EL MUHASABA: Jurnal Akuntansi (e-Journal)
Volume 16 , No. 1, Tahun 2025
P ISSN: 2086-1249 ; E ISSN: 2442-8922

Determinants of Earnings Management on the Energy Sector

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| *Submit 26 Desember 2024* | *Diterima 26 Januari 2025* | *Terbit 30 Januari 2025* |

Abstract

Purpose: *This study aims to examine the influence of company growth, profitability, and audit quality on earnings management, moderated by managerial ownership. The energy sector is chosen due to its strategic role in the economy and unique challenges, including high market volatility and significant capital requirements.*
Method: *This research employs a quantitative approach using secondary data obtained from annual reports of energy companies listed on the Indonesia Stock Exchange (IDX) during 2020–2023. A purposive sampling technique resulted in a sample of 45 companies, comprising 180 data observations. Data analysis was conducted using panel data regression.*
Results: *The findings reveal that company growth does not significantly influence earnings management. Profitability positively and significantly impacts earnings management, while audit quality has no significant effect. Furthermore, managerial ownership does not significantly moderate the relationships between company growth, profitability, and audit quality with earnings management.*
Implications: *These results highlight the need for policymakers and stakeholders in the energy sector to focus on enhancing transparency and financial reporting. The insights provide valuable references for investors and researchers aiming to understand earnings management practices in industries with high market dynamics.*
Novelty: *This study adds to the literature by incorporating managerial ownership as a moderating variable and focusing on the energy sector, which has been underexplored in previous research.*

Keywords*: company growth; profitability; audit quality; earnings management; managerial ownership; energy sector*

Abstrak

Tujuan: Penelitian ini bertujuan untuk menguji pengaruh pertumbuhan perusahaan, profitabilitas, dan kualitas audit terhadap manajemen laba, dengan kepemilikan manajerial sebagai variabel moderasi. Sektor energi dipilih karena perannya yang strategis dalam perekonomian serta tantangan unik seperti volatilitas pasar yang tinggi dan kebutuhan modal besar.
Metode: Penelitian ini menggunakan pendekatan kuantitatif dengan data sekunder yang diperoleh dari laporan tahunan perusahaan sektor energi yang terdaftar di Bursa Efek Indonesia (BEI) periode 2020–2023. Teknik purposive sampling menghasilkan sampel 45 perusahaan dengan total 180 data observasi. Analisis data dilakukan menggunakan regresi data panel.

Hasil: Hasil penelitian menunjukkan bahwa pertumbuhan perusahaan tidak berpengaruh signifikan terhadap manajemen laba. Profitabilitas berpengaruh positif dan signifikan terhadap manajemen laba, sementara kualitas audit tidak memiliki pengaruh signifikan. Selain itu, kepemilikan manajerial tidak memoderasi hubungan antara pertumbuhan perusahaan, profitabilitas, dan kualitas audit terhadap manajemen laba.
Implikasi: Hasil ini menyoroti perlunya peningkatan transparansi dan pelaporan keuangan di sektor energi. Temuan ini memberikan referensi berharga bagi investor dan peneliti untuk memahami praktik manajemen laba dalam industri dengan dinamika pasar yang tinggi.
Kebaruan: Penelitian ini menambahkan kontribusi dengan memasukkan kepemilikan manajerial sebagai variabel moderasi dan berfokus pada sektor energi, yang masih jarang diteliti dalam penelitian sebelumnya.

Kata kunci: pertumbuhan perusahaan; profitabilitas; kualitas audit; manajemen laba; kepemilikan manajerial; sektor energi

INTRODUCTION

Financial statements are one of the main tools for evaluating company performance, providing important information for investors, creditors, and other stakeholders. (Lestari & Wulandari, 2019). One of the financial statement components of primary interest is earnings, which are used to evaluate management performance, predict potential future profits, and support economic decision-making. (Lestari & Wulandari, 2019). However, earnings reports are also often the object of manipulation through earnings management practices, which are carried out by managers to achieve specific goals such as increasing share value or meeting market expectations. (Sulistyanto, S, 2008).

