

**The Influence of Firm Characteristics on Earnings Management  
(Empirical Study on LQ45 Companies for the 2018-2022 Period)**

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**Abstract:** This study aimed to examine whether factors such as firm size, managerial ownership, leverage, audit committee expertise, and audit committee tenure influence real earnings management in firms listed on the LQ45 index. A purposive sampling method was used to collect data, with a total of 64 valid observations, free of outliers. To assess how independent variables—firm size, managerial ownership, leverage, audit committee tenure, and expertise—affect the dependent variable of earnings management, multiple linear regression analysis was employed. The analysis was conducted using SPSS version 27. The findings reveal that firm size has a significant negative effect on earnings management while managerial ownership, leverage, audit committee expertise, and audit committee tenure do not have a significant impact.

**Keywords:** *Earnings Management, Firm Size, Managerial Ownership, Leverage, Audit Committee*

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## **1. INTRODUCTION**

Today, the business world is evolving at an accelerating pace, compelling organizations to compete fiercely. Companies that can optimize their use of corporate resources during operations are more likely to emerge victorious in this competitive environment (Felicya & Sutristo, 2020). Financial reports, which encompass all of a company's financial activities within a given accounting year, offer a clear indication of whether the firm is performing well. The firm's profit, as reflected in these reports, serves as a key performance indicator (Hadi & Tifani, 2020). Given its significance, profit is considered a crucial factor for any business. Moreover, the amount of profit is a vital indicator of how effectively management is running the company. As a result, management may engage in earnings management, often manipulating profit figures in financial reports to present a more favorable performance (Nasution & Nengzih, 2020).

Earnings management can be classified into two categories: accrual earnings management and real earnings management. Accrual earnings management involves altering the accrual components of financial statements, while real earnings management refers to changes in a company's business operations aimed at boosting profits (Choirunnisa, 2022). This study focuses on real earnings management, as it is often preferred by management. This preference arises because real earnings management is more difficult for auditors to detect (Cohen et al., 2008). Research from Roychowdhury (2006) and Graham et al. (2005), also suggests that management is more likely to engage in real earnings management through changes in operational activities rather than by manipulating accrual items in the financial statements.

Earnings management can have serious consequences for a firm, including a reduction in the credibility of its financial statements and an increase in bias when assessing the company's financial health. Users of these financial reports may mistakenly perceive the manipulated profits as genuine, leading to misinformed judgments about the firm's performance (Fitria et al., 2022). This can result in poor corporate decision-making and a decline in external stakeholders' or investors' confidence in the company (Panjaitan & Muslih, 2019). Given the significant impact of earnings management, this study focuses on it as the dependent variable.

Earnings management can be influenced by various characteristics of a firm, which may motivate management to engage in such practices. These characteristics include firm size, managerial ownership, leverage, audit committee expertise, and audit committee tenure (Tang & Fiorentina, 2021). While numerous studies have explored the relationship between firm characteristics and earnings management, their findings have been inconsistent. This raises the question of whether each characteristic has a significant impact on earnings management. To address this question, the present research was conducted.

The novelty in this research lies in the use of companies indexed in LQ45 as the population of this study, which is quite rarely used in similar studies because most similar studies use manufacturing companies as the population. In addition, this study uses a proxy from Cohen et al., (2008) to calculate the results of the three measurements of real-earnings management by Roychowdhury, 2006.

## **2. LITERATURE REVIEW**

### **Agency Theory**

Jensen & Meckling (1976) stated that agency theory arises from the existence of an agency relationship, where the owner (the principal) hires another party, namely the management (the agent), to perform tasks and make decisions on behalf of the owner for the purposes of managing the firm. According to Virag (2021) in agency theory, each party is expected to act in the other's interest: the owner wants management to perform at its best to maximize firm profits, while management seeks to fulfill its own economic needs by working as efficiently as possible. This divergence of interests leads to the agency problem. Dewi (2019), further explains that agency theory also creates information asymmetry, as the owner and management have access to different amounts of information—the management, being directly involved in the day-to-day operations of the firm, holds more information than the owner.

Agency problems arise from the conflicting interests between the owner and management of a firm. In this relationship, the owner entrusts management with the responsibility of running the firm, with the expectation that the firm will generate increasing profits over time. However, management may be more focused on maximizing their own compensation, such as salaries and bonuses, which are often linked to the firm's reported profits. As a result, management may prioritize meeting performance expectations, even if it means manipulating financial reports, rather than ensuring that the reported profits are achieved through legitimate means (Sihombing & Laksito, 2017). This statement is in line with the statement from Jensen & Meckling (1976) that in agency theory there is a possibility that the owner and management of the firm maximize their personal interests, so it does not rule out the possibility that management will not carry out their duties in accordance with the wishes of the owner. However, Jensen & Meckling (1976) also stated that the presence of managerial ownership in a company can influence the occurrence of agency problems due to the alignment of interests between the management and the owners, thereby preventing agency problems from arising. Given that with managerial ownership, the management also acts as the owners.

