“Managerial ability, corporate governance, and IFRS adoption as determinants of earnings management: Evidence from Indonesia”

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MANAGERIAL ABILITY, CORPORATE GOVERNANCE, AND IFRS ADOPTION AS DETERMINANTS OF EARNINGS MANAGEMENT: EVIDENCE FROM INDONESIA

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Abstract

Earnings management practices revealed in companies are primarily determined by the role of management in providing the best performance reports for shareholders. The purpose of this study was to analyze the effect of managerial ability, independent commissioners, audit committees, quality of external auditors, and the application of International Financial Reporting Standards (IFRS) on earnings management practices. The research data were retrieved from manufacturing sector companies listed on the Indonesia Stock Exchange from 2014 to 2018. These data are analyzed using a panel data regression model. The empirical findings of the study prove that managerial ability, quality of external auditors, and the application of IFRS have a positive effect on earnings management.

In contrast, independent commissioners have a negative effect. The audit committee does not affect earnings management. This study also reveals that the variables of corporate governance mechanisms, which consist of independent commissioners, audit committees, and the quality of external auditors, have different effects on earnings management practices. This indicates that corporate governance principles have not been appropriately implemented in a company. The managerial ability has a dominant role in carrying out old management practices with various manipulations of financial statements.

Keywords independent commissioners, audit committees, quality of external auditors, manufacturing companies

JEL Classification G30, G34, M40, M41

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INTRODUCTION

Earnings management is an activity carried out by company management outside the limits of applicable accounting principles (Frank et al., 2009). By referring to several cases that have occurred, it was shown that earnings management practices exceeded the tolerance threshold of Financial Accounting Standards (FAS). Therefore, earnings management practices are opportunistic earnings management actions so that earnings information does not show appropriate information (Hamid et al., 2012). Liu et al. (2014) used the Conditional Revenue Model (CRM) approach to detect the possibility of earnings management carried out by a company. Since it is considered close to 0, with a range between –0.075 to 0.075, it is stated that it does not indicate accrual earnings management. A similar concept of earnings management was calculated by Stubben (2010).

Demerjian et al. (2012) stated that company management has a high ability to increase discretionary accruals, and vice versa – increase real earnings management. Therefore, a better manager's ability to engage in intentional profit alignment is needed (Demerjian et al., 2013; Koester et al., 2017; Huang & Sun, 2017; Demerjian et al., 2020; Baik et al., 2020; Shahnia et al., 2020). On the contrary, according to Priharta et al. (2020) and Huang and Sun (2017), the managerial ability does not affect earnings management. Managerial ability in a company tends to increase performance quality by utilizing company resources instead of earnings management. In addition, generally independent board of commissioners has better supervision over the management. This will reduce any possible fraud in financial statement presentation by the management since supervision by commissioners is better and free from any company's internal interest (Man & Wong, 2013). Jaggi et al. (2009) stated that the size of the board of commissioners significantly affects earnings management. However, it is inconsistent with the results of Lo et al. (2010) that independent commissioner does not affect earnings management. This proves that independent commissioners in a company do not work independently.

As an element of the corporate governance mechanism, the audit committee functions as an intermediary between company management and external auditors. The audit committee is tasked with assisting commissioners in the process of making credible financial reports by company management (Xie et al., 2003; Yang & Krishnan, 2005; Davidson et al., 2005; Lin et al., 2006; Ayemere & Elijah, 2015; Wan Mohammad et al., 2016; Waweru & Prot, 2018; Harahap et al., 2020). Inaam and Khamoussi (2016) confirmed the audit committee's effectiveness in reducing earnings management actions by company management. However, this is not in line with the views of Lin et al. (2013), He and Yang (2014), and Wan Mohammad et al. (2016). They showed that the audit committee would not significantly reduce earnings management. The purpose of financial statement auditing by an auditor is to give accountant opinion of the appropriateness of financial statement presentation, financial position, operation result, and cash flow about the generally prevailing accounting principles; thus, a quality audit should be of stakeholders' concern (Susanto et al., 2020).

