Formosa Journal of Business and Economic Statistics (FJBES)
Vol. 2, No. 1 2026: 1-18

The Effect of Board of Commissioners Size, Audit Quality, And Managerial Ownership on Earnings Management

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ARTICLEINFO

Keywords: Earnings Management, Leverage, Audit Quality, Managerial Ownership

Received: 21 December
Revised: 23 January
Accepted: 23 February

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ABSTRACT

This study's purpose is to gather empirical evidence on factors influencing earnings management. There are eight independent variables used in this research, such as firm size, firm age, profitability, leverage, board of commissioner size, tax planning, audit quality, and managerial ownership. This research's population are manufacturing companies that are listed on the Indonesia Stock Exchange (IDX), with the research period starting from the period of 2022 until 2024. The samples used on this research are 243 data sourced from 81 companies, selected by using the purposive sampling method. This research uses multiple regression method for the data analysis. The result on this study shows that leverage and audit quality have effect on earnings management, but firm size, firm age, profitability, board of commissioner size, tax planning, and managerial ownership has no effect on earnings management.

DOI: https://doi.org/10.55927/fjbes.v2i1.618
ISSN-E: 3089-0470
https://journal.formosapublisher.org/index.php/fjbes/index

INTRODUCTION

Essentially, financial reports serve as the primary tool for evaluating a company's performance, so management is obligated to present them reliably, relevantly, and accurately. Therefore, the credibility and relevance of information in financial reports are seen as fundamental to maintaining integrity and public confidence (Novita 2022; Sulistyanto 2008).

In practice, many companies manipulate financial reports to attract investors. Various reasons drive companies to do this, including excessive pressure from external parties, such as shareholders, to achieve profit targets, and management's motivation to earn bonuses for performance appraisals. (Iskandar et al. 2022).

Earnings management is a manipulation practice often carried out by managers to make financial reports appear more attractive to investors and creditors. This action is generally motivated by managers' desire to maximize profits to obtain large bonuses, as well as to smooth earnings so that the company's performance appears stable and low risk. This practice can be carried out through two main approaches, namely accrual earnings management and real earnings management. Although both have the same goal, various research results show that managers today are more likely to manipulate through real activities than accrual activities. This is because real earnings management is considered more difficult to detect by auditors than accrual-based earnings (Ningsih 2015) management.

One case of financial report manipulation occurred in 2019, which befell PT Garuda Indonesia (Persero) TBK in the case of presenting financial reports in the 2018 financial year. This incident began when two company commissioners, Chairul Tanjung and Dony Oskaria, refused to sign the financial report due to discrepancies in revenue recognition. In 2018, PT Garuda Indonesia (Persero) TBK reported a net profit of US$ 5.02 million at the end of the year. However, in the third quarter the company still recorded a loss of US$ 110.3 million. This shows that in less than three months PT Garuda Indonesia Tbk experienced a very significant increase in profit, namely US$ 155.2 million. (Triandi and Christine 2022).

This study aims to gather empirical evidence on factors influencing earnings management. The population of this study is manufacturing companies listed on the Indonesia Stock Exchange (IDX). The difference between this study and previous studies lies in the research period, which runs from 2021 to 2024. This study expands on previous research Hutauruk et al. (2022) examining earnings management against the variables of firm size, firm age, profitability, and leverage, with the addition of other variables such as board size, tax planning, audit quality, and managerial ownership.

LITERATURE REVIEW

Agency theory explains the relationship between a principal and an agent as a contract where the principal entrusts the agent to perform certain tasks on their behalf. However, this can lead to conflict between the two parties because both parties prioritize their own interests. Agents do not always act in the best interests of the principal. Agency theory states that the smaller the share ownership held by managers, the more likely they are to act in their own interests, which can lead to decisions that are detrimental to the company (Jensen and Meckling 1976).

