



## Determinant of Earnings Management Practices in Indonesia's Consumer Goods Companies

Kenny Ardillah <sup>1✉</sup>, and Selvi Vesakhadevi <sup>2</sup>

<sup>1</sup>Accounting Department, Faculty of Business and Communication, Institut Teknologi dan Bisnis Kalbis

<sup>2</sup>Accounting Department, Faculty of Economic and Business, Universitas Matana

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### ABSTRACT

Earnings management is an activity to increment or reduce benefits carried out legally to adjust company profits to management policies as appropriate applicable accounting standards. This research expects to analyze the impact of tax planning, audit quality, and managerial ownership on earnings management. This information utilizes documentation to get information acquired from the company's yearly report. The research sample was taken with specific criteria using the purposive sampling technique. The research sample is the manufacturing companies in the consumer goods subsector listed on the Indonesia Stock Exchange in 2016-2019. This study's hypothesis testing uses multiple linear regression with a p-value of 5%. The research results indicate that audit quality negatively affects earnings management. On the other hand, tax planning and managerial ownership do not affect earnings management. Therefore, this research can be a source of information for management to increase the existence of the audit committee to pay more attention to financial reporting information, primarily related to earnings in financial statements, to reduce the practice of earnings management.

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### INTRODUCTION

The company is an entity that aims to profit as much and try to trust its stakeholders with good performance results. The company can get success and survive in business competition with the trust that the shareholders have given. Companies must make financial reports to provide financial information for internal and external parties (Rahim et al., 2020). The financial statement is a record of the organization's financial data that can mirror the executives' performance in dealing with the organization. The purpose of financial reports is to give data about the financial position and cash flows of a substance that is valuable to most users of financial statements in settling on investment choices (IAI, 2017). The company is obliged to report its performance to shareholders in financial statements. From these financial statements, shareholders can assess the good and bad performance of the company.

Different instances of earnings management activities rehearses frequently happen in Indonesia. One of them is the situation of earnings management led by the board of PT Inovisi Infracom Tbk. The Indonesia

Stock Exchange discovered signs of misstatement in the financial statements in 2015. There are eight things of PT Inovisi Infracom Tbk (INVS) that should be improved, including fixed assets, total compensation per share, business section reports, monetary classification, and total liabilities in the business segment reports. The Indonesia Stock Exchange expressed a misstatement of cash payment items to workers and net receipts (installments) of related gathering obligation in the cash flow statement's PT Inovisi Infracom Tbk (INVS). This practice makes the net income per share of PT Inovisi Infracom Tbk (INVS) seem bigger. The companies should utilize the benefit for the current time frame to the company's proprietors (Erawati & Ayu, 2019).

The results of the financial statements that become very important to the shareholders make the company's management able to provide good performance results. Information on a company's earnings is an essential indicator for users of financial statements, both internal and external, in making decisions regarding bonuses, whether the company's performance is terrible (Gayatri & Wirasedana, 2021). The organization managers can plan the procedures that should be done as per the assumptions for the shareholders, one of which is earnings management. Earnings management occurs when managers use their creativity in preparing

\* E-mail: [l20617@lecturer.kalbis.ac.id](mailto:l20617@lecturer.kalbis.ac.id)

Address: Jl. H. Mali, Kec. Cengkareng, Kota Jakarta Barat, DKI Jakarta, 11750

financial statements and managing transactions to change financial statements to give a particular impression or influence the actions of stakeholders or shareholders who depend on the financial reports (Hery, 2015a; Paramita, 2020).

Earnings management is an activity to increment or reduce benefits carried out legally to adjust company profits to management policies as indicated by appropriate applicable accounting standards (Simorangkir et al., 2020). The board of companies can charge expenses, income, and benefit acknowledgment by speeding up or postponing the profits (Supriyono, 2018). The board of companies is doing earnings management activities to confirm the organization's objectives. Regardless of whether the proprietors or investors acknowledge the act, it will increase shareholder confidence and improve relations with investors (Putra & Rohmawati, 2018). Earnings management can outline directors' conduct in detailing their business exercises in a specific period, precisely the chance of particular inspirations that urge them to control financial information (Hery, 2015b).