Agency theory explains that conflicts of interest between company owners (principals) and managers (agents) are often the main cause of earnings management practices. The difference in information between the two parties, known as information asymmetry, provides an opportunity for managers to manipulate financial information for personal gain. (Jensen, M. C., & Meckling, W. H, 1976) In this context, company growth, profitability, and audit quality are important variables that can affect the level of earnings management. (Indra Arifin Djashan & Resti Marliyana, 2021).

Company growth reflects the company's success in expanding its operational capacity. High growth is often a positive signal for investors, but it also creates pressure for managers to maintain the company's reputation by manipulating earnings. (Fathihani & Haris Nasution, 2021). Previous research shows mixed results, where some studies find a significant effect of company growth on earnings management, while others do not find this relationship. (Dwiarti & Hasibuan, 2019).

Profitability describes the company's ability to generate profits. Companies that have a high level of profitability are usually seen as more stable and trustworthy. (Herlin Tunjung, 2019). However, managers of companies with high

profitability may still engage in earnings management to reinforce stakeholders' positive perceptions of the company's performance. (Fathihani & Haris Nasution, 2021).

Audit quality is an important factor in improving the transparency and integrity of financial statements (Gunarto & Riswandari, 2019). A high-quality audit can help detect earnings management practices and ensure the reliability of financial statements. However, the effectiveness of audit quality in limiting earnings management practices is still debatable, as some studies find a significant effect, while others do not (Albert & Widyastuti, 2020).

As a moderating variable, managerial ownership is believed to influence the relationship between firm growth, profitability, audit quality, and earnings management (Christian & Addy Sumantri, 2022). Managers who own shares in the company tend to be more cautious in making decisions that affect financial performance, as they have an incentive to maintain the value of the company in the long run (Albert & Widyastuti, 2020).

This research draws on a combination of research from (Felicya & Sutrisno, 2020; Herlin Tunjung, 2019). This study has differences with these researchers. The first difference is that this study adds a moderating variable in the form of managerial ownership. The next difference is that it lies in the object of previous research using the property, real estate, and building construction sectors, while this study uses the energy sector in 2020 - 2023.

Company growth can be considered as a measure of the company's success in allocating resources for its long-term development (Mardianto, 2020). From an investor's point of view, company growth reflects the potential profits that can be obtained, so companies try to show positive progress in their performance. Companies are expected to grow by both internal and external parties, as this can provide positive benefits for both. If a company experiences significant asset growth, this will make it more attractive to creditors and investors (Hanisa & Rahmi, 2021). Based on the results of research conducted by (Mardianto, 2020); (Hanisa & Rahmi, 2021); (Suprapto & Henny, 2022) It was found that company growth has a significant impact on earnings management. However, this finding contradicts the results of research conducted by (Dwiarti & Hasibuan, 2019) which concluded that company growth has no significant effect on earnings management. Based on this description, the following hypothesis can be formulated.

H_1: Company growth has a significant effect on earnings management

Profitability is the company's ability to utilize its assets to generate profits. (Fathihani & Haris Nasution, 2021). The profits listed in the financial statements are often used to evaluate management's performance in managing the company's assets. One way to assess profitability is to look at the company's Return on Assets (ROA). ROA measures the extent to which the assets owned by

the company can contribute to the profits generated. If the ROA (Return on Assets) value is positive, it indicates that the company's management is successful in utilizing its assets to generate profits. Conversely, a negative ROA value indicates that management has failed to manage the company's assets to generate profits (Lestari & Wulandari, 2019). The greater the profit achieved by the company, the higher the tax liability that must be borne. Conversely, if the company's profits are lower, the tax burden to be paid will also decrease. Companies often strive to reduce expenses, including the tax burden that needs to be paid. Based on the results of research conducted by (Pratiwi & Diana, 2018); ((Lestari & Wulandari, 2019) it can be concluded that profitability has a significant effect on earnings management. However, in contrast to the findings in research (Rantung & Salim, 2024) which shows that profitability has no significant effect on earnings management. Based on this description, the following hypothesis can be formulated.