A quality external auditor can reduce earnings management practice. This idea is supported by Balsam et al. (2003), Carcello and Nagy (2004), and Yuan et al. (2016). However, this result does not conform to Habbash and Alghamdi (2017), Nawaiseh (2016), and Yasser and Soliman (2018). They stated that the possibility of a company doing earnings management would increase with higher audit quality.

Another effort to reduce earnings management practice is to correct the accounting standard used. The accounting standard prevailing in Indonesia before the adoption of IFRS was more flexible, allowing the implementation of different accounting methods in every company. Barth et al. (2008), Gebhardt and Novotny (2011), and Zéghal et al. (2011) analyzed the convergence of IFRS, which negatively affects earnings management, showing a reduction in earnings management after the company applies IFRS based accounting standard. However, some results of Callao and Jarne (2010), Capkun et al. (2016), Rathke et al. (2016), Noh et al. (2017), Ugrin et al. (2017), and Etengu et al. (2019) contradict the theory. They stated that a company that has adopted IFRS increased its earnings management.

The phenomenon of earnings management practices that have occurred so far is determined mainly by the company's internal factors, especially the ability of company managers. However, empirical evidence also shows inconsistent research findings on the role of each factor in determining earnings management practices. This fact encourages another investigation to examine the company's internal determinants in earnings management practices in the manufacturing sector of Indonesia. In general, the formulation of the research problem is whether managerial ability, independent commissioners, audit committees, quality of external auditors, and the application of IFRS affect earnings management.

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1. LITERATURE REVIEW

Earnings management practices can be highlighted from two different perspectives. The first view highlights that the practice of earnings management is considered a wrong (negative) act as proposed by Dechow et al. (1995). They reported that earnings intentionally but not by the application of accounting standards are an earnings management practice. Yung and Root (2019) also state that a company with high information uncertainty uses earnings management opportunistically. Thus, it has a negative relationship with future share price performance. Earnings uncertainty motivates company managers to report earnings as expected. Thus, it can be concluded that earnings management can be categorized into fraud if the intentionally reported earnings do not conform to and are out of the limitation of the accounting principles. On the contrary, the other perspective views that earnings management practice is deemed to be an act that should be performed by the management (positive).

Goel (2016) identifies earnings management as management's behavior, using the choice available in accounting policy or real act to influence earnings and achieve some productive purposes of certain earnings reporting. Endri et al. (2020) and Ghazali et al. (2015) view earnings management from an efficiency perspective. They proved that managers do alternative accounting practices that can disclose more precise future cash flow information and reduce agency costs due to different interests between stakeholders and managers.

According to Jensen and Meckling (1976), earnings management occurs since the separation of ownership by a principal with control by an agent tends to cause agency conflict between the two parties. The reason conflict occurs caused by a human is since they are economic beings with the basic nature of prioritizing their interest. Shareholders and managers have different purposes and want their individual purpose fulfilled.

Furthermore, Watts and Zimmerman (1986) present an accounting theory attempting to explain that economic factors or the characteristics of a particular business unit can be associated with the manager's behavior that more specifically reveals the effect of an economic variable on a manager's motivation in choosing an accounting method. As a result, an earnings management allegation arises and is conducted since the manager wants some benefit from the activities conducted in earnings engineering. In addition, the positive accounting theory explains accounting policy and practice in a company and predicts what policy a manager will choose in certain future conditions. Three main hypotheses serve as the basis of a hypothesis test to detect earnings management, namely the bonus plan hypothesis, debt agreement hypothesis, and political cost hypothesis.

Agency theory uses three characteristic assumptions (Endri et al., 2021), namely:

1) humans prioritize their interests;

2) humans are limited by the ability to think about future perceptions (bounded rationality); and

3) humans do not like risk (risk-averse).