An earnings management practice that occurs can be explained by agency theory. The agency theory explains the relationship between shareholders (principals) and company managers (agents) who use funds from principals (Sihombing, 2020). There may be differences in interests between management as internal parties and shareholders and creditors as external parties. The existence of differences in interests between management and external parties encourages management to take actions that make the financial statements look good so that management's performance can also be good (Annisa & Hapsoro, 2017).

Tax planning is one way that taxpayers can oversee business or income taxation. Tax planning is organizing tax payments without abusing the appropriate tax laws. Based on agency theory, the company (agent) tries to pay taxes as little as possible to reduce the company's economic capacity. Still, the government (principal) requires funds from tax revenues to finance government spending. The conflict of interest between the company and the government triggers the agent to manage earnings to minimize tax payments to the government (Nurfadila & Muslim, 2020). Tax planning is a capacity possessed by taxpayers to arrange financial activities to obtain minimal tax expenditure (burden) (Fitriany, 2016). Tax planning arises because of differences in interests between companies and the government. The difference in interest lies in companies trying to pay taxes to a minimum to reduce their profits (Santi & Wardani, 2018).

Managerial ownership is the quantity of offered shares that manage the organization's outstanding share capital (Almalita, 2017). As indicated in agency theory, the contract made between the agent and the principal aims to establish an efficient contract, so the company will make an acquisition where the manager also has a stake in the company to align the same goals (Suartama & Sukartha, 2020). Managers act as holders of the company's operating responsibilities and owners. With the ownership of shares by the manager, the manager

will participate in making company decisions (Achyani & Lestari, 2019). The data imbalance approach sees the managerial ownership structure mechanism to decrease data irregularity among insiders and outsiders by revealing data inside the organization (Subagyo et al., 2018).

The audit process is one mechanism that aims to obtain and evaluate audit evidence to reduce asymmetric information between managers and principals. Based on agency theory, auditors publish transparent and reliable financial reports by giving auditors opinions to increase the credibility of the financial statements and reduce agency costs arising from agency conflicts (Inayah & Prasetyo, 2020). An auditor has specific qualifications in conducting an audit of a company's financial statements and activities (Annisa & Hapsoro, 2017). Users of financial statements, both inside and out, truly need financial reports that auditors have evaluated. The results of the audited financial information will be used to make decisions for the parties to assess a company's financial condition. Therefore, the auditor as an independent party is expected to provide good audit quality and improve audit quality. In addition, it can maintain and increase trust for all parties as users of financial statements (Lin & Hwang, 2010).

Fitriany (2016), Aryanti (2017), Aorora (2018), and Gayatri & Wirasedana (2021) in their research state that tax planning negatively influences earnings management. Similar outcomes are also displayed by Santana and Wirakusuma (2016), Erawati & Lestari (2019), Simorangkir et al. (2020), and Nurfadila & Muslim (2020), which express that tax planning positively affect earnings management. On the other hand, Putra and Kusumaningtias (2018), Achyani & Lestari (2019), Afrizal et al. (2020), and Hanum & Iskandar (2020) demonstrate that tax planning has no impact on earnings management. Aryanti (2017), Annisa & Hapsoro (2017), Inayah & Prasetyo (2020), Kurawa & Aca (2020), Sitanggang et al. (2020), Nwoye et al. (2021), and Ismael & Kamen (2021) indicate that audit quality affect earnings management. The opposite result is shown by Zgarni et al. (2016), Erawati and Lestari (2019), and Kurniawati and Panggabean (2020), which state that audit quality does not affect earnings management.