H_2: Profitability has a positive effect on earnings management

Agency theory underscores the potential conflict of interest between managers (as agents) and shareholders (principals) (Jensen, M. C., & Meckling, W. H, 1976) Managers are driven to achieve the performance targets stated in their contracts, while on the other hand, shareholders are focused on maintaining the value of their investments. A quality audit can play an important role in reducing conflicts by correcting or identifying questionable earnings management in financial statements. The process of auditing financial statements by auditors is one of the crucial aspects that must be carried out by a company. Auditors are required to maintain a neutral and independent attitude in accordance with their professional code of ethics, so that they are not influenced by any party when evaluating financial statements (Meiryani dkk., 2022). Research conducted by (Albert & Widyastuti, 2020); (Hanisa & Rahmi, 2021) shows that audit quality has a significant impact on earnings management. This contradicts the research conducted by (Gunarto & Riswandari, 2019) which shows that audit quality has no significant effect on earnings management. Based on this explanation, the hypothesis that can be formulated is as follows.

H_3: Audit quality has a significant effect on earnings management

The company's growth phase occurs when the company successfully expands its market share, increases its sales, and begins to diversify its products. The company's profits also increased when compared to the previous year. The company's main priority is to enlarge the market share that they already dominate, as explained in the previous section (Dwiarti & Hasibuan, 2019). Managerial ownership can affect the relationship between firm growth and earnings management, as there are different incentives and priorities between managerial shareholders (such as executive managers) and non-managerial

shareholders (such as external investors). Executive managers have a drive to maintain stable and sustainable company growth. Using earnings management too aggressively can damage the company's reputation and create problems in the future, which will ultimately harm the value of the shares owned by the manager. In other words, managerial ownership can affect the relationship between company growth and earnings management, because executive managers have different incentives and obligations compared to shareholders who are not involved in managing the company. Research conducted by (Gunarto & Riswandari, 2019) shows that managerial ownership can moderate the relationship between company growth and earnings management. This contradicts research conducted by (Albert & Widyastuti, 2020) shows that company growth cannot moderate the relationship between company growth and earnings management. Based on this explanation, the hypothesis that can be formulated is as follows.

H_4: Managerial ownership can moderate the relationship between company growth and earnings management.

Managerial ownership refers to how much of the company's shares are owned by managers or executives of the company. This ownership creates an incentive for managers to be more aligned with shareholders, as they are also part of the shareholders themselves. In the context of moderation, managerial ownership can affect the relationship between profitability and earnings management. When profitability is high and managerial ownership is also high, managers will have less incentive to manipulate earnings. They will focus more on transparency and long-term growth as this will increase the value of the shares they own Earnings management tends to be minimized under these conditions (Albert & Widyastuti, 2020). Managerial ownership can moderate the relationship between profitability and earnings management, by influencing the incentives managers have to engage in earnings management. The greater the managerial ownership, the less likely managers are to engage in earnings management, because they have a greater interest in the value of shares and the long-term performance of the company. Research conducted by (Pratiwi & Diana, 2018); (Herlin Tunjung, 2019) shows that managerial ownership can moderate the relationship between profitability and earnings management. This contradicts research conducted by (Fathihani & Haris Nasution, 2021) shows that profitability cannot moderate the relationship between company growth and earnings management. Based on this explanation, the hypothesis that can be formulated is as follows.

H_5: Managerial ownership can moderate the relationship between profitability and earnings management.

The managerial role in controlling and making decisions in the company can moderate the relationship between audit quality and earnings management. This is due to the influence of managerial ownership in directing policies and decisions related to the financial management of the company. Share ownership by executive managers can affect the relationship between audit quality and earnings management. This happens because managers who own shares tend to have different incentives, controls, and roles in the audit process compared to managers who do not own shares. They place more emphasis on the integrity of financial statements and audit quality, which can reduce the possibility of earnings management that is not in accordance with applicable audit standards. Research conducted by (Hanisa & Rahmi, 2021); (Yispa, 2022) shows that managerial ownership can moderate the relationship between profitability and earnings management. This contradicts research conducted by (Arthawan & Wirasedana, 2018) which shows that profitability cannot moderate the relationship between company growth and earnings management. Based on this explanation, the hypothesis that can be formulated is as follows.

H_6: Managerial Ownership can moderate the relationship between Audit Quality and earnings management.

The scope of this research is to examine company growth, profitability and audit quality on earnings management with managerial ownership as a moderating variable. So the conceptual framework of this research can be shown in Figure 1.

