International Journal of Applied Business & International Management (IJABIM)
Vol. 9 No. 3, pp.381-397, December, 2024
E-ISSN: 2621-2862 P-ISSN: 2614-7432
https://www.ejournal.aibpmjournals.com/index.php/IJABIM

The Analysis of Financial Ratios, Good Corporate Governance, Reward, and Asymmetric Information in Earnings Management of Manufacturing Companies in Indonesia

Sagung Oka Pradnyawati[1*], Ni Kadek Ayu Yuliantari[2], Ni Made Erna Wedayanti[3], Ni Luh Putu Yunita[4]
University of Mahasaraswati Denpasar[1,2,3,4]
Jl. Kamboja No. 11A, Denpasar Bali, 80233, Indonesia
Corresponding Author: sagungoka@unmas.ac.id[1]
ORCID ID: https://orcid.org/0000-0002-4800-0814[1]

ARTICLE INFORMATION

Publication information

Research article

HOW TO CITE
Pradnyawati, S. O., Yuliantari, N. K. A., Wedayanti, N. M. E., & Yunita, N. L. P. (2024). The analysis of financial ratios, good corporate governance, reward, and asymmetric information in earnings management of manufacturing companies in Indonesia. *International Journal of Applied Business and International Management*, *9*(3), 381-397.

DOI:
https://doi.org/10.32535/ijabim.v9i3.3466

Received: 18 October 2024
Accepted: 19 November 2024
Published: 20 December 2024

ABSTRACT

Earnings management is possibly incorrect when it has a negative impact on the corporation's financial health. Several large companies were affected by earnings management cases. This study analyzes the direct impact of various factors such as financial ratios, good corporate governance (GCG), reward, and asymmetric information on earnings management practices, especially in manufacturing companies in Indonesia. Data was obtained from the financial reports of 65 manufacturing companies published on the Indonesian capital market, processed, and tested using regression analysis. The study shows that there is a positive impact of profitability on earnings management, but leverage and the board of directors have a negative impact on earnings management, while institutional ownership, independent commissioners, reward, and asymmetric information do not show any relationship with earnings management. These findings add empirical evidence regarding factors that directly impact earnings management practices and can serve as a reference for investment analysis by investors. Further research is recommended using different factors such as corporate value or factors that may influence the occurrence of earnings management practices, such as financial distress.

Keywords: Asymmetric Information; Earnings Management; Good Corporate Governance; Profitability; Reward

International Journal of Applied Business & International Management (IJABIM)
Vol. 9 No. 3, pp. 381-397, December, 2024
E-ISSN: 2621-2862 P-ISSN: 2614-7432
https://www.ejournal.aibpmjournals.com/index.php/IJABIM

INTRODUCTION

The development of the business world cannot be separated from the role of various sectors. Each type of corporation plays an important role in economic progress and the availability of various human needs in the form of products and services. One industrial sector that plays a significant role in providing the primary and secondary needs of society is manufacturing companies. The manufacturing industry comprises corporations that are active in designing, making, and producing various types of products to meet market demands, starting from raw materials to ready-to-use products. Based on data from the Ministry of Communication and Digital of Indonesia (2023), manufacturing companies in Indonesia succeeded in entering the top 10 at the international level and became one of the largest manufacturing industry bases in ASEAN, contributing 20.27 percent to the national economy. Realizing the critical role of manufacturing companies, corporate management continues to strive to maintain performance to remain competitive amidst many similar industries. One indicator that serves as a vital source of information in assessing corporate performance is the financial report.

According to Hidayat (2018), financial reports are the final output of a series of accounting activities, providing financial data that can be used by various parties for diverse purposes. Users of financial information require accuracy and reliability in the information presented in financial reports. Unreliable information can harm users, while reliable information ensures that the report contains no material misstatements, is understandable and not misleading, and is presented honestly and fairly (Sulistiono, 2018). An assessment indicator often used by users of financial information is profit. Profit or loss figures are frequently the main focus for determining whether a corporation is in a healthy condition. This focus can trigger activities aimed at presenting profits that do not align with their true value. The act of altering the presentation of corporate profits in accounting is known as earnings management. Such actions are opportunistic, as they can mislead users of financial information (Wardani & Juliani, 2018).

Fischer and Rosenzweig (1995) explain that earnings management activities can include increasing or decreasing the presentation of profits based on management's responsibility and authority. In Indonesia, the practice of earnings management is relatively common, not only in medium-sized companies but also in large ones. This can be attributed to the still relatively low level of investor protection. Agency conflict has always been the theoretical foundation for earnings management practices, as differences in interests or perspectives between managers and owners result in asymmetry in the information held by both parties (Jensen & Meckling, 2019).

One notable case involving a large corporation related to earnings management practices occurred with PT Tiga Pilar Sejahtera Food Tbk, a manufacturing corporation in the consumer industry. It was found to have engaged in financial misconduct, as an audit conducted by KAP Ernst and Young revealed fictitious income recognized by the corporation without appropriate economic substance. The overstatement involved a substantial figure of IDR4 trillion across all entities and included inflated sales accounts, with fund flows inadequately disclosed (Wulandari, 2022). Such misinformation can harm various stakeholders, as scandals like this reduce investor confidence in the capital market and even lead to suspicion of every financial report produced by the corporation.

The legality of earnings management activities is a question for the general public and external and internal parties of the corporation itself such as employees. In accounting, earnings management practices can be implemented within legal limits in accordance with accounting standards but can be illegal if they lead to manipulation and are detrimental to the recipient of the information. For this reason, research related to earnings management has become a research topic that never stops being updated in order to obtain the relevance of accounting conditions with earnings management practices themselves. Various research results related to earnings management can help update theories and become considerations for various parties related to the rules regarding earnings management practices in the business world.