### **Signaling Theory**

Signal theory is a theory that explains the differences in behaviour between two parties that have different access to information (Spence, 1973). Information is one of the most important things that can have a significant impact on the sustainability of a firm. As a result, the company consistently sends positive signals to the public through its financial reports, attracting the attention of potential investors. Management signals information about the company through various aspects of financial disclosure, which investors can interpret as indicators of the company's performance and prospects, include the company's size, its leverage ratio, the expertise of its audit committee members in finance, the tenure of these committee members, and most importantly, the amount of profit that earned by the firm (Wanialisa & Indarti, 2019). This is done in order to provide an overview of firm performance to the public, which will then affect the amount of investment in the firm and the sustainability of its future firm.

Given the importance of the information disclosed by a firm, management often engages in earnings management (Yuliana et al., 2018). The primary goal of earnings management is to create a favorable impression of the firm's performance

and future prospects, thereby attracting more investment. By presenting an optimistic financial outlook, management seeks to boost investor confidence and secure additional funding for the firm (Salsabila & Syafruddin, 2020).

### **Earnings Management**

Earnings management, as first discussed by Jensen & Meckling (1976), emerged from the concept of agency theory, which highlights the conflicts of interest between a firm's owners (principals) and its management (agents). Earnings management refers to the manipulation of a company's reported profits by management, often for personal gain, through practices that distort the true financial performance of the firm (Felicya & Sutristo, 2020). Earnings management allows management to obscure the true performance of a firm from its stakeholders (Orazalin & Akhmetzhanov, 2019). Management often engages in earnings management because profit figures are a central focus in financial reports and serve as a key indicator of the firm's performance. By manipulating these figures, management can artificially inflate profits, creating a more favorable image of their performance (Machmuddah et al., 2017).

In practice, earnings management is generally classified into two types: accrual earnings management and real earnings management (Roychowdhury, 2006). Accrual earnings management involves manipulating the accrual components of a firm's financial statements, such as receivables, inventory, and depreciation, without directly affecting cash flow (Li & Xia, 2021). In contrast, real earnings management involves altering the firm's actual operations, which has a direct impact on cash flow (Chang et al., 2018).

### **Firm Size**

Firm size is a measure used to categorize companies based on the scale of their operations. This is typically assessed by examining the total assets owned by the firm (Siekelova et al., 2020). This approach is based on the idea that companies with larger asset bases can effectively utilize those assets to increase sales, thereby improving cash flow. As sales grow, the firm's market capitalization typically rises, enhancing its visibility and recognition in the broader market (Indrati & Marsa, 2022).

The larger the size of a firm, the greater the public attention it receives, which will result in increased pressure on management to meet investors' expectations to obtain high profits (Fajriana, 2023). This can increase the tendency of large firm to engage in earnings management, ensuring that management performance is consistently viewed positively by investors and the public (Hoang & Vinh, 2018). Additionally, the fact that large companies have various transactions, asset management, and complex issues results in supervision becoming increasingly difficult and complicated to carry out (Nurhandika & Manalu, 2020). This will impact the weakening of the level of supervision conducted, allowing various fraudulent actions to occur in the company, one of which is earnings management.

This, in turn, means that firm management may take various actions to ensure that profits align with investor expectations, as meeting these expectations is often seen as a reflection of good management performance, which can lead to bonuses and other incentives. Based on this reasoning, the following hypothesis can be formulated:

**H1: Firm size influences earnings management**

### **Managerial Ownership**

Management ownership is the number of firm shares owned by the management of the firm itself. According to a study by O'Callaghan et al. (2018) low management ownership of a firm increases the opportunity for management to undertake earnings management actions when compared to a firm with high managerial ownership. This is because the interests of the management align with the interests of the company owners, thereby minimizing the agency problems that occur (Jensen & Meckling, 1976).

