015).

Ha9: Board of commissioners has effect on earnings management.

RESEARCH METHOD

The object used in this research are non-financial companies consistently listed in the Indonesia Stock Exchange for the research period from 2018 to 2020. The unit of analysis used is company. The samples are selected using purposive sampling method. From a total population of 463 companies, 101 companies have been selected as samples. Therefore, the total data used in this research are 303 data. The sample selection procedures can be seen in Table 1 below:

Table 1 Sample Selection Procedures

Criteria Description	Number of Companies	Number of Data
Non-financial companies consistently listed in the Indonesia Stock Exchange from 2017 to 2020.	463	1389
Non-financial companies that do not publish the audited financial statements and annual reports from 2017 to 2020 with ending period on December 31 st .	(33)	(99)
Non-financial companies that do not issue financial statements using IDR currency consistently from 2017 to 2020.	(80)	(240)
Non-financial companies that reported net loss from 2018 to 2020.	(189)	(567)
Non-financial companies that do not have managerial ownership consistently from 2018 to 2020.	(56)	(168)
Non-financial companies that do not have institutional ownership consistently from 2018 to 2020.	(4)	(12)
Number of sample companies used in this research	101	303

Source: Data is collected and processed through IDX's data (www.idx.co.id)

Earnings management is an action taken deliberately by management based on personal interests to determine company profits (Subramanyan 2014). In this research, the measurement of the dependent variable refers to the research conducted by Bassiouny *et al.* (2016). To measure earnings management, this research uses the discretionary accruals proxy based on the Modified Jones Model (1995). The formula of the model is as follows:

$$\begin{aligned}
 (1) \quad & TA_t = NI_t - CFO_t \\
 (2) \quad & TA = DA + NDA \\
 (3) \quad & NDA_t = \beta_{1j} \left[\frac{1}{A_{t-1}} \right] + \beta_{2j} \left[\frac{\Delta REV_t - \Delta AR_t}{A_{t-1}} \right] + \beta_{3j} \left[\frac{PPE_t}{A_{t-1}} \right] \\
 (4) \quad & \frac{TAC_t}{A_{t-1}} = \beta_{1j} \left[\frac{1}{A_{t-1}} \right] + \beta_{2j} \left[\frac{\Delta REV_t - \Delta AR_t}{A_{t-1}} \right] + \beta_{3j} \left[\frac{PPE_t}{A_{t-1}} \right] + \varepsilon_t \\
 (5) \quad & DA_{jt} = \frac{TAC_{jt}}{A_{j,t-1}} - NDA_{jt}
 \end{aligned}$$

Where:

TA_t : Total accruals in year t

NI_t : Net income in year t

CFO_t : Cash flow from operating activities in year t

NDA_t : Non discretionary accruals for firm j in year t

- A_{t-1} : Total assets for firm j in year t-1
 ΔREV_t : Change in the revenues (sales) for firm j in year t less revenue in year t-1
 ΔAR_t : Change in accounts receivable for firm j in year t less receivable in year t-1
 PPE_t : Gross properties, plants, and equipment for firm j in year t
 $\beta_{1j, 2j, 3j}$: Firm specific parameters
 ε_t : Error term for company in year t

Firm size is a basic parameter that reflects how big a company is. The firm size variable in this research will be measured using the company's total assets. The measurement used for firm size was adapted from previous research conducted by Bassiouny *et al.* (2016), and the scale of this variable is the ratio scale. The formula used to calculate the firm size variable is stated below:

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

Firm financial leverage indicates the amount of assets owned by a company that are financed by debt (Firnanti *et al.* 2019). The measurement that is used in this variable is ratio scale. According to Anwar and Buvanendra (2019), firm financial leverage is measured by dividing the company's total liabilities with the company's total assets. The formula used to calculate this variable is as follows:

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

Firm age describes how long the company has been in existence and its ability to run the business well (Jenny and Christina 2018). The measurement for firm age using a ratio scale and calculated using the log number of years since the firm's foundation, which refers to previous research by Bassiouny *et al.* (2016). The formula used is shown below:

$$FAGE = \text{Log of the number of year the firm's foundation}$$

Audit quality can be described as how competent the auditor is in finding material misstatements in the company's financial statements and presenting these financial statements with high credibility (DeAngelo 1981). The measurement for audit quality will be adapted from research done by Bassiouny *et al.* (2016), and the scale to be used is a nominal scale which is dummy variable. If the company uses the services of auditors from one of the Big 4 public accounting firms, it will be scored as 1, otherwise will be scored as 0. The measurement can be drawn as follows:

$$\begin{aligned} AUQUL &= 1 \text{ if firms audited by one of the Big 4 public accounting firms} \\ &= 0 \text{ if firms audited by non-Big 4 public accounting firms} \end{aligned}$$