Therefore, a manager oriented to obtaining more incentive will use his/her ability to manage the company to do earnings management. One of the hypotheses of a manager doing earnings management is the bonus plan hypothesis proposed by Watts and Zimmerman (1986) in the positive accounting theory. Some studies show that managerial talent, reputation, and managerial ability positively and significantly affect an executive's salary rate. Rajgopal et al. (2006) and Demerjian et al. (2012) state that managerial ability improves discretionary accrual by company management. These research results conform to Demerjian et al. (2013), Koester et al. (2017), Huang and Sun (2017), Demerjian et al. (2020), and Baik et al. (2020). Thus, management with significantly high ability is more likely to engage in intentional earnings alignment.

The agency theory assumes that the existence of an independent commissioner will increase the effectiveness of monitoring a company management's performance. Independent commissioner plays a vital role in the structure of the board of commissioners because of prioritizing its independence. Therefore, an independent commissioner is expected to reduce agency problems between management and shareholders. The research result is supported by Jaggi et al. (2009) and Niu (2009): there is a negative relationship between the board of commissioners' independence and earnings management. In addition, an independent board of commissioners generally has better supervision over management. This will reduce any possible fraud in presenting financial statements that the management may conduct since supervision by the member commissioner is better and free from an internal interest in the company (Fathony et al., 2020).

Agency theory reveals that conflicts of interest between principals and managers (agents) that lead to agency problems can be avoided by the presence of an independent third party (Jensen & Meckling, 1976). Klein (2002) states that the purpose of an audit committee is to overcome the problem of information asymmetry between management and principals, facilitate the process of monitoring the company's management performance, and discipline financial disclosure decisions according to applicable standards. Davidson et al. (2005) and Lin et al. (2006) tested the audit committee's effectiveness in reducing earnings management actions by management.

Based on the agency theory, audit quality can reduce information asymmetry between managers and investors. The quality external auditor can detect manager that performs earnings management. Audit quality is the possibility that an auditor in the performance of its assignment can find a violation and reports it in the audited financial statement. Therefore, this gives a signal to financial statement users that quality auditors will give beneficial feedback in avoidance of earnings management practice (Xiao et al., 2020). Chowdhury and Eliwa (2021) found that auditor quality has a negative effect on earnings management. Their results coincide with Balsam et al. (2003), Carcello and Nagy (2004), and Yuan et al. (2016).

Fuad et al. (2019) state that the impact of IFRS Convergence as the international accounting standard on the earnings management act aims at simplifying various alternatives of accounting policy obtained. It is expected to limit the consideration of management policy on the earnings manipulation act. The accounting standard prevailing in Indonesia before the adoption of IFRS was more flexible, allowing the implementation of different accounting methods in every company. Limited alternatives can increase accounting quality and management's opportunistic policy in the positive accounting theory that is limited in determining the extent of accounting quality (Ashbaugh & Pincus, 2001). Barth et al. (2008), Gebhardt and Novotny (2011), and Zéghal et al. (2011) found that IFRS convergence negatively affects earnings management, showing declined earnings management after the company applies IFRS based accounting standard.

2. AIM AND HYPOTHESES

This study aims to estimate and analyze the effect of managerial ability, independent commissioners, audit committees, quality of external auditors, and the application of IFRS on earnings management of manufacturing companies in Indonesia. To prove the research objectives empirically, the hypotheses to be tested are as follows:

H1: Managerial ability affects earnings management.

H2: Independent commissioner affects earnings management.

H3: Audit committee affects earnings management.

H4: Quality of external auditor affects earnings management.

H5: IFRS implementation affects earnings management.