The practice of earnings management has motivated various studies aiming to examine factors influencing its occurrence. For instance, Dhani and Utama (2017), in their research, utilized financial ratio analysis such as profitability. Profitability ratios are used to analyze corporate profits by comparing components in financial statements with the profits in the income statement. Similar to profit, an increase in profitability over the analyzed period indicates good corporate performance, while low and declining profitability suggests that the corporation's ability to earn profits is less than optimal (Masyita & Harahap, 2018). The second financial ratio, besides profitability, is leverage. Fahmi (2015) wrote that using leverage information allows users to determine the amount or percentage of debt used by the corporation in its operational activities. Leverage, as a measurement tool, is calculated by dividing the corporation's debt by its total recorded assets. High leverage figures also imply a high risk of default, which clearly impacts profitability (Sutama & Lisa, 2018).

Switching from the use of financial ratios, Putri (2021) uses good corporate governance (GCG) as one of the factors that has been empirically tested to influence earnings management practices. GCG itself is a governance, system, and structure that is dominant in stakeholder value where the corporation’s interests are also allocated to various stakeholders in the corporation, including government, suppliers, labor unions, the community, and others. GCG is also a principle that adheres to regulations so that the running of a business cannot be separated from business ethics. GCG provides direction for an entity to be able to understand each business target and the appropriate work monitoring techniques for the entity.

GCG can be proxied into three aspects, namely in terms of institutional ownership, independent commissioners, and board of directors. Ownership of corporate shares by an institution or what is known as institutional ownership, the existence of an institution as the owner of a business entity indirectly provides an intervention that can make the corporation careful in decision-making, including in earnings management practices. The second GCG is measured using the presence of independent commissioners in the corporation. The existence of independent commissioners in a system can ensure that the corporation has governance that complies with regulations. The independence of independent commissioners in a business is necessary so that earnings management actions in the corporation can be minimized.

GCG measurement also uses the presence of a board of directors. The existence of a board of directors is closely related to earnings management. In theory, the board of directors has rights and obligations that strive to prioritize the welfare of the corporation. The board of directors has the right to use the best strategy for the corporation and make decisions that can influence shareholders well. Every policy decided by the board of directors will have a big impact on the corporation in the long and short term. If viewed from a resource-dependent perspective, the existence of a board of directors is very beneficial for the corporation, but too many board members in an organization can also cause differences of opinion and trigger agency conflicts (Rosalinda et al., 2022). A large number of boards of directors with poor communication and coordination can actually trigger earnings management.

One of the main motives for management engaging in earnings management activities is to achieve corporate targets, which in turn impacts the reward value that management will receive (Sulistyanto, 2014). Motivation for rewards can lead management to choose various accounting methods available to alter the profit figures presented. According to Hasibuan (2017), reward compensation can take various forms, such as money, allowances, promotions, goods, or facilities, as recognition for management's achievements during a given period. This can provoke opportunistic actions by management to demonstrate the expected profit achievement. Differences in rights, obligations, and positions between management and shareholders can trigger conflicts that negatively affect the corporation's operations. Generally, discrepancies in the information held by each party can lead to differences in understanding, often referred to as asymmetric information (Brigham & Houston, 2001). Management is perceived to have more information about the corporation's prospects or potential, which enables it to prioritize its welfare over that of other stakeholders. Asymmetric information allows management the freedom to engage in actions such as earnings management.

This study investigates the direct impact of financial ratios, GCG, reward, and asymmetric information on earnings management practices, with a specific focus on manufacturing companies in Indonesia. By examining these factors, the research aims to provide a deeper understanding of the determinants of earnings management within the context of Indonesia's manufacturing sector, where corporate governance practices and financial conditions may differ from those in other regions. The study's significance lies in its ability to uncover how these variables individually and collectively influence managerial behavior in financial reporting, offering valuable insights for regulators, investors, and corporate stakeholders. The novelty of this research stems from its integration of diverse factors, such as reward and asymmetric information, which are often overlooked in similar studies, alongside a focus on a specific industry in a developing economy. This study contributes to the literature by extending the understanding of earnings management dynamics in Indonesia, providing empirical evidence that informs policy-making and corporate governance reforms aimed at enhancing financial transparency and accountability.

LITERATURE REVIEW

Agency Theory

According to Santoso (2015), the contract between the perpetrator and the owner of a business entity is referred to as agents and principals. The contractual function between these two roles is to align each party's goals and interests to minimize conflicts. Principals have limitations in corporate activities, leading them to grant authority and rights to agents to run and manage the corporation effectively, ensuring that corporate goals are achieved. When the agent and principal share the same goals, vision, and mission, conflicts are less likely to arise, and the agent will execute and support every task and direction provided by the principal. However, conflict can arise when management holds more information about the corporation's prospects than the principal, a situation known as asymmetric information, which includes the elements of adverse selection and moral hazard.

Conflicts of interest may also occur when agents and principals develop opposing desires. Investors, as principals, typically seek quick and profitable returns on their investments, while management may prioritize securing compensation and incentives for their performance within the corporation. These differing assumptions can motivate agents to engage in earnings management practices.

Positive Accounting Theory

Earnings management practices can also be explained through positive accounting theory. This theory was introduced by Watts and Zimmerman (1990), who explained in their book that various accounting policies are available, and management tends to decide which policies to adopt in specific future situations. The policies and practices chosen significantly influence the preparation and content of the corporation's financial reports, making the determination of accounting methods closely tied to those authorized to prepare the financial reports. This theory enables an understanding of whether the accounting policies adopted are objective or serve the interests of certain stakeholders.

Policies that benefit specific parties can lead to opportunistic activities such as earnings management. Profits that deviate from their true values can mislead information users. However, earnings management may benefit management, as their performance is often evaluated based on the corporation's ability to generate profits. This theory has given rise to several bases for earnings management practices, such as the reward plan hypothesis, debt covenant hypothesis, and political cost hypothesis.

Financial Ratios

Capital market investment carries a significant amount of risk. Similar to other investment instruments, capital market activities are exposed to risks such as liquidity issues, inflation, bankruptcy, and even risks stemming from a country's political conditions. These numerous potential risks necessitate thorough analysis to maximize future profits and minimize the likelihood of losses. Accounting provides various alternative tools to aid investors in analyzing a corporate entity using information from financial reports, particularly through financial ratio analysis.