That is in line with the study from Piosik & Genge (2019) that suggests that when management holds shares in the firm, they are more likely to make decisions and take actions with greater responsibility and diligence, aligning their interests with those of the shareholders. As a result, managerial ownership can serve as a tool to mitigate the risk of fraudulent behavior. In other words, when management has a significant stake in the company, they are also shareholders, which reduces conflicts of interest and discourages practices such as earnings management (Manurung, 2022). Based on those explanations, the following hypothesis can be drawn:

**H2: Managerial ownership influences earnings management**

### **Leverage**

Leverage is a financial ratio that measures the proportion of a firm's assets that are financed through debt (Ruwati et al., 2019). As leverage increases, so does the firm's debt. High leverage can be a concern for management, as excessive debt levels may deter both current and potential investors, prompting management to take steps to reduce it (Nalarreason et al., 2019)

When a firm's leverage rate is high, management will continue to strive for lower leverage because a high debt rate will reduce the interest of investors and potential investors in investing in the firm. If a firm can increase its profits, then investors will assume that the firm can pay off the debt they have because the amount of profit is an indicator of whether a firm is able to pay off their debt or not, so that it can raise the interest of investors and prospective investors (Ruwati et al., 2019). This occurs when a company's leverage ratio is excessively high and is not offset by strong revenues or profits. In such cases, the company faces a significant risk of bankruptcy, as it may fail to meet its debt obligations due to liabilities surpassing its assets (Annisa & Hapsoro, 2017). Therefore, management tends to do earnings management at a time when the firm has a high level of leverage. Based on those explanations, the following hypothesis can be drawn:

**H3: Leverage influences earnings management**

### **Audit Committee Expertise**

Audit committee financial expertise refers to the knowledge and skills in finance or accounting possessed by audit committee members, typically acquired through formal education or professional training in these fields. In Indonesia, regulations set forth in POJK Number 55/POJK.04/2015 require that every company establish an audit committee with at least one member who has financial or accounting expertise.

The audit committee plays a crucial role in overseeing the firm's financial reporting to prevent fraud especially to prevent earnings management, as it acts as a supervisory body that ensures the effective implementation of good corporate governance (GCG) (Firnanti et al., 2019). To fulfill this responsibility effectively, it is essential for committee members to possess expertise in accounting or finance (Ruchiatna et al., 2020). With this knowledge, experience, and training, the audit committee can provide more competent and effective supervision, ensuring the accuracy and integrity of the firm's financial reports and reducing the risk of earnings management (Mardessi & Fourati, 2020).

#### **H4: Audit committee expertise influences earnings management**

#### **Audit Committee Tenure**

The tenure of the audit committee refers to the duration of time its members have served within the firm. A longer tenure can significantly enhance the committee's effectiveness, as it allows members to gain a deeper understanding of the company's operations, culture, and financial practices. This accumulated experience and institutional knowledge enable the audit committee to perform more thorough and informed oversight. As a result, a longer term of office can contribute to higher-quality audits, as the committee members are better equipped to identify issues and ensure accurate financial reporting, and prevented any fraud in it, including earnings management (Alzoubi, 2017).

The tenure of the audit committee is able to influence the effectiveness of its performance because they gain knowledge from their experience in the firm where they work (Nurliasari & Achmad, 2020). According to Alhassan et al. (2019), audit committees that have served the company for an extended period develop a deeper understanding of its business activities and management behavior. This increased familiarity enables them to more effectively identify and address potential issues, thereby reducing the risk of fraud, including practices like earnings management, within the company. This statement is consistent with Alzoubi (2017), which suggests that audit committees with shorter tenures tend to deliver lower-quality audit results. The lack of experience and familiarity with the company's operations may hinder their ability to effectively oversee financial reporting and detect potential issues.

#### **H5: Audit committee tenure influences earnings management**

### **3. RESEARCH METHOD**

The hypothesis proposed in this research was tested using a quantitative approach. The financial reports of companies indexed LQ45 on the Indonesia Stock Exchange (IDX) from 2018 to 2022 are the source of secondary data applied in this research. The population used in the research are companies indexed in LQ45. The sample for this research was determined using a purposive sampling approach. The purposive sampling method is a technique that allows researchers to select research samples based on predetermined criteria or attributes (Sugiyono, 2016). The following criteria were applied to select the research sample are: 1. companies listed in IDX; 2. companies that issued their annual financial statements each year during 2018–2022; 3. companies that listed in the LQ45 index during the period 2018–2022.