3. METHODS

3.1. Data

The research data are in the panel category consisting of time series and cross-section data (Sugianto et al., 2020). The data source is annual financial statements of manufacturing companies listed on the Indonesia Stock Exchange (IDX) for 2014–

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2018. The research population is all manufacturing companies listed on the IDX for 2014–2018. The research sample uses the purposive sampling method, with the following criteria:

1) The samples chosen were companies of the industrial manufacturing sector listed at the IDX;

2) Companies of industrial manufacturing sector listed at the IDX from 2014 to 2018;

3) Issuing complete and publicly available audited financial statement conforming to research variable measurement in IDX for the research period of 2014–2018;

4) Companies of industrial manufacturing sector presenting financial statement in Rupiah;

5) Components in financial statements conforming to the research variables.

3.2. Operation and measurement of research variables

Table 1 shows the variables' operationalization and their measurement.

3.3. Research model

The research's data panel regression model can be formulated as follows:

$$MALA_{it} = \alpha + \beta_1 KM_{it} + \beta_2 KI_{it} + \\ + \beta_3 KA_{it} + \beta_4 KAE_{it} + \beta_5 IFRS + \varepsilon_{it}, \quad (1)$$

where $MALA$ = Earnings Management; KM = Managerial Ability; KI = Independent Commissioner; KA = Audit Committee; KAE = External Auditor Quality; $IFRS$ = IFRS Implementation.

4. RESULTS

The description of the statistical data is shown in Table 2. The mean, median, maximum, and minimum values for each variable have different numbers. However, the highest value among the four indicators is the managerial ability and IFRS variable of 1, while the lowest value of earnings management is –0.218. The value with the largest standard deviation is the external auditor quality variable and IFRS of 0.20, and the lowest value is the managerial ability with 0.003.

Table 1. Variables' operationalization

Variable	Source	Measurement	Scale
Earnings Management	Stubben (2010)	Conditional Revenue Model: $\Delta AR_{it} = \alpha_0 + \alpha_1 \Delta R_{it} + \alpha_2 \Delta R_{it} \cdot SIZE_{it} + \alpha_3 \Delta R_{it} \cdot AGE_{it}$ $+ \alpha_4 \Delta R_{it} \cdot AGE\_SQ_{it} + \alpha_5 \Delta R_{it} \cdot GRM_{it} + \alpha_6 \Delta R_{it} \cdot GRM\_SQ_{it} + e$	Ratio
Managerial Ability	Demerjian et al. (2013)	$0 \le \frac{Output}{Input} < 1(inefficient),$ $\frac{Output}{Input} \ge 1(efficient)$ Managerial ability is measured using Data Envelopment Analysis (DEA) Score	Ratio
Independent Commissioner	Xie et al. (2003)	$\frac{\Sigma Independent\ Commissioners}{\Sigma All\ Boards\ of\ Commissioners}$	Ratio
Audit Committee	Abbott et al. (2004)	$\frac{\Sigma Audit\ Committee\ from\ Independent\ Commissioner}{\Sigma Audit\ Committee\ in\ company\ i\ in\ period\ t}$	Ratio
External Auditor Quality	DeAngelo (1981), Elder et al. (2015)	$External\ Auditor\ Quality = \frac{Score\ obtained}{6*} \cdot 100\%$	Ratio
IFRS Implementation	Capkun et al. (2016)	$\frac{\Sigma SAK \text{ implemented}}{\Sigma SAK \text{ determined}}$	Ratio

Note: * Audit Quality indicators: 1. competence, 2. independence, 3. auditor specialization, 4. audit tenure, 5. peer review, and 6. affiliation with the big 4.

Table 2. Description of statistical data

Source: Authors' elaboration.