Alzoubi (2016), Aryanti (2017), Aorora (2018), Piosik & Genge (2020), Evodila et al. (2020), and Suartama & Sukartha (2020) express that managerial ownership has an impact on earnings management. However, the contrary outcome is displayed by Santana & Wirakusuma (2016), Putra & Kusumaningtias (2018), Achyani & Lestari (2019), Panjaitan & Muslih (2019), Wahyudi et al. (2020), and Sitanggang et al. (2020) in their research demonstrate that managerial ownership has no impact on earnings management. The researchers want to do this quantitative research because there are inconsistent results between the previous studies. Therefore, this study replicates Santana & Wirakusuma's (2016) research on the effect of tax planning and managerial ownership on earnings management practices. This research aims to demonstrate the impact of tax planning, audit quality, and managerial ownership on earnings management in the manufacturing companies listed on

the Indonesia Stock Exchange in 2016-2019.

Tax planning is a progression of methodologies to regulate corporate accounting and finance to limit tax commitments in manners that do not disregard tax guidelines (Pohan, 2013: 8). Tax planning is one way that taxpayers can utilize in dealing with their business or income taxation. Tax planning is tax abuse without disregarding the relevant tax laws. Tax planning and earnings management are identified because good tax planning will benefit from reducing fiscal profit (Ningsih, 2016). Tax planning increases revenue, reduces costs, and affects operating cash flow. It is related to corporate profit reporting; high profits will cause high corporate tax payments. Therefore, company managers will use various earnings management techniques to achieve profit targets by engineering financial statements, which are carried out using standard accounting methods (Hapsari & Manzilah, 2016). Fitriany (2016), Santana & Wirakusuma (2016), Aryanti (2017), Aorora (2018), Erawati & Lestari (2019), Nurfadila & Muslim (2020), Simorangkir, et al. (2020), and Gayatri & Wirasedana (2021) state that tax planning affect earnings management.

#### **H<sub>a1</sub>: Tax planning affects earnings management**

Audit quality is the likelihood that the auditor can discover and report a misstatement in the company's financial statement (DeAngelo, 1981). The auditor's capacity to find misstatements relies upon the ability to utilize innovation, the review strategies used, the size of the review test, and others. Audit quality can assist with deciding the data revealed by the auditor following the auditing standards used by the auditor, including misstatement of data in the company's financial statements (Yadiati & Mubarok, 2017). The part of the auditor is expected to deliver dependable evaluated financial statements. The company's financial statements evaluated by qualified evaluators will create more excellent quality data contrasted with data completed from unqualified auditors. The higher the nature of the auditor, the earnings management actions taken by the company's management are not expected to happen. Audit quality can be estimated as a substitute for using the Public Accounting Firm because it is accepted that the status of the Public Accounting Firm will influence the best consequences of the audit conducted by the auditor (Annisa & Hapsoro, 2017). Aryanti (2017), Annisa & Hapsoro (2017), Inayah & Prasetyo (2020), Kurawa & Aca

(2020), Sitanggang et al. (2020), Nwoye, et al. (2021), and Ismael & Kamen (2021) state that audit quality affect earnings management.

#### **H<sub>a2</sub>: Audit quality affects earnings management**

Managerial ownership is the number of shares offered that are claimed by administrators in an organization (Pramesti & Budiasih, 2017). Managerial ownership is resolved depending on the manager's quantity of owned shares compared to the total outstanding share capital (Asih, 2014). The existence of managerial ownership can increase supervision of the company, determine policies that are not beneficial to one party only. In addition, managerial ownership reduces the risks that may occur within the company (Jensen & Meckling, 1976). However, the shares owned by the company managers tend to be disproportionate to the shares owned by the company. Therefore, shares held by managers will not have a good impact on the decision-making process by management.

Moreover, managerial ownership will become the fulfillment of the interests of managers and shareholders so that managers will behave according to investors' need for factual financial statements. The management will influence or lessen the presence of the existence of earnings management activities with the expectation that the interests of shareholders can be lined up with the interests of management (Putra & Kusumaningias, 2018). Alzoubi (2016), Aryanti (2017), Aorora (2018), Piosik & Genge (2020), Evodila et al. (2020), and Suartama & Sukartha (2020) state that managerial ownership affects earnings management.