This research uses multiple linear regression data analysis methods. This analysis is used because this research tests the influence of several independent variables on one dependent variable. The writing for Multiple Linear Regression Analysis is as follows:

$$EM = \alpha + \beta_1 FS + \beta_2 MO + \beta_3 LV + \beta_4 ACE + \beta_5 ACT + e \dots \dots \dots (1)$$

Where:

- $\alpha$  = Constant
- $\beta_{1, \dots, 5}$  = Coefficient
- EM = Earnings Management
- FS = Firm Size
- MO = Management Ownership
- LV = Leverage
- ACE = Audit Committee Expertise
- ACT = Audit Committee Tenure
- e = Error

### Research Variable Measurement

#### Dependent Variable

#### Earnings Management

This research uses measurements from Roychowdhury (2006) in calculating earnings management, where there are 3 measurements in it, namely measuring earnings management in cash flow measurements, production costs, and discretionary costs. The following is the sequence of the calculation formula:

- a) Firstly, the CFO, or cash flow from operations, represents the cash flow from operations as reported in the cash flow (Roychowdhury, 2006). This calculation is used to assess the extent of abnormalities in cash flow reporting within the financial statements. The larger the value produced by this calculation, the greater the level of abnormality, indicating a higher likelihood of earnings management.

$$\frac{CFO_t}{A_{t-1}} = a_0 + a_1 \left( \frac{1}{A_{t-1}} \right) + a_2 \left( \frac{St}{A_{t-1}} \right) + a_3 \left( \frac{ASt}{A_{t-1}} \right) + \epsilon_t \dots \dots \dots (2)$$

Where:

- CFO<sub>t</sub> : Cash flow from operating activities
- St : Total sales
- A<sub>t-1</sub> : Total assets 1 year earlier
- $\alpha_{0 \dots 3}$  : Constant
- $\epsilon_t$  : Error term

- b) Production cost calculations are used to assess the potential manipulation of reported production costs in financial statements (Roychowdhury, 2006). This analysis helps determine the extent of abnormality in the reporting of production costs. A higher value indicates a greater level of abnormality, which suggests an increased likelihood of earnings management.

$$\frac{PROD_t}{A_{t-1}} = a_0 + a_1 \left(\frac{1}{A_{t-1}}\right) + a_2 \left(\frac{St}{A_{t-1}}\right) + a_3 \left(\frac{AS_t}{A_{t-1}}\right) + a_4 \left(\frac{AS_{t-1}}{A_{t-1}}\right) + \epsilon_t \dots \dots \dots (3)$$

Where:

- PROD<sub>t</sub> : Production cost
- St : Total sales
- A<sub>t-1</sub> : Total assets 1 year earlier
- α<sub>0...3</sub> : Constant
- ε<sub>t</sub> : Error term

- c) Discretionary expenses are defined as the total of advertising expenses, R&D expenses, and selling, general, and administrative (SG&A) expenses (Roychowdhury, 2006). This calculation is used to assess the extent of abnormality in the reporting of discretionary expenses within the financial statements. A higher value from this calculation indicates a greater level of abnormality, which in turn suggests an increased level of earnings management.

$$\frac{DISEX_t}{A_{t-1}} = a_0 + a_1 \left(\frac{1}{A_{t-1}}\right) + a_2 \left(\frac{St}{A_{t-1}}\right) + \epsilon_t \dots \dots \dots (4)$$

Where:

- DISEX<sub>t</sub> : Discretionary costs
- St : Total sales
- A<sub>t-1</sub> : Total assets 1 year earlier
- α<sub>0,1</sub> : Constant
- ε<sub>t</sub> : Error term

**Independent Variable**

**Firm Size**

The measurement used in this research to calculate the size of a firm is the total assets it owns at the end of the period. Total assets are used because companies that have large amounts of total assets will have more freedom in using their assets in order to increase sales and capitalize on the market (Chandra et al., 2021). In addition, the use of natural logarithms to calculate total assets is carried out to reduce significant differences between company sizes that are too large and too small. Natural logarithms are utilized to calculate total assets to minimize the impact of large disparities between company sizes. This transformation also helps normalize research data for normality tests; larger calculation results indicate larger company sizes. The calculation formula is:

$$FS = \ln (\text{Total Asset}) \dots \dots \dots (5)$$

### Managerial Ownership

The calculation formula used in the calculation of managerial ownership is by calculating the number of percentages of the amount of shares held by the managers working in the firm. This variable is calculated by dividing management's total share ownership by the company's outstanding shares, then converting the result into a percentage. The percentage calculation highlights the extent of management's share ownership in the company, regardless of size. It also minimizes significant differences in the data being analyzed. A higher percentage indicates greater ownership by management, with a maximum value of 100%. The calculation formula is:

$$MO = \frac{\text{Total shares owned by management}}{\text{Total shares}} \times 100\% \dots\dots\dots (6)$$