One of the most critical pieces of information in a financial report is the profit figure. Whether or not the corporation generates a profit reflects its ability to earn revenue and indicates management's performance, which heavily depends on this profit condition (Christiana et al., 2020). Interestingly, the profit figure serves as a key parameter in investment decision-making. Profitability ratios, in particular, are often employed to evaluate a corporation's capacity to generate profit relative to equity (return on equity), assets (return on assets), sales (net profit margin), and investment (return on investment). A high profitability percentage demonstrates a corporation's strong ability to generate profits (Kepramareni et al., 2022). The practice of earnings management is theoretically linked to the profit conditions of the corporation, where higher or lower profits can prompt corporate activities to present profits aligned with management's expectations. Meilani and Widyastuti (2022) found a positive relationship between profitability and earnings management. However, Asri and Fauziati (2022) argued that there is no significant relationship between corporate profitability and earnings management practices.

H1: Profitability has a positive effect on earnings management practices.

Investment analysis extends beyond profit and loss figures to include an evaluation of a corporation's debt levels. Every corporate entity has financial obligations, both long-term and short-term, that must be fulfilled. A corporation may appear profitable, but if it cannot meet its debt obligations, this becomes a red flag for investors. The leverage ratio offers a formula that investors can use to analyze and determine how much of an entity's operations are financed through debt. While many investors prefer to avoid corporations with high debt levels, some may overlook this factor if the corporation demonstrates strong liquidity. Leverage ratios can be calculated using metrics such as the debt-to-equity ratio, EBITDA, debt-to-capital ratio, or debt-to-asset ratio. In theory, a corporation's substantial responsibility to meet debt obligations will affect the presentation of earnings and is linked to earnings management practices. This is supported by Anggreini et al. (2022) who found a positive influence of high leverage on earnings management activities. Contrarily, Adyastuti and Khafid (2022) stated that leverage negatively impacts earnings management practices.

H2: Leverage has a positive effect on earnings management practices.

Good Corporate Governance (GCG)

A sequence of principles implemented by a corporation to help the corporation achieve targeted performance, create value, and ensure sustainability can be referred to as GCG. GCG supports corporations in conducting ethical business practices and fostering strong relationships with various stakeholders, including both stakeholders and shareholders (Putra et al., 2020). The implementation of GCG in a business can be assessed using several indicators, such as the presence of an institution as the owner of the corporation, independent commissioners, and a board of directors.

Institutional ownership positively influences both the internal management and external perception of the corporation. Internally, institutions contribute by supervising corporate operations to ensure adherence to applicable regulations. Externally, particularly for investors, high institutional ownership signals a positive attribute, as institutions as owners enhance oversight of the corporation's management activities. Institutional shareholders have the authority to monitor the corporation’s financial reporting activities so that this can reduce management's motivation to take opportunistic actions. In theory, this is in line with the results of Masruri et al. (2023) research which conveys test results that institutional ownership has a negative effect on earnings management.

H3: Institutional share ownership has a negative effect on earnings management practices.

In addition to institutional ownership, GCG is also measured by the presence of independent commissioners in the corporation. Independent commissioners are members of the board of commissioners with the same authority and responsibilities as other commissioners. However, their distinguishing feature lies in their independence, as they have no affiliation or ties with the main shareholders or directors of the corporation. This independence enables them to foster a fair and objective corporate environment. Furthermore, independent commissioners play a crucial role in supervising internal audit activities, promoting accountability and transparency in the corporation's financial reporting, offering advice and input to the corporation's directors, and supporting the implementation of GCG functions. Fauziah et al. (2022) state that the existence of independent commissioners has a negative influence on earnings management practices and this is different from Lubis (2020) who in her research show that there is no influence between the existence of independent commissioners and earnings management activities. This can happen if the independent commissioner has very little authority over the corporation.

H4: Independent commissioners have a negative effect on earnings management practices.

The implementation of GCG is also closely tied to the existence of the corporation's board of directors. A corporation with a board of directors comprising more than one person aims to optimize its performance by leveraging the specific functions of each director. The primary role of the board of directors differs from that of commissioners, as directors have the authority to make decisions regarding the corporation's operational activities. Business management by the board of directors prioritizes business continuity and good governance, ensuring the corporation not only achieves profitability but also fulfills its social responsibilities, thereby reinforcing the principles of GCG. Lubis (2020) research found that there was no link between the existence of a board of directors and the occurrence of earnings management in the companies tested, however, Wulandari (2022) found that a good board of directors would suppress earnings management practices so that the research results showed a negative influence.

H5: The board of directors has a negative effect on earnings management practices.

Reward
As a reward for the performance that has been achieved by management, it is not uncommon for companies to provide financial compensation. The provision of this reward compensation has various effects, one of which is motivating management to be able to achieve the targets set by the corporation. Another impact is that rewards can stimulate opportunistic management activities such as earnings management. Lestiani and Widarjo (2021) stated in the research that has been conducted, that reward compensation has been proven to be one of the motivations for management in carrying out earnings management activities, especially those involving the corporation's real activities. Based on Panjaitan and Muslih (2019), it is said that reward influences the occurrence of earnings management practices in the sample tested. On the other hand, Feronika et al. (2021) state that the size of the reward that will be received does not influence the existence of earnings management actions.

H6: Reward has a positive effect on earnings management practices.

Information Asymmetry
A condition where there is an imbalance of information held by two or more parties where one party has more information than the other party is called information asymmetry. In a corporation, information asymmetry can occur involving the corporation's management and shareholders as owners who are not directly involved in the corporation's real operations. Management as tactical decision makers and directly involved in every real activity of the corporation in general will know the corporation's condition directly more than shareholders who obtain information indirectly. In this business activity, it can trigger two problems, namely moral hazard where the risk in making business decisions is not fully known by parties who do not have full information. The second is adverse selection which is related to how parties who have more information can make more accurate business predictions compared to parties who do not have information. In earnings management activities, this imbalance can be one of the triggers for earnings management because not all parties have the same information. This is supported by the research findings of Devanka et al. (2022), which indicate that asymmetric information can create opportunities for earnings management practices. However, Maryani (2020) found that asymmetric information does not influence earnings management actions in the companies tested.