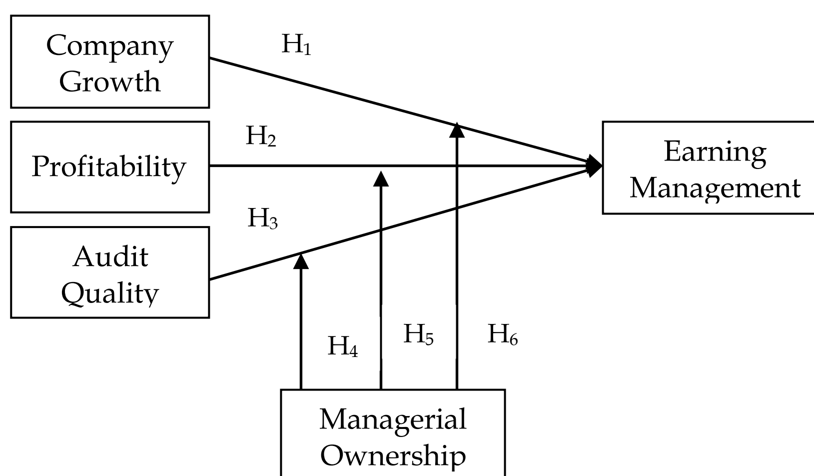

Figure 1. Conceptual Framework
Source: Data Processed (2024)

METODE

This study uses a quantitative approach, which aims to measure the effect of certain variables on earnings management in the energy sector. The type of research conducted is explanatory research, which focuses on the cause-and-effect relationship between independent and dependent variables. The

population in this study consists of all companies listed in the energy sector on the Indonesia Stock Exchange (IDX) during the period 2020 to 2023. From this population, a purposive sampling technique was used to select samples that met certain criteria. Finally, a sample of 45 companies was obtained, which resulted in a total of 180 data (45 companies x 4 years) used in the analysis. The data used in this study are secondary data obtained from the financial statements of companies listed in the energy sector. These financial statements are reports that have been audited by independent auditors and can be accessed through the official website of the Indonesia Stock Exchange at www.idx.co.id.

The variables studied include earnings management (Y), company growth (X1), profitability (X2), audit quality (X3), and managerial ownership (Z). The instruments used in this study are financial statements that include relevant information to measure the variables studied. The data collected will be analyzed using EViews 12 statistical software to ensure the accuracy and reliability of the analysis results. Data analysis is carried out using two methods, namely quantitative descriptive analysis and regression analysis on panel data. Descriptive analysis aims to provide an overview of the data obtained, including the minimum, maximum, average, and standard deviation values. Meanwhile, regression analysis is used to measure the effect of the independent variable on the dependent variable, as well as to test the hypothesis that has been proposed. The panel data used combines time series and cross section data, allowing a more comprehensive analysis of the relationship between variables.

This study uses descriptive statistical analysis which is used to describe the data through the minimum, maximum, average, and standard deviation values. Panel data regression involves individual observations over a period of time with CEM, FEM, and REM models. The best model selection is done through Chow Test and Hausman Test. Hypothesis testing includes the Coefficient of Determination (R^2) and Partial Test (t-test). MRA analysis examines the relationship between independent and dependent variables with multiple regression models containing interactions.

RESULTS AND DISCUSSION

Table 1 is the result of descriptive statistical tests in this study. Based on the results of the descriptive statistical analysis obtained in the table 1, of the total 180 data studied, the earnings management variable (Y) shows a minimum value of -55.62524 and a maximum of 1414.048, with an average of 21.16223. This positive average number indicates that in general, companies in the sample tend to carry out earnings management, which can be interpreted as the company's efforts to deliberately increase revenue, for example through delaying cost recognition or accelerating revenue recognition. In addition, the standard deviation for this variable is recorded at 153.5865.

Table 1. Descriptive Statistical Test Results

	Y	X1	X2	X3	Z
Mean	21.16223	0.109629	0.061430	0.294444	0.163960
Median	0.088445	0.049281	0.033468	0.000000	0.106903
Maximum	1414.048	2.506829	0.616346	1.000000	0.856092
Minimum	-55.62524	-0.528253	-0.410592	0.000000	2.5E-05
Std. Dev	153.5865	0.326419	0.146820	0.457064	0.194934
Skewness	7.659953	3.305026	0.788418	0.901970	1.686240
Kurtosis	63.04067	21.42940	6.675758	1.813549	5.873426

Source: Analysis Results (2024)