#### **H<sub>a3</sub>: Managerial Ownership affects earnings management**

## **RESEARCH METHODS**

The information collection method in this study is a documentation technique. Documentation is a technique used to get information and data as books, archives, composing numbers and pictures as reports and data that can uphold research (Sugiyono, 2015). The population in this study is manufacturing companies listed on the Indonesia Stock Exchange. Therefore, the sample in this study is manufacturing companies listed on the Indonesia Stock Exchange in the consumer goods subsector from 2016-2019 that met specific criteria. The

**Table 1.** Selection Process to Choose Sample Results

Description	Amount	Accumulation
<b>Population</b>		<b>49</b>
<b>Sample Criteria:</b>		
Manufacturing companies in the consumer goods sector have been listed on the Indonesia Stock Exchange from 2016-2019.	(15)	34
The companies had positive profits consistently from 2016-2019.	(2)	32
The companies have completed data and information in this research periods.	(2)	30
<b>The number of company's samples</b>		<b>30</b>
<b>Amount of data samples during the research period (4x30)</b>		<b>120</b>



researcher chose this consumer goods sub-sector as the research sample. This selection is because this sub-sector is one of the sectors with high interest and demand for stock investment by investors; besides that, it has a large market capitalization and is the highest sector that contributes to the economic sector because it sells primary needs for the local community. The sample of this research uses a purposive sampling method with several criteria to determine the sample for this study. Based on the several criteria, there are 120 data from 30 companies used as research samples that became the research samples from 2016-2019. Table 1 shows the selection of the research sample.

Earnings management for most business activities utilized by directors to impact income by commending or bringing benefits concurring down to their goals. For this situation, the executives can charge expenses, revenue, and benefit acknowledgment by speeding up or postponing the profits (Supriyono, 2018). The company estimated earnings management using discretionary accruals (DA), sourced from the modified Jones model. Discretionary accruals (DA) is a gathering segment that permits directors to intercede in the arrangement of financial reports, so the discretionary income detailed in the financial statements does not mirror the actual value of the organization's income (Wahyuningtyas, 2018).

The earnings management measurement model used is total accruals (TAC) which are classified into components of discretionary accruals (DTAC) and non-discretionary accruals (NDA) (Annisa and Hapsoro, 2017). We calculate the total value of accruals by calculating the difference between net income and operating cash flow.

$$\text{Total Accruals (TAC)} = \text{Net Income} - \text{Operating cashflow}$$

After that, we calculate the regression coefficient values 1, 2, and 3 using the ordinary least square (OLS) regression equation to determine the ratio between total accruals and total assets in the last period.

$$\frac{(TAC_t)}{A_{t-1}} = \alpha_1 \frac{(1)}{A_{t-1}} + \alpha_2 \frac{(\Delta REV_t)}{A_{t-1}} + \alpha_3 \frac{(PPE_t)}{A_{t-1}} + \varepsilon$$

The regression coefficient values 1, 2, and 3 obtained were then used to find the value of non-discretionary accruals in the following way.

$$NDA_t = \alpha_1 \frac{(1)}{A_{t-1}} + \alpha_2 \frac{(\Delta REV_t - \Delta REC_t)}{A_{t-1}} + \alpha_3 \frac{(PPE_t)}{A_{t-1}}$$

After that, we can measure earnings management by calculating the value of discretionary accruals with the difference between the ratio of total accruals and total assets in the last period and non-discretionary accruals.

$$DAC_t = \frac{(TAC_t)}{A_{t-1}} - NDA_t$$

Tax planning is a stage taxpayers take to limit the taxation burden for the current and future years. As a result, the taxes paid can be decreased as proficiently as expected and in different manners that meet tax

arrangements (Astutik, 2016). The measurement of tax planning uses the tax retention rate (tax retention rate), which investigates the adequacy of tax management on the organization's financial reports. A high tax retention rate (TRR) indicates high tax planning. If the tax retention rate (TRR) is high, a company's tax planning will be more effective. On the other hand, if the tax retention rate (TRR) is low, the company's tax planning is less effective. The tax retention rate formula is as follows (Erawati & Lestari, 2019).