H7: Asymmetric information has a positive effect on earnings management practices.

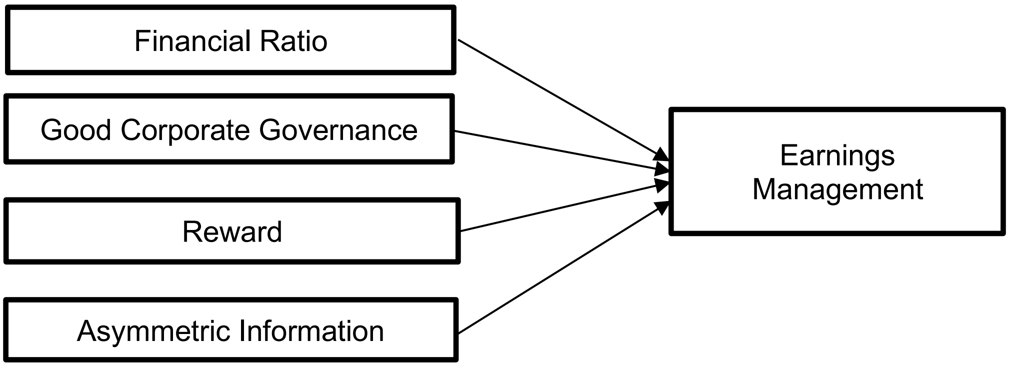
Earnings Management
Earnings management is defined as an activity or deliberate action taken but still within the norms of generally accepted accounting principles. Actions or change activities carried out can increase profits, reduce profits, or even out profit figures. Sulistyanto (2014) states that earnings management can be said to be a practice of manipulating accounting data in the earnings section either due to material misstatement, negligence, or deliberate action that can affect other information users. Earnings management itself can be done with various names such as "taking a bath", namely reducing the profits

International Journal of Applied Business & International Management (IJABIM)
Vol. 9 No. 3, pp. 381-397, December, 2024
E-ISSN: 2621-2862 P-ISSN: 2614-7432
https://www.ejournal.aibpmjournals.com/index.php/IJABIM

obtained by the corporate very drastically in the financial statements. Apart from that, there is "income minimization" where the profit presentation is reduced slightly from the actual value, there is also "income maximization" where the practice of earnings management in this term means increasing the profit figure from what actually occurs. Lastly, earnings management practices can take the form of "income smoothing". This practice can make profits look consistent and not fluctuate even though in reality they do not match what is shown in the financial statements.

The study framework model is depicted in Figure 1.

Figure 1. Research Framework



RESEARCH METHOD

The author applies a quantitative research approach to test the influence of six independent variables (profitability, leverage, institutional share ownership, independent commissioners, board of directors, reward, and asymmetric information) on the earnings management practices of manufacturing companies in Indonesia. The manufacturing companies tested are those registered on the capital market, with a total of 210 companies in 2023. However, only those that meet the research requirements—having complete financial reports that are accessible, having institutional shareholders, independent commissioners, a board of directors, and being in good profit condition—are included. This resulted in 65 companies with a total of 3 years of observations (2020–2022), yielding a total of 195 observations (n). Data was collected and tested based on published and audited financial reports for each company used as a sample. The research is causal in nature, so the test tool used is multiple linear regression analysis.

RESULTS

Initial testing includes descriptive statistical analysis to get a picture of the data processed in the research.

Descriptive Statistics

Table 1. Descriptive Statistics (N =195)

Construct	Min.	Max.	M	SD
Profitability	0.0001	0.4930	0.082426	0.07556
Leverage	0.0004	0.8882	0.406580	0.01922
Institutional Ownership	0.070	0.979	0.69835	0.1893

Independent Commissioner	0.167	0.800	0.40547	0.0972
Board of Directors	2.0	12	4,990	2,083
Reward	0.0	1.0	0.431	0.496
Asymmetric information	0.00000	0.220979	0.03328734	0.0302
Earnings Management	-0.406	0.872	0.03267	0.123

Note: M = Mean, SD = Standard Deviation

Table 1 presents the descriptive statistics for the study variables based on 195 valid data points (N = 195). For the Profitability (X1) variable, the minimum value is 0.0001, the maximum is 0.4930, the mean is 0.0824, and the standard deviation is 0.0756. The Leverage (X2) variable shows a minimum value of 0.0004, a maximum of 0.8882, a mean of 0.4066, and a standard deviation of 0.0192. Institutional Ownership (X3) ranges from 0.070 to 0.979, with a mean of 0.6984 and a standard deviation of 0.1893. Independent Commissioner (X4) has a minimum value of 0.167, a maximum of 0.800, a mean of 0.4055, and a standard deviation of 0.0972. The Board of Directors (X5) variable ranges from 2 to 12, with a mean of 4.99 and a standard deviation of 2.083. For the Reward (X6) variable, the minimum value is 0.0, the maximum is 1.0, the mean is 0.431, and the standard deviation is 0.496. Asymmetric Information (X7) has a minimum value of 0.0000, a maximum of 0.2210, a mean of 0.0333, and a standard deviation of 0.0302. Finally, the Earnings Management (Y) variable ranges from -0.406 to 0.872, with a mean of 0.0327 and a standard deviation of 0.123. These results provide a comprehensive overview of the data distribution for each variable in the study.

Classic Assumption Test

The test findings for the classical assumption test including normality, autocorrelation, multicollinearity, and heteroscedasticity are shown in Table 2.

Table 2. Classical Assumptions

Normality	Asymp Sig. (2-Tailed)	0.088	Normal
Multicollinearity	Tolerance		Multicollinearity Free
	Profitability	0.848	
	Leverage	0.868	
	Institutional Ownership	0.868	
	Independent Commissioner	0.921	
	Board of Directors	0.935	
	Reward	0.902	
	Asymmetric Information	0.961	
	VIF		Multicollinearity Free
	Profitability	1.179	
	Leverage	1.152	
	Institutional Ownership	1.153	
	Independent Commissioner	1.085	
	Board of Directors	1.070	
	Reward	1.108	
	Asymmetric Information	1.040	
Autocorrelation	DW	1.871	No Autocorrelation
Heteroscedasticity	Significance		Free of Heteroscedasticity

	Profitability	0.839	
	Leverage	0.957	
	Institutional Ownership	0.411	
	Independent Commissioner	0.963	
	Board of Directors	0.074	
	Reward	0.944	
	Asymmetric Information	0.535	

The first classical assumption test is the normality test, where the score obtained for Asymp. Sig (2-tailed) is 0.088, which exceeds 0.05. Therefore, it can be concluded that the research data tested is normally distributed.