Within the framework of agency theory, the selection of mechanisms to align the interests of principals and agents' rests on two key concepts: information and risk. Information is viewed as both a valuable and costly commodity, necessitating a monitoring system such as a board of directors or managerial controls to monitor agent behavior. However, this theory also emphasizes that outcome uncertainty creates risks that must be borne by one party. Therefore, behaviors such as providing a fixed salary or results-based incentives represent a trade-off between the costs incurred in monitoring the agent's actions and the costs incurred by transferring risk to the agent (Eisenhardt 1989).

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Earnings Management

Profit essentially represents the positive difference between the revenue a company receives from its core activities and all costs incurred to generate that revenue. In accounting practice, profit is often considered a key measure of a company's performance because it indicates how efficiently the company manages its resources. The profit recorded in financial statements can be influenced by the accounting policies implemented by the company. In general, profit represents the net profit earned after deducting various costs, such as

production costs, operational costs, and taxes, from total revenue (Utari et al. 2025).

Earnings management practices essentially arise from the separation of functions between company owners (shareholders) and managers, who are responsible for running day-to-day operations. This separation can naturally give rise to conflicts of interest, particularly because managers possess more inside information than owners. This practice can be defined as a form of deliberate intervention by management in the financial reporting process by inflating or understating earnings figures, reflecting an opportunistic approach to selecting specific accounting policies. The primary motivations behind these actions are often contractual, such as bonus schemes, pressure to avoid breaching debt covenants, meeting analyst forecasts, and even influencing stock prices. Ultimately, this phenomenon highlights a fundamental problem in financial accounting: the difficulty of balancing investors' need for relevant information with the need to reliably evaluate managers' performance (Lavina and Destriana 2023; Scott 2015).

Firm Size and Earnings Management

Company size is one important characteristic thought to influence earnings management practices. Larger companies generally have stronger and more structured internal control systems, thus supporting the provision of more accurate and reliable financial information. Conversely, smaller companies are more likely to be motivated to engage in earnings management to cover higher costs or to attract the attention of investors and creditors (Soesetio et al. 2023).

The results of research conducted by Joe and Ginting (2022), Kusumawati (2019), Jaunanda and Oktaviyanti (2023), as well as Fransisca et al. (2024) states that companies with large assets and high operational costs tend to attract investor attention, which encourages management to maintain profit stability for the sake of company value. However, other studies, such as those conducted by Choudhary (2022), Eka Lestari (2017), Abbadi (2021), Sutarti and Karina (2021), and Maricar and Almalita (2022) states that the larger the size of a company, the greater the number of investors who invest their capital so that the company is encouraged to prepare accurate and reliable financial reports.

H 2: Company size influences earnings management

Company Age and Earnings Management

A company's age indicates its ability to survive and compete in the economy. Companies with a long history of operation are generally more likely to gain external trust. Through sound operational management, companies strive to build trust with investors and other external parties. However, due to the lack of in-depth external oversight, managers often have the freedom to engage in earnings management to attract investors and improve company performance (Hutauruk et al. 2022).

Jaunanda and Oktaviyanti (2023) revealed that the longer a company's age, the greater its tendency to engage in earnings management. Several other studies, such as Hutauruk et al. (2022), Hamzah (2022), Maricar and Almalita (2022), as well as Fransisca et al. (2024). In fact, he stated that investors are often reluctant to fund new companies because their profitability is not considered as well-proven as that of established companies. This forces new companies to rely

on their own capital and engage in earnings management in an effort to convince and attract investors.

H 2: Company age has an effect on earnings management

Profitability and Earnings Management

Profitability is a crucial factor in assessing a company's health. This indicator demonstrates a company's ability to generate profits by utilizing its assets. The greater a company's assets, the greater its potential profits. Generally, the greater the company's profits, the greater the likelihood of earnings management practices. This is because companies with high profitability tend to have better capabilities and performance in generating substantial profits (Hutauruk et al. 2022).