$$TRR = \frac{\text{Net Income}_{it}}{\text{Pretax Income (EBIT)}_{it}}$$

Audit quality is a good level of whether or not an auditor is auditing the company's financial statements. The quality of audits in a company can provide essential information to investors to know the credibility of the company's financial statements. In addition, companies can utilize industry specialization auditors who have expertise in preventing earnings management (Erawati & Lestari, 2019). Audit quality can be estimated using a dummy variable with 0 and 1. Therefore, the company examined by a Public Accounting Firm affiliated with the big four is given 1. In contrast, the company reviewed by a Public Accounting Firm that is not associated with the big four (non-big four) is given a value of 0 (Annisa & Hapsoro, 2017). Big four Public Accounting Firm is an auditor service that has been known for its excellent review level in inspecting the organization's financial statements such as PwC, KPMG, Deloitte, and E.Y.

Managerial ownership is the quantity of offered shares possessed by the board. Manajer bertindak sebagai pemegang tanggung jawab operasi perusahaan dan pemilik, oleh karena itu, adanya kepemilikan saham oleh manajer dapat mempengaruhi pengambilan keputusan perusahaan. Managers will report good financial reports if managers participate in company ownership (Achyani & Lestari, 2019). Managerial ownership can be measured by the following formula (Santana & Wirakusuma, 2016).

$$MO = \frac{\text{The number of shares owned by management}}{\text{Total outstanding shares}}$$

The data analysis method in this quantitative research is descriptive statistics, classical assumption test, which includes classical assumption test and hypothesis test which provides for the partial test and coefficient of determination test (R<sup>2</sup>). The classical assumption test was used in this study. The test is the normality, multicollinearity, heteroscedasticity, and autocorrelation test. This study's data analysis technique is multiple linear regression analysis (Ghozali, 2018). The regression equation used in this study was determined as follows equation 1.

$$DAC = \alpha + b_1 TRR + b_2 AQ + b_3 MO + \varepsilon \dots\dots\dots(1)$$

- α = Constant
- DAC = Earnings Management (Discretionary Accrual)
- AQ = Audit Quality
- MO = Managerial Ownership

$b_1 - b_3$  = regression coefficient  
 $\varepsilon$  = error

## RESULTS AND DISCUSSION

Earnings management had a minimum value of -0.13 at Mandom Indonesia Tbk in 2017 and a maximum value of 0.04 at Kimia Farma Tbk in 2017. The average value of earnings management is -0.0491. The average manufacturing sector is consumer goods performing earnings management actions. In comparison, the standard deviation of earnings management is 0.04161. Tax planning had a minimum value of 0.61 in 2018, and a maximum value of 0.87 in 2016. If the tax retention rate is high, it indicates that a company has carried out tax planning. Meanwhile, if the value of the tax retention rate is low, a company's tax planning is less effective. The average value of tax planning is relatively high at 0.7484. It means that, on average, manufacturing companies in the consumer goods sector carry out tax planning in their financial statements. In comparison, the value of the standard deviation of tax planning is 0.04487.

A total of 20 companies' financial reports, or equivalent to 66.7% of the sample financial statements of manufacturing companies in the consumer goods sector, use the services of a non-big four public accounting firm. Meanwhile, the remaining ten companies' financial statements, equivalent to 33.3%, used the benefits of the big four Accounting Public Firms. It indicates that, on average, manufacturing companies in the consumer goods sector use the services of non-big four Accounting Public Firms. These results interpret that audit quality is not a priority that needs to be considered by the management of manufacturing companies in the consumer goods sector in financial reporting to stakeholders. Managerial ownership has a minimum value of 0.00 in 2016 and a maximum value of 0.38 in 2017 and 2018. The results of this ownership value indicate the level of share ownership owned by management. on the research sample data used. The average value of managerial ownership is not significant, only 0.0849. It means that the average company management in the consumer goods manufacturing sector has a low level of share ownership. Meanwhile, the standard deviation of managerial ownership is 0.12616.