The second test is the multicollinearity test, where the tolerance value for each variable is greater than 0.10. Profitability, leverage, and institutional share ownership each have a tolerance value of 0.8, while independent commissioners, board of directors, reward, and asymmetric information each have a tolerance value of 0.9. The VIF value meets the standard, as all the variable scores tested are less than 10. For the variables profitability, leverage, institutional ownership, and reward, the VIF value is 1.1, while independent commissioners, board of directors, and asymmetric information each have a VIF value of 1.0. Therefore, no variable shows symptoms of multicollinearity.

Autocorrelation testing is needed in research that uses a time span. The test results show that the condition dU < DW < 4 – dU in this study is fulfilled. The test shows a dL value of 1.6918 and dU of 1.8404. The DW value of 1.871 is greater than dU (1.8404) and less than 4 - dU (4 - 1.8404 = 2.1596). Therefore, dU < DW < 4 – dU (1.8404 < 1.871 < 2.1596), so the autocorrelation test is passed.

Testing for heteroscedasticity in this study uses the Glejser model (Ghozali & Chariri, 2016), where the significance value produced for the variable being tested must be greater than 0.05. The profitability financial ratio variable has a significance of 0.8; leverage, 0.9; institutional ownership, 0.4; independent commissioner, 0.9; board of directors, 0.07; reward, 0.9; and asymmetric information, 0.5. Therefore, the model does not have symptoms of heteroscedasticity.

Multiple Linear Regression Test

Table 3. Multiple Linear Regression Test Results

Variables	Coefficient	t-statistics	Significance	Conclusion
Constant	0.155	2.460	0.015	
Profitability	0.369	3.065	0.002	H1 is accepted
Leverage	-0.093	-1,980	0.049	H2 is rejected
Institutional Ownership	-0.041	-0.861	0.390	H3 is rejected
Independent Commissioner	-0.109	-1.218	0.225	H4 is rejected
Board of Directors	-0.009	-2.081	0.039	H5 is accepted
Reward	-0.004	-0.230	0.819	H6 is rejected
Asymmetric information	-0.044	-0.157	0.876	H7 is rejected

The hypothesis tests presented in Table 3 reveal mixed results regarding the relationships between the independent variables and earnings management. The first hypothesis test shows that the calculated t-value (0.369) exceeds the critical value of the t-table (3.065), and the significance value (0.002) is less than 0.05, leading to the acceptance of H1 and indicating a positive and significant relationship between profitability and earnings management. For the second hypothesis, the calculated t-value (-0.093) surpasses the critical value of the t-table (-1.980), and the significance value (0.049) is below 0.05, resulting in the rejection of H2 and suggesting a negative and significant relationship between leverage and earnings management. The third hypothesis test reveals a calculated t-value (-0.041) exceeding the critical value of the t-table (-0.861), with a significance value of 0.390, which is greater than 0.05; thus, H3 is rejected, indicating no significant relationship between institutional ownership and earnings management. Similarly, the fourth hypothesis test shows that the calculated t-value (-0.109) exceeds the critical value of the t-table (-1.218), with a significance value of 0.225, leading to the rejection of H4 and indicating no significant relationship between independent commissioners and earnings management.

In contrast, the fifth hypothesis test demonstrates a calculated t-value (-0.009) exceeding the critical value of the t-table (-2.081), with a significance value of 0.039, supporting the acceptance of H5 and indicating a positive and significant relationship between the board of directors and earnings management. The sixth hypothesis test finds that the calculated t-value (-0.004) exceeds the critical value of the t-table (-0.230), and the significance value of 0.819 is greater than 0.05, resulting in the rejection of H6 and indicating no significant relationship between reward and earnings management. Lastly, the seventh hypothesis test shows that the calculated t-value (-0.044) exceeds the critical value of the t-table (-0.157), with a significance value of 0.876, which is less than 0.05, leading to the rejection of H7 and suggesting no significant relationship between asymmetric information and earnings management. These findings highlight that while profitability and the board of directors exhibit positive and significant relationships with earnings management, other variables such as leverage, institutional ownership, independent commissioners, reward, and asymmetric information show no significant effects.

DISCUSSION

The Influence Between Financial Ratios and Earnings Management Practices

The first hypothesis test indicates that profitability, as one of the financial ratios studied, influences earnings management practices. Financial ratios serve to measure various aspects of accounting reports. Profitability ratios not only assess a corporation's capacity to generate profits but also act as factors influencing specific practices. In the context of earnings management, profits are a primary focus, making the profitability of a corporation a significant motivator for such practices. Testing in this study revealed that profitability positively affects earnings management practices in the sample manufacturing companies. This implies that higher profitability in the corporations studied can increase management's motivation to engage in earnings management, whether by enhancing reported profits, reducing them, or smoothing profit presentations in financial data to build investor trust and meet stakeholder expectations. Such actions can also impact the reward received for management performance. These findings align with the research by Meilani and Widyastuti (2022), which identified a positive relationship between profitability and earnings management. However, they contradict the findings of Asri and Fauziati (2022), who reported no significant relationship between profitability and earnings management.

The outcomes of the H2 test differ from the hypothesis design, as the test reveals a negative influence between leverage and earnings management. The second financial ratio tested is leverage, also known as the debt ratio, due to its ability to illustrate how much debt a corporation uses in its operations. In theory, leverage is expected to trigger earnings management activities because high leverage could prompt management to present favorable profits to minimize the risk of default for information users. However, the test results indicate that leverage negatively affects earnings management practices in the sample companies. This negative influence suggests that high leverage, or debt used to fund corporate operations, actually reduces management's interest in engaging in earnings management. This may occur because high debt levels draw greater scrutiny from creditors and investors, limiting management's ability to manipulate earnings. These findings support previous research by Adyastuti and Khafid (2022), which found a negative impact of leverage on earnings management. However, they differ from the findings of Anggreini et al. (2022), who reported a positive relationship between leverage and earnings management.