Description	EM	KM	KI	KA	KAE	IFRS
Mean	–0.009631	0.996349	0.365839	0.324074	0.648148	0.731454
Median	–0.001190	0.996700	0.333333	0.333333	0.833333	0.750000
Max.	0.245810	1.000000	0.500000	0.333333	0.833333	1.000000
Min.	–0.218290	0.986000	0.222222	0.250000	0.333333	0.250000
SD	0.123470	0.003205	0.070869	0.026485	0.204810	0.206720
Skewness	0.305359	–1.548723	0.530772	–2.474874	–0.381355	–0.535875
Kurtosis	2.290930	5.817726	3.124331	7.125000	1.471712	2.362244
Jarque-Bera	1.642044	32.87579	2.141875	77.84180	5.470110	2.916338
Probability	0.439982	0.000000	0.342687	0.000000	0.064890	0.232662
Sum	–0.433380	44.83570	16.46273	14.58333	29.16667	32.91544
Sum Sq. Dev.	0.670771	0.000452	0.220987	0.030864	1.845679	1.880252
Observations	45	45	45	45	45	45
Cross-sections	9	9	9	9	9	9

Table 3. Correlation analysis

Source: Authors' elaboration.

Variable	EM	KM	KI	KA	KAE	IFRS
EM	1.000000	0.107339	–0.203019	–0.224534	0.408774	0.066619
KM	0.107339	1.000000	–0.208122	0.130412	0.163577	–0.400636
KI	–0.203019	–0.208122	1.000000	–0.031697	–0.020747	–0.147995
KA	–0.224534	0.130412	–0.031697	1.000000	–0.323288	–0.019359
KAE	0.408774	0.163577	–0.020747	–0.323288	1.000000	–0.293801
IFRS	0.066619	–0.400636	–0.147995	–0.019359	–0.293801	1.000000

The relationship between the research variables shown in the pairwise correlation analysis in Table 3 is not very strong. This is indicated by the average correlation coefficient value below 40%. On the other hand, there is a reasonably strong relationship in the same direction between the quality of external auditors and the old management of 40.88%.

Tables 4, 5, and 6 show the stages of the selection test of the panel data regression model, which concludes that the right common effects model is used

Table 4. Chow test results of earnings management as a dependent variable

Source: Authors' elaboration.

Redundant fixed effects tests			
Pool: EM_CRM			
Test period fixed effects			
Effects Test	**Statistic**	**d.f.**	**Prob.**
Period F	1.141731	(4.35)	0.3531
Period Chi-square	5.519046	4	0.2381

Table 5. LM test results of earnings management as a dependent variable

Source: Authors' elaboration.

Lagrange multiplier tests for random effects			
Measurement	Test Hypothesis		
	Cross-section	Time	Both
Breusch-Pagan	1.380947	0.073606	1.454554
	(0.2399)	(0.7862)	(0.2278)
Honda	–1.175137	–0.271305	–1.022789
King-Wu	–1.175137	–0.271305	–0.899985
***Mixed chi-square asymptotic critical values**			
1%	7.289	–	–
5%	4.321	–	–
10%	2.952	–	–

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Table 6. Hausman test results of EM_RM as a dependent variable

Source: Authors' elaboration.

Correlated Random Effects – Hausman test			
Pool: EM_CRM			
Test cross-section random effects			
Test Summary	**Chi-Sq. statistics**	**Chi-Sq. d.f.**	**Prob.**
Cross-section random	1.850248	4	0.7633

Table 7. Hypothesis testing

Source: Authors' elaboration.

Variable	Coeff.	Std. err.	t-stat.	Prob.
C	–9.148194	1.971633	–4.639907	0.0000
KM	9.166445	1.745495	5.251488	0.0000
KI	–0.229303	0.050381	–4.551398	0.0001
KA	–0.646185	0.871980	–0.741055	0.4631
KAE	0.218505	0.048678	4.488798	0.0001
IFRS	0.213593	0.048437	4.409666	0.0001

to analyze the internal determinants of earnings management further.