The normality test results showed a result of sig. 0.200 with a p-value of 0.05. The sig. of 0.200 is greater than the p-value of 0.05. It can be said that the data in this study is generally distributed so that the regression model used has met the assumption of normality. The results of the multicollinearity test show that tax planning, audit quality, and managerial ownership have a tolerance value of more than 0.10 (>10) and a VIF value of less than 10 (<10). There is no problem in the multicollinearity test between the independent variables. The results of the heteroscedasticity test using a scatterplot show that there is no clear pattern, and the points spread on the Y-axis. These results indicate that in this study, there was no heteroscedasticity. The results of the autocorrelation test show that the Durbin-Watson value is 2.180 with a total sample of 45 with three independent

**Table 2.** Hypothesis Test Results

	Model	Unstandardized Coefficients	Sig.
1	(Constant)	-0.095	0.362
	Tax Planning	0.082	0.547
	Audit Quality	-0.036	0.017
	Managerial Ownership	-0.043	0.433

variables, so based on the Durbin Watson table, the dU value is 1.6662. The Durbin-Watson value lies between dU of 1.6662 then 4-dU of 2.3338. Therefore, it can be concluded that there is no autocorrelation problem in the regression model in this study.

The coefficient of determination test shows that the adjusted R<sup>2</sup> value is 0.091. Therefore, tax planning, audit quality, and managerial ownership affect earnings management by 9.1%. The rest of 90.9 % is influenced by other variables not included in this study. The results of the t-test in this study which aims to prove the effect of tax planning, audit quality, and managerial ownership on earnings management, are presented in table 2. Based on the results of multiple regression analysis, the regression equation used in this study is shown as equation 2.

$$\text{DAC} = -0.095 + 0.082 \text{ TRR} - 0.036 \text{ AQ} - 0.043 \text{ MO} + \varepsilon \quad \dots\dots\dots(2)$$

### The Effect of Tax Planning on Earnings Management

The first hypothesis in this study is that tax planning positively affects earnings management. Based on the regression coefficient test, tax planning has a positive value of 0.082 sig. from 0.547, which is greater than the p-value of 0.05 (0.547 > 0.05), thus Ho1 is accepted, and Ha1 is rejected. It means that tax planning has no significant effect on earnings management. The results of this study are in line with research conducted by Putra & Kusumaningtias (2018), Lestari & Achyani (2019), Afriзал et al. (2020), and Hanum & Iskandar (2020). However, the results of this study do not support previous research conducted by Santana & Wirakusuma (2016), Fitriany (2016), Annisa & Hapsoro (2017), Aorora (2018), Erawati & Lestari (2019), Nurfadila & Muslim (2020), Simorangkir, et al. (2020), and Gayatri & Wirasedana (2021) which states that there is an effect of tax planning on earnings management.

Each company has several divisions or departments with each management. Therefore, each management will prioritize their respective interests to get bonuses or rewards if their performance is good. The interests of each management tend to lead to earnings management, not because of tax planning which is in the interests of company owners who want to pay as little tax as possible. Tax planning is the desire of shareholders to get high dividends but intends to incur minimal costs, meaning that earnings management is not affected by the presence or absence of tax planning (Gayatri & Wirasedana, 2021).

### **The Effect of Audit Quality on Earnings Management**

The second hypothesis in this study is that audit quality positively affects earnings management. The regression coefficient value of negative audit quality is -0.036 with sig based on the test results. 0.017 is smaller than the p-value of 0.05 ( $0.017 < 0.05$ ), thus  $H_02$  is rejected, and  $H_a2$  is accepted; namely, audit quality has a negative effect on earnings management. The results of this study are in line with research conducted by Aryanti (2017), Annisa & Hapsoro (2017), Inayah & Prasetyo (2020), Kurawa & Aca (2020), Sitanggang et al. (2020), Nwoye et al. (2021), and Ismael & Kamen (2021). However, the results of this study do not support previous research conducted by Zgarni et al. (2016), Erawati & Lestari (2019), and Kurniawati & Panggabean (2020), which stated that audit quality does not affect earnings management.