The Influence Between GCG and Earnings Management Practices
The H3 test uses the first indicator, institutional ownership, and the results show no significant relationship between shares owned by institutions and the occurrence of earnings management. GCG in this study was measured using three variables: institutional share ownership, independent commissioners, and the board of directors. Tests on the institutional ownership variable indicate no significant effect of institutional share ownership in the manufacturing companies tested during 2020–2022. In theory, institutions as shareholders can intervene by monitoring corporate activities. However, the lack of influence from institutional share ownership in the sample may be attributed to the low percentage of institutional shareholders. The small institutional share ownership in the manufacturing companies studied suggests that their role is limited to that of transient investors rather than sophisticated investors, who typically have greater capacity to monitor management activities. The results of the H3 test contrast with the findings of Masruri et al. (2023), who reported a negative influence of institutional share ownership on earnings management practices.

The findings in the fourth hypothesis test indicate that independent commissioners in the companies tested are unable to influence the occurrence of earnings management. This can be attributed to the role of independent commissioners, whose passive behavior and lack of demonstrated authority and independence within the corporation render them ineffective in suppressing earnings management practices. This result aligns with Lubis (2020), who stated that the presence of independent commissioners does not affect earnings management activities, although it contrasts with the findings of Fauziah et al. (2022), which reported a negative influence between independent commissioners and earnings management practices.

GCG was also examined through the board of directors variable. The H5 test revealed that the board of directors has a negative influence on earnings management practices. This suggests that a higher number of directors encourages the board to prioritize the corporation’s health and mitigate risks, thereby discouraging earnings management practices. These findings support the research by Wulandari (2022) but differ from Lubis (2020), who found no significant relationship between the presence of a board of directors and earnings management activities.

The Influence of Reward on Earnings Management Practices
The influence test (H6) shows that reward has no effect on earnings management practices. The lack of influence indicates that the level of reward, whether high or low, does not lead management in the tested companies to use earnings management as a method to achieve this reward. The findings of this test align with the results of Feronika et al. (2021) but do not support the conclusions of Panjaitan and Muslih (2019), who stated that the existence of rewards motivates earnings management activities.

The Influence Between Asymmetric Information and Earnings Management Practices

The final finding (H7) of this research reveals that asymmetric information does not influence earnings management in companies. This outcome differs from the original hypothesis, which assumed that information asymmetry would affect earnings management practices. The ineffectiveness of asymmetric information as a variable may be due to the low levels of asymmetric information present in the manufacturing companies sampled, rendering it insufficient to impact earnings management activities. Overall, the results align with the findings of Maryani (2020), which indicate no relationship between information asymmetry and the occurrence or absence of earnings management in the sample tested. However, these findings contradict those of Devanka et al. (2022), who concluded that information asymmetry supports the occurrence of earnings management.

CONCLUSION

This research focuses on analysis using financial ratios (profitability and leverage), GCG (institutional ownership, independent commissioners, and board of directors), reward, and asymmetric information on their influence on earnings management practices tested in manufacturing companies in Indonesia. Based on the testing, it can be concluded that there are two hypotheses that are accepted, namely profitability has a positive effect on earnings management and the board of directors has been proven to have a negative effect on earnings management. Meanwhile, another result is that leverage actually has a negative effect on earnings management practices. The other four variables do not show a significant influence, such as institutional share ownership, independent commissioners, reward, and asymmetric information.

Research related to earnings management must continue to evolve, as updating results will advance knowledge and assist decision-makers or policymakers in improving practices to create a healthier business environment. The sustainability of this research can be further enhanced by incorporating factors that not only have a direct influence but can also mediate other factors, such as financial distress and corporate social responsibility. Profitability, which shows an influence on earnings management practices, should be a concern for management or company owners to ensure the legality of profit presentation and maintain performance in generating profits, thereby preventing earnings management practices that exceed the bounds of accounting standards. Leverage, which has a negative effect, means that the high amount of debt in the company under study actually minimizes earnings management practices. This is because the company focuses on fulfilling obligations and avoiding liquidity risks, allowing investors or potential investors not to perceive negative signals in companies with high leverage as long as the company's financial condition remains stable. The board of directors also shows a positive influence on earnings management practices, suggesting that company owners should consider increasing supervision through higher institutional ownership or the presence of independent commissioners, who in this study did not show an effect due to their relatively low percentage.

LIMITATION

This research was only conducted on the manufacturing sector in Indonesia, which was listed on the Indonesia Stock Exchange from 2020 to 2022, so any existing test results cannot be generalized to different sectors. Differences in research years can also provide different findings.

ACKNOWLEDGMENT

The author would like to thank Universitas Mahasaraswati Denpasar, especially the

Faculty of Economics and Business, AIBPM Publisher, and the Indonesia Stock Exchange for all their assistance in the publication of this article.

DECLARATION OF CONFLICTING INTERESTS

The authors declared no potential conflicts of interest.

REFERENCES

Adyastuti, N. A., & Khafid, M. (2022). Pengaruh ukuran perusahaan, leverage dan profitabilitas terhadap manajemen laba dengan kompensasi bonus sebagai variabel moderating [The effect of company size, leverage and profitability on earnings management with bonus compensation as a moderating variable]. *Owner: Riset dan Jurnal Akuntansi*, *6*(2), 2071-2084. https://doi.org/10.33395/owner.v6i2.830

Anggreini, M., Aldo, F., Rondonuwu, K. H. J., Auliani, V., & Meiden, C. (2022). Studi literature review pengaruh strategi diversifikasi terhadap kinerja perusahaan dan manajemen laba [Literature review study of the influence of diversification strategy on company performance and earnings management]. *Jurnal Ilmiah Raflesia Akuntansi*, *8*(1), 12-18. https://doi.org/10.53494/jira.v8i1.119

Asri, F., & Fauziati, P. (2022). Perataan laba: Ditinjau dari cash holding, profitabilitas dan ukuran perusahaan pada perusahaan manufaktur di Indonesia [Income smoothing: Review for cash holding, profitability and company size in manufacturing company in Indonesia]. *CURRENT: Jurnal Kajian Akuntansi Dan Bisnis Terkini*, *3*(1), 72-82.