The results of research conducted by Himawan and Suryanto (2024), Kalbuana et al (2022), Putri (2022), Kusumawati (2019), Hamzah (2022), Jaunanda and Oktaviyanti (2023), Nufus and Almalita (2023), Aldani and Indrastuti (2024), Cantika and Susanti (2023), and Maricar and Almalita (2022) states that the higher a company's profitability, the better its performance is presented to the public. This situation has the potential to increase management compensation or bonuses, thus encouraging managers to engage in earnings management practices to maintain or increase reported profits. However, other research findings differ, such as those suggesting Hutauruk et al. (2022), Safarida (2023), serta Joe and Ginting (2022) that companies with high profitability already have good performance and tight oversight that limits managers' discretion, thus eliminating the need to manipulate financial statements.

H 3: Profitability has an effect on earnings management

Leverage and Earnings Management

Leverage is an indicator used to describe the proportion of debt a company utilizes to finance its operations. Leverage is believed to be a factor that can influence the likelihood of earnings management practices. This is due to the debt agreement between the company and its creditors. In general, there are several conditions that must be met during the partnership period, one of which is the obligation to maintain a certain debt-to-equity ratio. This condition can encourage management to engage in earnings management with the aim of lowering the company's (Maricar and Almalita 2022). debt-to-equity ratio.

Research result Nufus and Almalita (2023), Cantika and Susanti (2023), Jaunanda and Oktaviyanti (2023), Choudhary (2022), Sulistyawati et al. (2024), Maricar and Almalita (2022), as well as Benedicta and Mulyana (2022) states that a high level Mardianto and Chintia (2022), Safarida (2023), Lestari and Murtanto (2017), Kusumawati (2019), of leverage indicates that the company's capital structure is dominated by debt. However, research by and Firnanti et al. (2019) states that highly leveraged firms tend to be more transparent in their financial reports and are more closely monitored by creditors and are therefore less likely to engage in earnings management.

H 4: Leverage has an effect on earnings management

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H 4: Leverage has an effect on earnings management

Board of Commissioners Size and Earnings Management

The size of the board of commissioners is one component that can influence earnings management practices. The board of commissioners has the responsibility and duty to control the quality of information presented in financial reports. Therefore, a large board of commissioners can minimize the practices used by companies to manage earnings (Pratiwi and Saputra 2024).

The results of research conducted by Soesetio et al (2023) states that the greater the number of board members, the more difficult coordination and supervision are, so that earnings management practices are more likely to occur. However, the results of the study Sutarti and Karina (2021) states that a larger board is actually able to provide tighter oversight of management.

H 5: The size of the board of commissioners influences earnings management

Tax Planning and Profit Management

For the government, taxes are a primary source of state revenue, while for taxpayers, taxes are a burden that reduces income. Tax planning is carried out to minimize tax liabilities through tax arrangements and deferrals. This practice aims to reduce the tax burden to maximize after-tax profits. The higher the level of tax planning, the greater the opportunity for a company to engage in earnings management (Farida and Sugesti 2023).

The results of research conducted by Nurcahyono and Sinarasri (2023) and Benedicta and Mulyana (2022) stated that companies utilize tax strategies to reduce tax burdens while managing reported profits. However, research byFarida and Sugesti (2023), Kusumawati (2019) stated that not all companies use tax planning for the purpose of profit manipulation, but only for efficiency according to the rules so that its influence on profit management is weak.

H 6: Tax planning has an impact on profit management

Audit Quality and Earnings Management

Audit quality is directly related to the integrity of a company's financial statements. High-quality auditors, such as those from large audit firms (the Big Four), can reduce earnings management practices because they are able to detect and report irregularities in financial statements. Conversely, companies using

lower-quality auditors are more likely to engage in earnings management undetected (Nugrahanti and Nugroho 2018).

The results of the study Nurcahyono and Sinarasri (2023) stated that auditors can be involved in overly close client relationships. However, other research by Himawan and Suryanto (2024), Kalbuana et al (2022), Kusumawati (2019) states that audit quality acts as an effective oversight mechanism to limit earnings management practices. High-quality auditors have superior capabilities in detecting and evaluating management assertions, thereby identifying earnings management efforts.