The results of this test support the agency theory, as said by Jensen & Meckling (1976). External auditors assess the reliability of financial statements that are free from material misstatements that might occur and prevent managers from preventing managers from carrying out earnings management. The quality of an auditor directly influences the quality of audited financial statements to know the misstatements and reduced information. The possibility of earnings management practices is even greater if the auditor has a non-independent attitude even though the auditor is from the big four Public Accounting Firms. It can also be seen from the relationship between audit quality and earnings management that caused the auditors from the big four Public Accounting firms to have higher competence, integrity, and professional attitude. The auditors from the big four Public Accounting Firms have more knowledge about detecting and preventing the earnings management actions in the company's financial statements. Therefore, the auditor's part is expected to deliver dependable evaluated financial statements. The company's financial statements that qualified auditors evaluate will create more excellent quality data contrasted with data completed from unqualified auditors. The higher the nature of the auditor, the earnings management actions taken by the company's management are not expected to happen.

### **The Effect of Managerial Ownership on Earnings Management**

The third hypothesis in this study is that managerial ownership negatively influences earnings management. Based on the test results, the regression coefficient value for managerial ownership is negative at -0.043 with sig. 0.433, which is greater than the p-value of 0.05 ( $0.433 > 0.05$ ). Thus,  $H_03$  is accepted, and  $H_a3$  is rejected. It means that managerial ownership has no significant effect on earnings management. The results of this study are in line with research conducted by Santana & Wirakusuma (2016), Putra & Kusumaningtias (2018), Achyani & Lestari (2019), Panjaitan & Muslih (2019), Wahyudi et al. (2020), and Sitanggang et al.

(2020), which stated that managerial ownership does not influence earnings management. However, the results of this study do not support previous research conducted by Alzoubi (2016), Aryanti (2017), Aorora (2018), Piosik & Genge (2020), Evodila et al. (2020), and Suartama & Sukartha (2020), which stated that managerial ownership influences earnings management.

The size of the shares owned by management cannot limit earnings management practices. It is because management performs earnings management to show good performance to shareholders. That way, the management will get bonuses or rewards. In addition, the shares owned by management tend not to be large compared to the shares owned by the company. It means that shares owned by management will not be able to influence decision-making. The existence of managerial ownership also does not guarantee increased company supervision and can reduce company risks. It also does not ensure the resolution of conflicts of interest in it. The management who also acts as an agent and principal is also considered unable to harmonize the company's interests. Management as shareholders will continue to maximize profits for themselves, just like the board of directors and commissioners who do not have share ownership rights (Panjaitan & Muslih, 2019).

### **CONCLUSIONS**

Tax planning is the desire of the company owner who wants a minimum tax payment and is not the desire of the management who wants bonuses or rewards if the performance results are promising. As the test results show that audit quality can affect earnings management, it can be concluded that the audit quality of the big four or high-quality Public Accounting Firms' services guarantees the reduction in earnings management practices by the company's management. The ability and knowledge of a high-quality auditor can also affect earnings management actions because a high-quality auditor knows how to detect and manipulate financial statements. Managerial ownership does not affect earnings management, so it can be concluded that the level of share ownership owned by the company's management cannot influence the management in carrying out earnings management practices.

Some research results can be given to be used by different parties specifically as follows. For companies, this research can be a source of information for business people to increase the audit committee's existence to pay more attention to financial reporting information, especially related to earnings in financial statements, to reduce the practice of earnings management. For investors, this research is expected so that investors as users of financial statements can highlight various earnings management practices in each company, which is found through an audit committee to consider better in making stock investment decisions. For further research, it is relied upon to build the perception time of over four years period, with the goal that it better reflects the mirror the state of the organization in the long haul. Further researchers are also expected to develop in manufacturing



companies in other sectors. In this way, the research is expected to reflect better all sectors of manufacturing companies listed on the Indonesia Stock Exchange. In addition, further researchers are expected to add other independent variables such as institutional ownership, audit committee, company size, number of independent commissioners, and so on to represent more factors that can affect earnings management.

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