Table 7 shows the results of testing the influence of managerial ability (KM), independent commissioner (KI), audit committee (KA), external auditor quality (KAE), and IFRS adoption on earnings management. Based on the t-test, it is found that the KM variable positively and significantly affects earnings management, in which the probability value of t-statistic is 0.000, lower than α = 0.05. Thus, H_0 is rejected. This empirical finding conforms to the research hypothesis 1 that the KM variable significantly affects company earnings management from 2014 to 2018. Meanwhile, for the independent commissioner (KI) variable, based on the t-test, it is found that the KI variable negatively and significantly affects earnings management. The probability value of t-statistic is 0.0001, lower than α = 0.05. Thus, H_0 is rejected. This empirical finding conforms to the research hypothesis 2 that the KI variable negatively and significantly affects company earnings management from 2014 to 2018.

For the audit committee (KA) variable, based on the t-test, it is found that the KA variable negatively but insignificantly affects earnings management. The probability value of t-statistic is 0.4631, higher than α = 0.05. Thus, H_0 is accepted. However, this empirical finding does not conform to the research hypothesis 3that the KA variable insignificantly affects company earnings management from 2014 to 2018. For the external auditor quality (KAE) variable, based on the t-test, it is found that variable KAE positively and significantly affects earnings management. The probability value of t-statistic is 0.0001, lower than α = 0.05. Thus, H_0 is rejected. This empirical finding conforms to the research hypothesis 4 that the KAE variable significantly affects company earnings management from 2014 to 2018. Based on the t-test, it is found that the variable IFRS positively and significantly affects earnings management, in which the probability value of t-statistic is 0.0001, lower than α = 0.05. Thus, H_0 is rejected. This empirical finding conforms to the research hypothesis 5 that the IFRS implementation variable positively and significantly affects earnings management from 2014 to 2018.

5. DISCUSSION

Empirical findings prove that the KM variable has a positive and significant effect on earnings management, meaning that the higher the managerial ability, the higher the earnings management. According to AlNajjar and Riahi-Belkaoui (2001), managers with opportunistic behavior will make use of the opportunity by doing earnings management. This conforms to the agency theory. In addition, a delegation of authority from the owner to manager leads to asymmetry of information that will be exploited to maximize their interest by doing earnings management. In theory, this result proves there is a conflict of interest between shareholders (principal) and managers (agent), as explained in the agency theory. Shareholders and managers have different purposes and desire their respective purpose fulfilled. One of the manager's hypotheses in earnings management is the bonus plan hypothesis proposed by Watts and Zimmerman (1986) in the positive accounting theory. This research result conforms to the results of Demerjian et al. (2020) and Baik et al. (2020): managers with high skills are significantly more likely to get involved in intentional earnings alignment. Managers with high skills will very skillfully manage company information.

Empirical findings reveal that the KI variable has a negative and significant effect on earnings management. The results of this study coincide with Iqbal et al. (2015). They also conclude that the more independent the board of commissioners, the fewer earnings management practice. This means that more composition of an independent board of commissioners will reduce earnings management practice. This research result confirms the agency theory that assumes that an independent commissioner will increase the effectiveness of the monitoring function of company management performance. In addition, an independent commissioner does not have a special relationship with the company's internal party, increasing the independence of the board of commissioners. Susanto (2013) also explains that independent commissioner has implemented their responsibilities effectively of supervising the quality of information contained in the financial statement to minimize earnings management in the company.

Empirical evidence reveals that the KA variable has a negative but not significant effect on earnings management. This study proves that the existence of the audit committee as part of the corporate governance mechanism does not affect managers in doing or not practicing earnings management. Many audit committee members in a company only perform routine duties, such as reviewing reports and selecting an external auditor, without any critical questioning. Following this research result, earnings management practice may occur when a company has more members of the audit committee that should be expected to minimize earnings management practice. Based on the existing fact, according to Madi et al. (2013), this is caused by the formation of an audit committee with accounting and financial skills that are only based on prevailing regulations. Besides, this research result also shows that the formation of an audit committee in a company has not achieved any success in the performance of its supervisory role over the financial statement arrangement process. This research result is consistent with Yasser and Soliman (2018) and Mensah and Yeboah (2019). They show that audit committee size does not significantly affect earnings management. Therefore, the existence of an audit committee in a company evidently cannot restrict a manager's opportunistic behavior in manipulating earnings.