H 7: Audit quality has an effect on earnings management

Managerial Ownership and Earnings Management

Managerial ownership is the proportion of an entity's shares held by its management. This ownership structure is believed to mitigate earnings management practices because it motivates managers to avoid personal losses. When a manager, who is also a shareholder, is found to have engaged in earnings management, the company's stock price can potentially decline. Therefore, to protect the value of their shares, managers are motivated to operate fairly and avoid engaging in earnings management that could be detrimental to themselves (Maricar and Almalita 2022).

Wisely and Karina (2022), and Oktafiah (2017) stated that Managers with large shareholdings tend to have greater flexibility in strategic decision-making. This allows managers to make decisions that benefit their personal interests, increasing the potential for earnings management practices. However, Nugrahanti and Nugroho (2022), Lestari and Murtanto (2017) states that managers who own more shares will be more careful in maintaining market confidence in the company's financial reports.

H 8: Managerial ownership has an effect on earnings management

Research Model

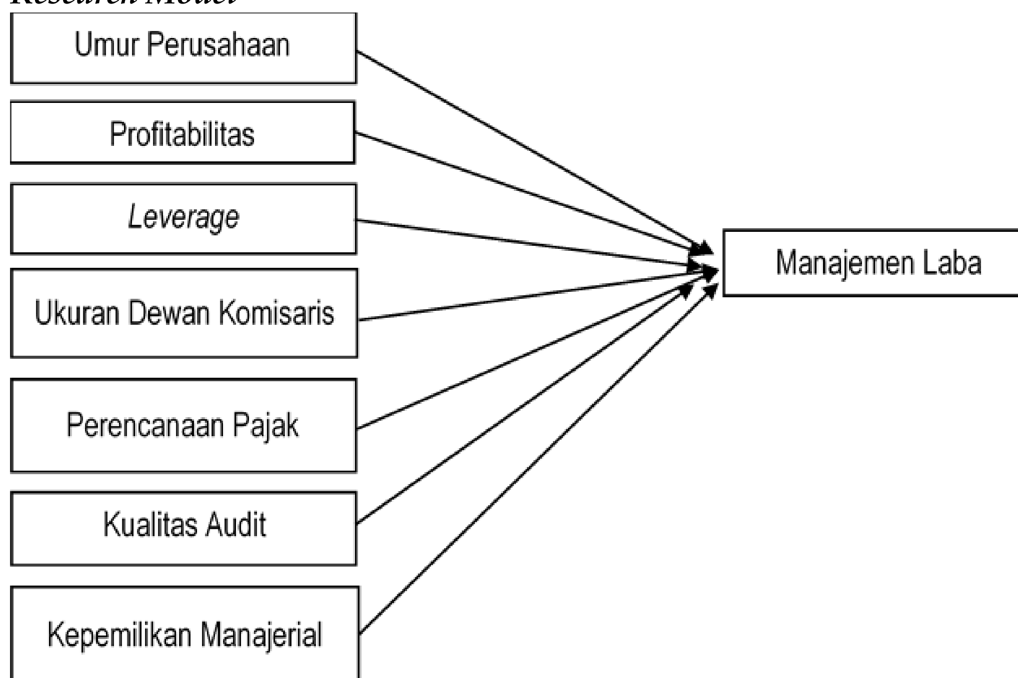

Figure 1 Research Model

METHODOLOGY

The research used manufacturing companies that were consistently listed on the Indonesia Stock Exchange (IDX) from 2021 to 2024 as the object of this research. The sample used in this study was 243 data sourced from 81 companies, selected using a purposive sampling method with the criteria presented in Table 1:

Table 1 Sample Selection Procedure

Sample Criteria	Number of Companies	Amount Data
Manufacturing companies listed on the Indonesia Stock Exchange (IDX) and meet the requirements criteria during period 2021 to 2024.	256	768
Companies that do not have financial reports available from 2021-2024.	(13)	(39)
Companies that do not publish report finance in rupiah currency .	(41)	(123)
Companies that do not own year book ending on December 31 .	(2)	(6)
Companies that are inconsistent Companies that are not report profit throughout period 2022 to 2024.	(74)	(222)
Manufacturing companies that do not own ownership managerial .	(45)	(135)
Manufacturing companies listed on the Indonesia Stock Exchange (IDX) and meet the requirements criteria during period 2021 to 2024.	256	768
Number of Research Samples	81	243