The company growth rate (X1) has a minimum value of -0.528523 and a maximum of 2.506829, with an average of 0.109629. This shows that during the 2020-2023 period, the average company studied experienced growth in the range between -0.528523 and 2.506829. In addition, the standard deviation recorded is 0.326419.The profitability variable (X2) has a minimum value of -0.410592 and a maximum value of 0.616346, with an average value of 0.061430. This shows that the sample of companies analyzed in the 2020-2023 period, on average, has a level of profitability that is in the range between -0.410592 to 0.616346. In addition, the standard deviation for this variable is recorded at 0.146820.The audit quality variable (X3) has a minimum value of 0.000000 and a maximum of 1.000000, with an average of 0.294444. This shows that the sample of companies studied in the 2020-2023 period has a level of audit quality that varies between 0.000000 and 1.000000. In addition, the standard deviation obtained is 0.457064. The managerial ownership variable (Z) shows a minimum value of 2.53E-05 and a maximum of 0.856092, with an average value of 0.163960. This indicates that the sample of companies studied during the period 2020 to 2023 had managerial ownership levels that varied between 2.53E-05 and 0.856092. In addition, the standard deviation value of this variable is 0.194934.

Chow Test

This study aims to compare the best model between the Common Effect Model and the Fixed Effect Model. Model selection is done by considering the probability value (prob) in the F test for cross-section data. If the prob value is greater than 5%, then the model chosen is the Common Effect Model. Conversely, if the prob value is less than 5%, the model chosen is the Fixed Effect Model.

Table 2. Chow Test Results

Effects Test	Statistic	d.f	Prob.
Cross-Section F	18.562382	(44.132)	0.0000
Cross-Section Chi-square	355.020831	44	0.0000

Source: Analysis Results (2024)

Based on the Chow test results in table 2, the probability values for the cross-section F and Chi-square tests are both smaller than the 0.05 significance level, which indicates that the chosen model is the Fixed Effect Model. Since the Chow test rejects the null hypothesis, the next step is to continue testing the model with the Hausman test.

Hausman Test

The Hausman test is used to select the most appropriate model between the Fixed Effect Model and the Random Effect Model. If the p value is greater than 0.05, the Random Effect Model is selected. Conversely, if the p value is less than 0.05, the Fixed Effect Model is considered a more appropriate choice.

Table 3. Hausman Test Results

Test Summary	Chi-Sq. Statistic	Chi-Sq.d.f	Prob.
Cross-Section random	1.426175	3	0.6994

Source: Analysis Results (2024)

Based on the test results displayed in table 3, the value of the Cross-section random test is greater than the alpha significance level of 0.05, which is 0.6994 > 0.05. Therefore, the model chosen based on the Hausman test is the Random Effect Model. Thus, after determining this model, the next test will continue with the Lagrange Multiplier test.

Lagrange Multiplier Test

The Lagrange Multiplier test is used to select a more appropriate model between the Common Effect Model and the Random Effect Model. Model selection decisions can be determined by observing the probability value for Cross-section. If the p value is greater than 0.05, then the Common Effect Model is selected. Conversely, if the p value is smaller than 0.05, then the Random Effect Model is more suitable.

Table 4. Lagrange Multiplier Test Results

	Test Hypothesis		
	Cross-Section	**Time**	**Both**
Breusch-Pagan	176.5327	1.302063	177.8347
	(0.0000)	(0.2538)	(0.0000)

Source: Analysis Results (2024)

Based on the Lagrange Multiplier test results in Table 4, the cross-section value is smaller than the alpha significance level of 0.05, namely p = 0.00 <0.05. Thus, the model chosen is the Random Effect Model (REM). In line with the results of the Chow test, Hausman test, and Lagrange Multiplier test, the best model that can be applied in this study is the Random Effect Model.

Hypothesis Test

Hypothesis testing is carried out to test all hypotheses proposed in this study, taking into account the results of data processing that have been obtained. In this study, the hypothesis test consists of testing the effect of variables individually (t test) and the Moderated Regression Analysis (MRA) test, because this study involves moderation variables in the model used.