The empirical findings of the study prove that the quality of external auditors has a positive and significant effect on earnings management. This indicates that the better the quality of the external auditor, the higher the company's incentive to carry out earnings management. However, company auditing by KAP Big 4 does not guarantee better audit quality, which reduces earnings management. This study rejects the prediction of the agency theory that effective audit quality attributes may reduce earnings management. This raises the question of whether the agency theory commonly used to audit and report studies on quality in the west also applies in other underdeveloped countries with different placement (Habbash & Alghamdi, 2017). Therefore, it is time for the company to disclose audit service costs and non-audit service costs since this may solve audit cost reduction problems. This research result conforms to Habbash and Alghamdi (2017) and Yasser and Soliman (2018): with higher audit quality, a company will likely do earnings management.

Empirical findings prove that the IFRS adoption variable positively affects earnings management. This means that the more a company adopts IFRS, the more likely it is to do earnings management. This result shows that the variations in earnings management may be caused by some rooms to manipulate under the international standards compared to the local stand-

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ards. Capkun et al. (2016) argue that the higher flexibility in IAS/IFRS standard has led to higher (alignment) earnings management under the current IFRS reporting regime. One of the important implications of this study is that learning some IFRSs allows the accounting standard determinant to identify standards with a significant effect on the quality of financial reporting. Those require a revision since they offer the opportunity to manage income and allow the manager to implement it opportunistically. This research result confirms the results of Callao and Jarne (2010), Capkun et al. (2016), Rathke et al. (2016), Noh et al. (2017), Ugrin et al. (2017), and Etengu et al. (2019) that after a company adopts IFRS, it increases earnings management.

CONCLUSION

This study aims to investigate the effect of managerial skills, independent commissioners, audit committees, quality of external auditors, and IFRS adoption on earnings management in manufacturing companies listed on the Indonesia Stock Exchange. Based on the findings, it proves that increasing managerial ability increases the practice of earnings management. The quality of external auditors and the application of IFRS also contribute positively to earnings management practices. The existence of independent commissioners by optimizing their role as supervisors can suppress earnings management practices. As part of the corporate governance mechanism, the audit committee has not shown its influence on earnings management. Overall, the mechanism of corporate governance, efficiency, and adoption of IFRS can influence managers in carrying out earnings management practices in manufacturing companies of Indonesia.

This study is inseparable from research limitations, including the formula for calculating earnings management. According to Stubben (2010), the model is relatively complete, so it is less effective for practitioners. Some research results do not support previous empirical data, which may be caused by investors' characteristics, behavior, and culture in Indonesia being different from the characteristics, behavior, and culture of investors in developed countries. The object of research consists of various industries so that they cannot be compared from one company to another. In addition to increasing the sample of companies in developed countries and adding other independent variables, the study suggests further research to focus on the same industry sector for comparability of financial statements to describe the effect of earnings management more precisely.

AUTHOR CONTRIBUTIONS

Conceptualization: Luqman Hakim, Endri Endri.
Data curation: Dewi Rahayu.
Formal analysis: Luqman Hakim, Endri Endri.
Funding acquisition: Luqman Hakim, Dewi Rahayu.
Investigation: Luqman Hakim.
Methodology: Luqman Hakim, Dewi Rahayu, Endri Endri.
Project administration: Dewi Rahayu.
Resources: Dewi Rahayu.
Software: Luqman Hakim.
Supervision: Endri Endri.
Validation: Luqman Hakim, Endri Endri.
Visualization: Luqman Hakim, Dewi Rahayu.
Writing – original draft: Luqman Hakim.
Writing – review & editing: Endri Endri.

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