Source : SPSS Data Processing *Output*

Earnings management refers to the practice in which company management alters financial statements by selecting certain accounting policies to increase or decrease reported earnings in accordance with company objectives (Schroeder et al. 2014). Research on earnings management will be measured using the modified Jones model. In this study, earnings management will be measured using a ratio scale and analyzed through the discretionary accruals formula, as applied in previous research.Hutauruk et al. (2022) with the following equation:

$$DAC_{it} = \frac{TA_{it}}{A_{it-1}} - NDA_{it} + \varepsilon$$

Company size It reflects a company's capacity to manage earnings management practices. The larger the company, the more careful management generally is in managing financial performance to maintain operational efficiency. This is due to the greater complexity and oversight of larger companies (Nugrahanti and Christiani 2014). Company size is typically

calculated using the natural logarithm of total assets, using a ratio scale Hutauruk et al. (2022). The measurement formula is presented as follows:

$$SIZE = Ln(\text{Total Aset})$$

Company age is the period from the company's founding to the time the study was conducted, indicating the length of time the company has been operating. The company age variable in this study is taken based on the length of time a company has been operating since its deed of establishment was issued until the study was conducted (Saputra et al. 2020). Company age is measured using a ratio scale and is given the symbol AGE, referring to research conducted by Hutauruk et al. (2022). The company age variable is measured using the following proxy:

$$AGE = \text{Year of research} - \text{Year of company establishment}$$

Profitability is a ratio that indicates a company's ability to generate profit from its total assets. This measure provides an overview of how efficiently a company manages its assets to generate profits. Profitability is measured on a ratio scale and calculated by the distribution of net income to the company's total assets (Hutauruk et al. 2022). This measure is important because it reflects the company's overall operational efficiency and financial health. Fitriana (2024) The formula used to measure profitability in this context is:

$$ROA = \frac{Net\ Income}{Total\ Aset}$$

Leverage is a ratio used to measure the extent to which a company relies on debt to finance its operational activities. When a company uses debt as a source of funding, it incurs interest payments to creditors, which can ultimately impact the company's profits and tax liabilities. (Darmawan and Sukartha 2014) Leverage measurement in this study refers to the scale used by Hutauruk et al. (2022), with the following formula:

$$DAR = \frac{Total\ liabilities}{Total\ assets}$$

Size of the board of commissioners can be interpreted as the total number of members of the board of commissioners in a company, where this number has the potential to cause differences in the level of complexity in communication and coordination between members. This study uses a ratio scale and is measured by calculating the number of members of the board of commissioners. in each company, as explained by Soesetio et al. (2023), this size is symbolized by BSIZE and is measured using the equation:

$$BSIZE = \text{Number of members of the board of commissioners in the company.}$$

Tax planning is an initiative strategy aimed at optimal financial management in order to reduce the amount of tax payable. Tax planning uses a ratio scale and is measured by the Tax Retention Rate (TRR). The TRR reflects the level of effectiveness of a company in implementing tax planning. The lower the TRR achieved, the less effective the tax planning is considered to be in a company (Gulo and Mappadang 2022). This study adopts the tax retention rate formula to assess the effectiveness of tax planning, referring to the TRR formula developed byFarida and Sugesti (2023) as follows:

$$TRR = \frac{Net\ Income\ it}{Pretax\ Income\ (EBT)\ it}$$

Audit quality refers to the auditor's ability to examine the company's financial statements in accordance with applicable professional standards, especially those referring to the standards applied by The Big Four. Public Accounting Firms (KAP) that are included in the Big Four group are considered to be more capable of presenting more reliable financial information and reflecting real data (Monika and Noviari 2021). Audit quality is measured using a nominal scale and is given the symbol AUDIT by adopting the method used by through the use of Solikhah et al. (2019) dummy variables with the following provisions:

- A score of 1 is given to companies audited by the big four KAPs.
- A score of 0 is given to companies audited by non-big four KAPs