Brigham, E. F., & Houston, J. F. (2001). *Manajemen Keuangan [Financial Management]* (8th ed.). Erlangga.

Christiana, I., Purnama, N. I., & Ardila, I. (2020). Financial ratio in the analysis of earnings management. *International Journal of Accounting & Finance in Asia Pasific, 3*(1), 8-17. http://doi.org/10.32535/ijafap.v3i1.714

Devanka, D., Endiana, I. D. M., & Kumalasari, P. D. (2022). Analisis faktor-faktor yang mempengaruhi manajemen laba pada perusahaan manufaktur yang terdaftar di Bursa Efek Indonesia periode 2018-2020 [Analysis of factors influencing earnings management in manufacturing companies listed on the Indonesia Stock Exchange for the 2018-2020 period]. *Kumpulan Hasil Riset Mahasiswa Akuntansi, 4*(1), 85-96.

Dhani, I. P., & Utama, A. G. S. (2017). Pengaruh pertumbuhan perusahaan, struktur modal, dan profitabilitas terhadap nilai perusahaan [The influence of company growth, capital structure, and profitability on company value]. *Jurnal Riset Akuntansi dan Bisnis Airlangga,* *2*(1), 135-148. http://doi.org/10.31093/jraba.v2i1.28

Fahmi, I. (2015). *Analisis Laporan Keuangan [Financial Statement Analysis]*. Alfabeta.

Fauziah, Y. D., Susilo, F., & Hermiyetti, H. (2022). Pengaruh dewan komisaris independen, komite audit, kompensasi bonus, dan financial distress terhadap manajemen laba [The influence of independent board of commissioners, audit committee, bonus compensation, and financial distress on earnings management]. *Media Riset Akuntansi, 11*(1), 65-92.

Feronika, D. A. C., Merawati, L. K., & Yuliastuti, I. A. N. (2021). Pengaruh asimetri informasi, corporate governance, Net Profit Margin (NPM), dan kompensasi bonus terhadap manajemen laba [The influence of information asymmetry, corporate governance, Net Profit Margin (NPM), and bonus compensation on earnings management]. *Kumpulan Hasil Riset Mahasiswa Akuntansi, 3*(1).

Fischer, M., & Rosenzweig, K. (1995). Attitudes of students and accounting practitioners concerning the ethical acceptability of earnings management. *Journal of Business Ethics, 14*, 433-444. https://doi.org/10.1007/BF00872085

Ghozali, I., & Chariri, A. (2016). *Teori Akuntansi Internasional Financial Reporting Systems (IFRS) [International Financial Reporting Systems (IFRS) Accounting Theory]*. Badan Penerbit Universitas Diponegoro.

Hasibuan, M. S. (2017). *Manajemen Sumber Daya Manusia [Human Resource Management]* (Rev. ed.). Bumi Aksara

Hidayat, W. W. (2018). *Dasar-Dasar Analisa Laporan Keuangan [Basics of Financial Statement Analysis]*. Uwais Inspirasi Indonesia.

Jensen, M. C., & Meckling, W. H. (2019). Theory of the firm: Managerial behavior, agency costs, and ownership structure. In *Corporate Governance* (pp. 77-132). Gower.

Kepramareni, P., Pradnyawati, S. O., & Mahendra, I. K. T. (2022). Analysis of factors affecting the profitability of village credit institutions in Banjarangkan Klungkung. *International Journal of Accounting & Finance in Asia Pasific*, *5*(2), 48-58. https://doi.org/10.32535/ijafap.v5i2.1593

Lestiani, G. D., & Widarjo, W. (2021). Kompensasi bonus dan manajemen laba riil: Peran moderasi komite audit [Bonus compensation and real earnings management: The moderating role of the audit committee]. *Jurnal Kajian Akuntansi*, *5*(2), 212-224. https://doi.org/10.33603/jka.v5i2.3978

Lubis, A. T. (2020). *Karakteristik Direksi, Keberadaan Dewan Komisaris Independen, dan Kecenderungan Untuk Melakukan Kecurangan Laporan Keuangan [Characteristics of Directors, Existence of Independent Board of Commissioners, and Tendency to Commit Financial Reporting Fraud]* [Undergraduate thesis, Sebelas Maret University]. UNS Institutional Repository. https://digilib.uns.ac.id/dokumen/detail/80878/

Maryani, N. K. (2020). Pengaruh profitabilitas, financial distress, leverage, dan asimetri informasi terhadap Manajemen Laba pada perusahaan LQ45 yang terdaftar di Bursa Efek Indonesia [Undergraduate thesis, University of Mahasaraswati Denpasar]. Repository Unmas. https://repository.unmas.ac.id/medias/JR.2500.FE-AK.pdf

Masruri, M. A., Irsyad, F. M., & Asvariwangi, V. (2023). The effect of institutional ownership, independent board of commissioners and audit committee good corporate governance on earnings management. *Manager, 6*(4), 67-77.

Masyita, E., & Harahap, K. K. S. (2018). Analisis kinerja keuangan menggunakan rasio likuiditas dan profitabilitas [Financial performance analysis using liquidity and profitability ratios]. *Jurnal Akuntansi dan Keuangan Kontemporer, 1*(1), 33-46. https://doi.org/10.30596/jakk.v1i1.3826

Meilani, P., & Widyastuti, I. (2022). Pengaruh profitabilitas, ukuran perusahaan, dan leverage terhadap manajemen laba (studi kasus pada perusahaan subfarmasi yang terdaftar di Bursa Efek Indonesia periode 2017-2020) [The effect of profitability, company size, and leverage on earnings management (case study on sub-pharmaceutical companies listed on the Indonesia Stock Exchange for the period 2017-2020)]. *AKTUAL, 7*(1), 16-29.