Growth is the value that indicates how much the company has grown from the time the company was established until now (Alexander and Hengky 2017). According to Annisa and Hapsoro (2017), firm growth is defined as the change in the company's annual growth rate of total assets. In this research, the measurement for firm growth is by finding the difference between total assets this year and the previous year, then divided by the total assets of the previous year. Growth's measurement will be using ratio scale. The formula is drawn as below:

$$GROWTH = \frac{\text{Total Asset}_t - \text{Total Asset}_{t-1}}{\text{Total Asset}_{t-1}}$$

Where:

- Total Asset_t : Total assets of a company in year t
 Total Asset_{t-1} : Total assets of a company in the year before year t

Profitability is defined as the ability of a company to generate profits within a certain period of time (Alexander and Hengky 2017). The measurement for profitability variable using a ratio scale, and proxied by the Return on Assets (ROA) which was adapted from research conducted by Alexander and Hengky (2017). Profitability is calculated by dividing net income after tax with total assets. Here's an overview of the formula:

$$ROA = \frac{\text{Net Income after Tax}}{\text{Total Asset}}$$

Managerial ownership is the proportion of share ownership in a company that is owned by management, such as the board of directors and the board of commissioners (Hatang and Hapsari 2020). The measurement for this variable using a ratio scale, and the proxy used was adapted from research done by Alexander (2021). Amount of managerial ownership is obtained from the number of shares owned by directors and commissioners divided by the total outstanding shares of the company. The formula for calculating managerial ownership can be stated below:

$$MO = \frac{\text{Number of shares owned by directors and commissioners}}{\text{Outstanding Shares}}$$

Institutional ownership is defined as the proportion of share ownership in a company that is owned by institutional investors such as banks, insurance companies, investment companies, and other institutional ownership (Arifin and Destriana 2016). Institutional ownership can be also defined as the number of shares owned by government, trust funds, financial institutions, legal institutions, foreign institutions and others (Sarmo *et al.* 2020). The ownership of shares by institution such as foundation, pension funds and limited liability companies are also called as institutional ownership (Edison 2017). Measurement for this variable refers to research conducted by Alexander (2021), who uses a ratio scale. Institutional ownership can be calculated by dividing the number of shares owned by institutional investors with the total of outstanding shares. The formula used to calculate this variable is shown as follows:

$$INS = \frac{\text{Number of shares owned by institutional investors}}{\text{Outstanding Shares}}$$

Board of commissioners is a group of people selected to oversee the company's operational activities (Asitalia and Trisnawati 2017). The measurement for this variable using a ratio scale. This research measures the size of the board of commissioners based on the number of boards in a company, which follows the research conducted by Alexander (2021). The formula can be stated as follows:

$$BOC = \Sigma \text{ Number of commissioner on the board}$$

RESEARCH RESULT

The result of descriptive statistics test and hypothesis test that have been done is summarized in the table shown below:

Table 2 Descriptive Statistics Result

Variable	N	Minimum	Maximum	Mean	Std. Deviation
DACC	303	-0.348443	0.378623	0.000000	0.084322
FSIZE	303	26.483147	33.494533	29.434588	1.478955
FLEV	303	0.078898	0.873614	0.450500	0.185464
FAGE	303	0.698970	1.939519	1.505411	0.195774
AUQUL	303	0	1	0.35	0.479
GROWTH	303	-0.307847	1.529959	0.099363	0.174241
ROA	303	0.000500	0.466601	0.066819	0.062230
MO	303	0.000001	0.535251	0.046276	0.082983
INS	303	0.093301	0.979055	0.644132	0.171550
BOC	303	2	16	4.28	1.955

Source: Data Output of SPSS 25.0

Table 3 Audit Quality Frequency Result

		Frequency	Percent
Valid	Non-Big 4 (0)	196	64.7
	Big 4 (1)	107	35.3
	Total	303	100.0

Source: Data Output of SPSS 25.0

Table 4 t-Test Result

Variable	B	Significance	Decision	Conclusion
(Constant)	0.116	0.407		
FSIZE	-0.003	0.476	Ha ₁ Rejected	No effect
FLEV	-0.046	0.113	Ha ₂ Rejected	No effect
FAGE	-0.007	0.790	Ha ₃ Rejected	No effect
AUQUL	-0.027	0.015	Ha ₄ Accepted	Has effect
GROWTH	0.033	0.269	Ha ₅ Rejected	No effect
ROA	0.157	0.076	Ha ₆ Rejected	No effect
MO	-0.006	0.938	Ha ₇ Rejected	No effect
INS	-0.015	0.678	Ha ₈ Rejected	No effect
BOC	0.003	0.236	Ha ₉ Rejected	No effect

Source: Data Output of SPSS 25.0

The descriptive statistics test result can be seen in Table 2, while the frequency test result for the dummy variable (audit quality) is shown in Table 3. The result of the residual normality test before outlier test (n=303) points out that the residual value of the data is not normally distributed. Therefore, outlier test is needed for this condition. After the outlier test is carried out (n=297), the result shows that the residual value of the data is still not normally distributed. Hence, the data used in this research is the data

before the outlier test. The classical assumption test result indicates that there is no autocorrelation and multicollinearity problem occurred in the research model. However, there are six independent variables that have heteroscedasticity problem, which are firm size, firm financial leverage, audit quality, growth, profitability, and board of commissioners.