Table 5. Partial Test Results

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	7.421787	24.64586	0.304848	0.7608
X1	31.78831	17.60946	1.805183	0.0728
X2	-118.2677	50.87372	-2.324730	0.0212
X3	59.50418	39.72624	1.497856	0.1360

Source: Analysis Results (2024)

Based on the information listed in table 5, the results of hypothesis testing through the t test can be explained as follows:

The probability of the company growth variable (X1) is recorded at 0.0728 with a regression coefficient of -31.78831. Since the probability value is greater than the significance level of 0.05, the hypothesis claiming that company growth affects earnings management is rejected. Thus, it can be concluded that company growth has no effect on earnings management.

The probability of the profitability variable (X2) is recorded at 0.0212 with a regression coefficient of -118.2677. Since the probability value is smaller than the significance level of 0.05, the hypothesis that profitability affects earnings management is accepted. Thus, it can be concluded that profitability has an influence on earnings management.

The audit quality variable (X3) has a probability of 0.1360 and a regression coefficient of 59.50418. Since this probability value is greater than the 0.05 significance level, the hypothesis that audit quality has an effect on earnings management cannot be accepted. Thus, it can be concluded that audit quality has no effect on earnings management.

Table 6. Moderated Regression Analysis (MRA) Test Results

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	6.498772	30.02290	0.216460	0.8289
X1	55.47044	28.15115	1.970451	0.0504
X2	-122.1029	32.15833	-1.964385	0.0511
X3	48.36961	44.74856	1.080920	0.2812
Z	4.379853	86.599294	0.050576	0.9597
X1_Z	-87.19029	84.58075	-1.030853	0.3041
X2_Z	-41.65673	282.0020	-0.147718	0.8827
X3_Z	176.6071	243.7325	0.724594	0.4697

Source: Analysis Results (2024)

In table 6, the probability value for the interaction variable between firm growth and managerial ownership (X1_Z) is recorded at 0.3041. Since this value is greater than the significance limit of 0.05, it indicates that managerial ownership does not have a significant moderating effect on the relationship between firm growth and earnings management. Therefore, it can be concluded that H0 is accepted and H4 is not accepted.

The probability value for the interaction variable between profitability and managerial ownership (X2_Z) is recorded at 0.8827. Since this probability value is greater than the significance level of 0.05, it can be concluded that managerial ownership does not serve as a moderating variable that affects the relationship between profitability and earnings management. This indicates that the effect of managerial ownership is not significant. Therefore, the null hypothesis (H0) is accepted, while the alternative hypothesis (H5) is not accepted.

The probability value for the interaction variable between audit quality and managerial ownership (X3_Z) was recorded at 0.4697. This value is greater than the significance level of 0.05, which indicates that managerial ownership does not have a role as a moderating variable in the relationship between audit quality and earnings management, because its effect is not significant. Thus, it can be concluded that H0 is accepted, while H6 is rejected.

The Effect of Company Growth on Earnings Management

Based on the results of hypothesis testing, company growth does not have a significant effect on earnings management. Based on agency theory, company growth should have an effect on earnings management. In agency theory, earnings management is considered a means used by management to regulate interactions or relationships with shareholders. Management seeks to reduce conflict and increase shareholder confidence by managing market expectations.

This research is in line with studies conducted by (Febriyanti, 2020); (Dwiarti & Hasibuan, 2019) which show that there is no effect of company growth on earnings management. This study is different from the findings of (Hanisa & Rahmi, 2021) which show that company growth affects earnings management.

Effect of Profitability on Earnings Management

Based on the results of hypothesis testing, profitability has a significant effect on earnings management. This result is in accordance with the previously proposed hypothesis, which states that profitability, as the main indicator of a company's financial performance, can be a determining factor in the implementation of earnings management. Theoretically, profitability reflects the company's ability to generate profits from its assets. A high measure of profitability can be a positive signal for investors and other stakeholders.

However, in some cases, company management may have an incentive to manipulate financial statements to increase reported profitability.

The results of this study are in line with the findings revealed by (Albert & Widyastuti, 2020) and (Hanisa & Rahmi, 2021) which show that profitability has an influence on earnings management. However, the findings of this study differ from research conducted by (Gunarto & Riswandari, 2019) which states that profitability has no effect on earnings management.