Managerial ownership Company ownership by management (directors and commissioners) is known as managerial ownership. The percentage of total outstanding shares owned by management is used as a proxy to measure managerial ownership (Herrera 2019). It is measured using a ratio scale, symbolized by MO, and expressed as a percentage of total outstanding shares. Managerial ownership is calculated using the formula described Nugrahanti and Nugroho (2022) below:

$$MO = \frac{\text{Jumlah saham yang dimiliki manajemen}}{\text{Total saham beredar perusahaan}}$$

RESEARCH RESULT & DISCUSSION

The results of the descriptive statistical analysis of this study, which used 243 data from 81 companies, can be seen in Table 2 below:

Table 2. Results of Descriptive Statistical Tests

Variables	N	Minimum	Maximum	Mean	Standard Deviation
EM	243	-0.2292300	0.3604800	0.000000041	0.0643566033
SIZE	243	25.1629325	33.7899579	28.9024769	1,7296078
AGE	243	6	91	37.75	16,219
ROA	243	0.0006377	0.3133954	0,0856500	0,0674987
DAR	243	0,0326609	0,9126002	0,3612252	0,1852542
BSIZE	243	2	11	4,05	1,864
TRR	243	0,0570774	1,2613161	0,7680725	0,1035920
AUDIT	243	0	1	0,33	0,472
MO	243	0,0000002	0,8145833	0,1159484	0.1818508

Source: SPSS Data Processing Output

Table 3. Audit Quality (AUDIT)

	Frequency	***Percent (%)***
Audited by a *non-Big Four Public Accounting Firm*	162	66.7
Audited by *Big Four Public Accounting Firms*	81	33.3
	243	100.0

Source: SPSS Data Processing Output

The results of table 2 show that there are 243 data studied along with the minimum, maximum, mean, and standard deviation. Table 2 shows that the dependent variable EM has a minimum value of -0.2292300 and a maximum value of 0.3604800 with an average value of 0.000000041 and a standard deviation of 0.0643566033.

SIZE variable has a minimum value of 25.1629325 and a maximum value of 33 with an average value of 28.9024769 and a standard deviation of 1.7296078.

The AGE variable shows a minimum value of 6 and a maximum value of 91 with a mean value of 37.75 and a standard deviation of 16.219. The average AGE of the companies is 37.75, indicating that in general the companies that are the research samples have been operating for approximately 37 years since their establishment based on their deed of establishment.

The ROA variable has a minimum value of 0.0006377 and a maximum value of 0.3133954 with an average value of 0.0856500 and a standard deviation of 0.0674987. The company's average ROA is 0.0856500, meaning the company earned a net profit of 8.56500% of its total assets.

The DAR variable shows a minimum value of 0.0326609 and a maximum value of 0.9126002 with an average value of 0.3612252 and a standard deviation of 0.1852542. The company's average DAR is 0.3612252, meaning that 36.122525%

of the company's total assets are financed by debt, the remaining 63.87748% is financed by equity or own capital.

BSIZE variable shows a minimum value of 2 and a maximum value of 11 with an average value of 4.05 and a standard deviation of 1.864. The company's average BSIZE is 4.05, so it can be concluded that the company has 4 boards of commissioners.

The TRR variable shows a minimum value of 0.0570774 and a maximum value of 1.2613161 with an average value of 0.7680725 and a standard deviation of 0.1035920. The company's average TRR is 0.7680725, meaning that 76.80725% of net profit can be retained by the company after fulfilling its tax obligations.

The audit quality variable (AUDIT) shows a minimum value of 0, a maximum value of 1, with an average of 0.333 and a standard deviation of 0.472. The average AUDIT of the company can also be seen in Table 3, which is 0.333, meaning that 33.3% of the sample companies were audited by Big Four accounting firms, while the other 66.7% were audited by non-Big Four accounting firms.