The result of correlation coefficient (R) test denotes that the relationship between all the independent variables with the dependent variable is weak and positive. The result of coefficient of determination (Adjusted R²) test shows that only 3.8% of dependent variable variation can be explained by independent variables variation, while the remaining 96.2% can be explained by other factors that are not included in the regression model. The result of F-test points out that the regression model is fit for this research.

The t-test result shows that firm size (FSIZE) variable has significance level of 0.476 which is greater than 0.05, hence Ha₁ is rejected. It implies that firm size has no effect on earnings management. This means that small and large companies still have the opportunity to do earnings management. The t-test result shows that firm financial leverage (FLEV) variable has significance level of 0.113 which is greater than 0.05, hence Ha₂ is rejected. It implies that firm financial leverage has no effect on earnings management. The reason behind this result is because the high liability policy causes the company to be supervised by debtholders (third parties), where this tight supervision makes the management act in accordance with the interests of the debtholders and shareholders (Annisa and Hapsoro 2017).

The t-test result shows that firm age (FAGE) variable has significance level of 0.790 which is greater than 0.05, hence Ha₃ is rejected. It implies that firm age has no effect on earnings management. Yunietha and Palupi (2017) stated that in general, long-established companies already have a reputation, thus companies get a lot of additional funds from investors, therefore earnings management practices are not necessary. In addition, companies that have just started operations are not proven to be more aggressive in carrying out earnings management to avoid reporting losses.

The t-test result shows that audit quality (AUQUL) variable has significance level of 0.015 which is less than 0.05, hence Ha₄ is accepted. It implies that audit quality has effect on earnings management. In this research, audit quality variable has negative effect on earnings management as indicated by coefficient value of -0.027, which means that if the company is audited by one of the Big 4 public accounting firms, it can reduce the probability of earnings management practices and *vice versa*. Auditors in Big 4 public accounting firms have more resources, knowledge, understanding, and experience, therefore they can provide high audit quality by providing audit reports that are able to reflect an industry and to give more honest and fair view which will improve the quality of financial reports (Yuliana and Trisnawati 2015).

The t-test result shows that growth (GROWTH) variable has significance level of 0.269 which is greater than 0.05, hence Ha₅ is rejected. It implies that growth has no effect on earnings management. This shows that there is no contribution from company or firm growth to earnings management. The t-test result shows that profitability (ROA) variable has significance level of 0.076 which is greater than 0.05, hence Ha₆ is rejected. It implies that profitability has no effect on earnings management. This is due to investors overriding information about profitability in a company, thus management is not motivated to practice earnings management (Almalita 2017).

The t-test result shows that managerial ownership (MO) variable has significance level of 0.938 which is greater than 0.05, hence Ha₇ is rejected. It implies that managerial ownership has no effect on earnings management. The rationale behind this result is that large or small managerial ownership does not affect the likelihood of earnings management practices occurring. Thus, management tends to take policies to manage earnings according to the interests of investors. In addition, a low level of managerial ownership means that management does not have the power to influence decision making regarding the integrity of the company's financial statements (Yunietha and Palupi 2017).

The t-test result shows that institutional ownership (INS) variable has significance level of 0.678 which is greater than 0.05, hence Ha₈ is rejected. It implies that institutional ownership has no effect on earnings management. The t-test result shows that the size of board of commissioners (BOC) variable has significance level of 0.236 which is greater than 0.05, hence Ha₉ is rejected. It implies that board of commissioners has no effect on earnings management. The reason behind this result is because the board of commissioners does not fully have the power to influence various decisions and there are still many entities that place incompetent boards of commissioners (Almalita 2017).

CLOSING

The objective of this research is to examine and to obtain empirical evidence regarding the effect of firm size, firm financial leverage, firm age, audit quality, growth, profitability, managerial ownership, institutional ownership, and board of commissioners on earnings management of non-financial companies listed in the Indonesia Stock Exchange from 2017 to 2020. The result of this research denotes that firm size, firm financial leverage, firm age, growth, profitability, managerial ownership, institutional ownership, and size of board of commissioners have no effect towards earnings management. Meanwhile, audit quality have negative effect towards earnings management.

The limitations in this research are as follows: (1) The residual value of the data used in this research is not normally distributed; (2) There are six independent variables that have heteroscedasticity problem, which are firm size, firm financial leverage, audit quality, growth, profitability, and board of commissioners; (3) This research resulted in a small adjusted R² value of 3.8%. It means that there are still 96.2% variations in the dependent variable of earnings management which can be explained by variations of other variables that are not included in the regression model.

Due to the limitations in this research, here are several recommendations that may be useful for future research: (1) Extend the research period to get more accurate results by expanding the sample through cross section or time-series; (2) Adding more data in the research thus the problem of normality and heteroscedasticity can be resolved; (3) Replace some independent variables or add other independent variables that are considered to have an effect on earnings management, such as audit committee characteristics and free cash flow.

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