The Effect of Audit Quality on Earnings Management

Based on the results of hypothesis testing, audit quality does not have a significant effect on earnings management. One of the main reasons that can explain this result is the possibility that the quality of the auditors involved in the company's audit is not high enough to suppress earnings management. Many companies in Indonesia use smaller or less reputable public accounting firms compared to large audit firms that are often known to be more stringent in carrying out audit standards. This may affect the auditor's ability to identify and prevent accounting manipulation in the company's financial statements.

This study is in line with research conducted by (Gunarto & Riswandari, 2019) shows that audit quality does not affect earnings management. However, the results of this study differ from the findings obtained by (Albert & Widyastuti, 2020) and (Hanisa & Rahmi, 2021) which indicate that company growth affects earnings management.

Managerial Ownership Moderates the Effect of Company Growth on Earnings Management

Based on the moderation regression analysis, it can be concluded that managerial ownership does not act as a variable that strengthens or moderates the relationship between company growth and earnings management. The existence or level of managerial ownership does not affect the strength or weakness of the relationship between company growth and earnings management. Managerial ownership is not always directly related to large financial incentives due to company development. Managers may not feel a large financial impact despite the company's growth, even though they own shares in it. Under these conditions, having managerial ownership may not provide extra incentives for managers to take manipulative actions related to earnings management.

The results of this study are in line with the findings revealed by (Fathihani & Haris Nasution, 2021) which show that managerial ownership cannot moderate the relationship between company growth and earnings management. However, the findings of this study are different from research conducted by (Pratiwi & Diana, 2018) which states that managerial ownership can moderate company growth on earnings management.

Managerial Ownership Moderates the Effect of Profitability on Earnings Management

Based on the results of the moderation regression analysis, it can be concluded that managerial ownership does not function as an amplifier or moderator of the effect of profitability on earnings management. Profitability is often considered the main indicator of a company's financial performance. Companies with high levels of profitability tend to get more attention from investors and other stakeholders. Therefore, managers have the urge to apply earnings management techniques to maintain or improve the company's financial reputation. However, the results of this study indicate that this effect is not strengthened or weakened by the presence of managerial ownership. Managerial ownership is expected to serve as a tool to align the interests between shareholders and management (agency theory).

The results of this study are in line with the findings revealed by (Albert & Widyastuti, 2020) which show that managerial ownership cannot moderate the relationship between profitability and earnings management. However, the findings of this study are different from research conducted by (Gunarto & Riswandari, 2019) which states that managerial ownership can moderate profitability on earnings management.

Managerial Ownership Moderates the Effect of Audit Quality on Earnings Management

Based on the moderation regression analysis, it can be concluded that managerial ownership has no role in strengthening or moderating the effect of audit quality on earnings management. Managerial ownership is theoretically considered capable of reducing conflicts of interest between owners and managers through better supervision. When managers own shares in the company, they are considered more motivated to improve the company's performance in the long term rather than engage in earnings management that can undermine investor confidence. However, in the results of this study, managerial ownership did not show a significant moderating effect. One reason that may explain why managerial ownership does not moderate the relationship between audit quality and earnings management is that when the proportion of managerial ownership in the company is low, this may reduce the impetus for managers to act in accordance with the interests of shareholders. In such a situation, managerial ownership is not strong enough to change the relationship between audit quality and earnings management.

The results of this study are in line with the findings revealed by (Arthawan & Wirasedana, 2018) which show that managerial ownership cannot moderate the relationship between audit quality and earnings management. However, the findings of this study are different from research conducted by (Hanisa & Rahmi, 2021; Yispa, 2022) which shows that managerial ownership

cannot moderate the relationship between audit quality and earnings management.

CONCLUSION

Based on the data analysis conducted, it can be concluded that: There is no significant influence between company growth and earnings management, indicating that rapid growth is not always followed by aggressive earnings management practices. Profitability is proven to have a significant positive effect on earnings management, which means that companies with higher levels of profitability tend to be more active in managing earnings to meet stakeholder expectations. Audit quality does not show a significant effect on earnings management, which indicates that although audit quality is important, in the context of this study, it is not sufficient to prevent earnings management practices. Managerial ownership does not play a significant moderating role in the relationship between firm growth, profitability, and audit quality on earnings management.

Suggestions that can be given by researchers for future research are that researchers can expand the scope by adding other independent variables, such as leverage, company size, and other factors that can affect earnings management. This is expected to obtain a more thorough and in-depth understanding of the factors that influence earnings management.

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