Ministry of Communication and Digital of Indonesia. (2023, December 22). *Indonesia Jadi Bagian 10 Besar Negara Manufaktur di Dunia. Kementerian Komunikasi dan Digital [Indonesia Becomes Part of the Top 10 Manufacturing Countries in the World].* Ministry of Communication and Digital. www.komdigi.go.id/berita/berita-pemerintahan/detail/indonesia-jadi-bagian-10-besar-negara-manufaktur-di-dunia

Panjaitan, D. K., & Muslih, M. (2019). Manajemen laba: Ukuran perusahaan, kepemilikan manajerial dan kompensasi bonus [Earnings management: Firm size, managerial ownership and bonus compensation]. *Jurnal ASET (Akuntansi Riset), 11*(1), 1-20. https://doi.org/10.17509/jaset.v11i1.15726

Putra, I. G. C., Wedasari, D., & Rahmasari, G. A. P. W. (2020). The effect of intellectual capital and corporate governance on the performance of village credit institutions. *International Journal of Applied Business and International Management*, *5*(3), 35-40. https://doi.org/10.32535/ijabim.v5i3.979

Putri, A. S. (2021). Pengaruh good corporate governance terhadap manajemen laba perusahaan [The influence of good corporate governance on corporate profit management]. *TECHNOBIZ: International Journal of Business, 4*(1), 15-20. https://doi.org/10.33365/tb.v4i1.1077

Rosalinda, U. U., Kuntadi, C., & Pramukty, R. (2022). Literature review pengaruh GCG, CSR dan ukuran perusahaan terhadap kinerja keuangan perusahaan [Literature review of the influence of GCG, CSR and company size on company financial performance]. *Jurnal Ekonomi Manajemen Sistem Informasi, 3*(6), 667-673. https://doi.org/10.31933/jemsi.v3i6.1108

Santoso, B. (2015). *Keagenan [Agency]*. Ghalia Indonesia

Sulistiono, A. E. (2018). *Pengaruh ukuran perusahaan, profitabilitas, dan leverage terhadap pengungkapan laporan keuangan pada perusahaan manufaktur yang terdaftar di BEI periode 2014-2016 [The influence of company size, profitability, and leverage on financial report disclosure in manufacturing companies listed on the IDX for the 2014-2016 period]* [Undergraduate thesis, Indonesian College of Economics Jakarta]. Repository STIE Indonesia Jakarta. http://repository.stei.ac.id/9108/

Sulistyanto, S. (2014). *Manajemen Laba (Teori & Model Empiris) [Earnings Management (Theory & Empirical Models)]*. Grasindo.

Sutama, D., & Lisa, E. (2018). Pengaruh leverage dan profitabilitas terhadap nilai perusahaan [The effect of leverage and profitability on company value]. *Jurnal Sains Manajemen dan Akuntansi, 10*(1), 21-39.

Wardani, D. K., & Juliani, J. (2018). Pengaruh tax avoidance terhadap nilai perusahaan dengan corporate governance sebagai variabel pemoderasi [The effect of tax avoidance on company value with corporate governance as a moderating variable]. *Nominal Barometer Riset Akuntansi dan Manajemen, 7*(2), 47-61. http://doi.org/10.21831/nominal.v7i2.21349

Watts, R. L., & Zimmerman, J. L. (1990). Positive accounting theory: A ten year perspective. *Accounting Review, 65*(1), 131-156.

Wulandari, D. E. (2022, July 14). *Kasus PT Tiga Pilar Sejahtera Food Tbk [The case of PT Tiga Pilar Sejahtera Food Tbk]*. Kompasiana. https://www.kompasiana.com/dewiekawulandari1436/62cfeca46fcfba0fdb41cb33/kasus-pt-tiga-pilar-sejahtera-food-tbk

ABOUT THE AUTHOR(S)

1st Author
Sagung Oka Pradnyawati is a permanent lecturer in Accounting at the Faculty of Economics and Business, Universitas Mahasaraswati Denpasar (UNMAS). She earned her bachelor's degree in Economics and Business from UNMAS and completed her Master’s degree at Udayana University in 2017. Prior to her academic career, she worked for 1.5 years in the internal control system division of a regional state-owned enterprise (BUMD) in Bali. Her ORCID ID is https://orcid.org/0000-0002-4800-0814, and she can be contacted via email at sagungoka@unmas.ac.id.

2nd Author
Ni Kadek Ayu Yuliantari is an alumna of the Faculty of Economics and Business, Universitas Mahasaraswati Denpasar (UNMAS), with a focus on [insert specific major, e.g., Accounting/Management]. During her studies, she actively participated in academic and extracurricular activities, including [insert relevant organizations or competitions]. After graduation, she pursued a career in the fields of economics and business, with particular interest in [insert areas of interest, e.g., financial management,

entrepreneurship, or marketing]. She is known for her strong work ethic, innovative mindset, and commitment to contributing to sustainable economic development.

3rd Author
Ni Made Erna Wedayanti is a faculty member at the Faculty of Economics and Business, Universitas Mahasaraswati Denpasar (UNMAS). Specializing in [insert field, e.g., accounting/management/economics], she is actively involved in research and teaching activities. Her work focuses on addressing key challenges in the Indonesian economic and business landscape. Through her academic role, she promotes critical thinking and practical knowledge among students. She is also engaged in community-based projects, supporting local economic empowerment and sustainable development initiatives in Bali.

4th Author
Ni Luh Putu Yunita is affiliated with the Faculty of Economics and Business, Universitas Mahasaraswati Denpasar (UNMAS). Recognized for her academic dedication and leadership qualities, she has made valuable contributions to both academic and extracurricular programs at FEB UNMAS. Her interests lie in [insert specific areas, e.g., sustainable business, accounting, entrepreneurship], and she is committed to fostering growth and innovation in the field of economics and business. With a passion for excellence, Yunita continues to inspire her peers and aims to contribute meaningfully to her academic and professional community.