The MO variable shows a minimum value of 0.0000002 and a maximum value of 0.8145833 with an average value of 0.1159484 and a standard deviation of 0.1818508. The average MO of the company is 0.1159484, meaning that 11.59484% of the company's shares are owned by management, while the remaining 88.40516% are owned by non-managerial shareholders, such as institutional investors, the public, and controlling shareholders.

Table 4. t-Test Results

Variables	B	Sig.	Conclusion
(*Constant*)	-0.1350092	0.1493704	
SIZE	0.0039361	0.2488549	H_1 not accepted
AGE	-0.0000116	0.9683396	H_2 not accepted
ROA	0.0297994	0.6584407	H_3 not accepted
DAR	-0.0514554	0.0298315	H_4 accepted
BSIZE	0.0020940	0.4832042	H_5 not accepted
TRR	0.0477625	0.2500077	H_6 not accepted
AUDIT	-0.0292231	0.0089131	H_7 accepted
MO	0.0198715	0.4087358	H_8 not accepted

Source: SPS Data Processing Output

Table 4 shows the t-test results for each variable. The t-test results for the firm size (SIZE) variable show a significance value above 0.05, namely 0.2488549. This significance value indicates that H1 is not accepted, so firm size (SIZE) has no effect on earnings management (EM). The t-test results for the company age variable (AGE) showed a significance value above 0.05, namely 0.9683396. This significance value indicates that H2 is not accepted, so that company age (AGE) has no influence on earnings management (EM).

The t-test results for the profitability (ROA) variable show a significance value above 0.05, namely 0.6584407. This significance value indicates that H3 is not accepted, so that profitability (ROA) has no effect on earnings management (EM). The t-test results for the leverage (DAR) variable show a significance value

below 0.05, namely 0.0298315. This significance value indicates that H4 is accepted, so that leverage (DAR) has no effect on earnings management (EM). The coefficient value of -0.0514554 indicates that leverage can negatively and significantly affect earnings management. High levels of leverage tend to make companies cautious in conducting earnings management due to pressure from creditors, so companies try harder to maintain the credibility of financial reports (Susanti et al. 2022; Mardianto and Chintia 2022).

The t-test results for the board of commissioner's size variable (BSIZE) show a significance value above 0.05, namely 0.4832042. This significance value indicates that H5 is not accepted, so that the size of the board of commissioners (BSIZE) has no effect on earnings management (EM). The t-test results for the tax planning variable (TRR) show a significance value above 0.05, namely 0.2500077. This significance value indicates that H6 is not accepted, so that tax planning (TRR) has no effect on earnings management (EM).

The t-test results for the audit quality variable (AUDIT) show a significance value below 0.05, namely 0.0089131. This significance value indicates that H7 is not accepted, so that audit quality (AUDIT) has no effect on earnings management (EM). Companies audited by high-quality auditors tend to have lower levels of earnings management due to stricter supervision (Kalbuana et al. 2022; Farida and Sugesti 2023). The t-test results for the managerial ownership (MO) variable show a significance value above 0.05, namely 0.4087358. This significance value indicates that H8 not accepted, so that managerial ownership (MO) has no influence on earnings management (EM).

CONCLUSIONS AND RECOMMENDATIONS

This study aims to collect empirical evidence and examine the effect of company size, company age, profitability, leverage, board of commissioner's size, tax planning, audit quality, and managerial ownership on earnings management in manufacturing companies listed on the Indonesia Stock Exchange (IDX) in the period 2021 to 2024. The results of this study indicate that leverage and audit quality have an influence on earnings management, while company size, company age, profitability, board of commissioner's size, tax planning, and managerial ownership have no influence on earnings management.

This study has several limitations, namely the research period is limited to 3 years, the research sample is limited to manufacturing companies, variables are limited to eight variables, heteroscedasticity occurs in the leverage variable , and the hypothesis test of the correlation coefficient and determination coefficient shows a weak relationship between the dependent variable and the independent variable, and the results of the independent variable explain the variation of the dependent variable poorly. Therefore, it is recommended to expand the research period, add research samples beyond manufacturing companies, and add other variables that can influence earnings management. The results of this study are expected to be useful for auditors, creditors, the government, and future researchers.

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