### Leverage

To calculate leverage in this research, the Debt Total Asset Ratio (DAR) formula is used. This formula is used because it can calculate the size of the total debt used to finance a firm's assets. Leverage is calculated using the Debt Total Asset Ratio (DAR), which is determined by dividing the company's total debt by its total assets. A higher resulting value indicates greater leverage, as this formula effectively measures the proportion of total debt utilized to fund the company's assets. The calculation formula is:

$$DAR = \frac{\text{Total debt}}{\text{Total asset}} \dots\dots\dots (7)$$

### Audit Committee Expertise

This variable is determined by dividing the number of audit committee members who have education in accounting or finance with the total number of committee members who have served in that year. The higher the value obtained from this calculation, the greater the proportion of audit committee members with financial expertise within a company, with a maximum value of 1. This calculation is preferred since companies have varying numbers of audit committee members, making it more accurate to assess the proportion of expert members rather than simply counting them. Here is the calculation formula:

$$ACE = \frac{\text{Total expert audit committee members}}{\text{Total members of the audit committee}} \dots\dots\dots (8)$$

### Audit Committee Tenure

To calculate the audit committee tenure variable, we determine the total length of service for each member in a company and divide this by the number of members who have served. A higher result indicates a longer average tenure for the audit committee members. This calculation is used because each company has a different number of audit committee members, making it more accurate to calculate the average tenure of those serving in a company rather than simply summing the total tenure of all members. The formula for this calculation is as follows:

$$ACT = \frac{\text{Total amount of time of the audit committee}}{\text{Number of members of the audit committee}} \dots\dots\dots (9)$$

#### 4. RESULTS AND DISCUSSION

##### Descriptive Analysis

**Table 1. Descriptive Statistical Analysis Results**

Descriptive Statistics				
	N	Minimum	Maximum	Mean
EM	64	0,07	1,26	0,4933
FS	64	30,81	35,16	32,6
MO	64	0	0,03	0,0071
LV	64	0,11	0,92	0,5158
ACE	64	0,25	1	0,6063
ACT	64	0,82	3,33	2,1125
Valid N	64			

Source: Data processed by SPSS 27 (2023)

Based on the descriptive data it can be seen that:

1. Among the LQ45 companies from 2018 to 2022, the lowest level of earnings management was 0.0714. The highest value, 1.2594. The average level of earnings management across the companies was 0.4933. Based on the results of this descriptive analysis, it is clear that the average level of earnings management among the companies in the study is relatively low. This suggests that the likelihood of these companies engaging in real earnings management is also quite low.
2. The largest company by size in this research 35.1624 with natural logarithm. In contrast, the smallest company has natural logarithm value of 30.8114. On average, the LQ45 companies during the 2018-2022 period had a size of 32.6000. The size of the companies, measured by total assets, in this study is relatively high, as the sample consists of firms included in the LQ45 index. The LQ45 index comprises companies with strong liquidity, promising growth prospects, and significant market capitalization (IDX, 2021).
3. The average managerial ownership across the companies in this study is 0.007078%, which is relatively small. This suggests that management holds insufficient ownership to align closely with the company's shareholders. The lowest level of managerial ownership is 0%, meaning no shares are held by management, a finding present in 21 observations. This is a notable proportion, considering the total number of observations in this study is just 64. The highest recorded managerial ownership is 0.0314%, which again remains very low.

4. Leverage has a maximum value of 0.917, and the minimum value of this leverage variable is 0.1141. The average leverage held by the companies tested in this study is 0.515813. Based on these results, it is evident that the level of leverage among the companies in this study is relatively low. This is expected, as the sample consists of LQ45 companies—45 firms known for their high liquidity, strong growth prospects, and solid market capitalization. As a result, it is unlikely for these companies to have a high level of leverage.
5. Audit Committee Expertise has an average value of 0.615625, with a minimum value of 0.25, whereas the highest value for the audit committee expertise variable is 1. Based on these descriptive results, it is evident that, on average, the companies in the study have audit committees with a substantial proportion of members who are experts in finance. Specifically, 62% of the members in these audit committees are finance professionals
6. Audit Committee Tenure has the lowest value being 0.8214 and the highest value being 3.3333. The average number of audit committee tenure variables is 2.112531. Based on these results, the average tenure of the audit committee members is relatively short, with the longest being just 3 years. This, of course, may impact the effectiveness of the audit committee's performance within the company.

#### **Classic Assumption Test Normality Test**

**Table 2. Normality Test Results**

One-Sample Kolmogorov-Smirnov Test	
	Unstandardized Residual
N	64
Asymp. Sig. (2-tailed)	0,200

Source: Data processed by SPSS 27 (2023)

The table shows that the significance value of the tested data is 0.200, which is greater than 0.05. This indicates that the research data follows a normal distribution.

### Multicollinearity Test

**Table 3. Multicollinearity Test Results**

Coefficients <sup>a</sup>		
Model	Collinearity Statistics	
	Tolerance	VIF
1 (Constant)		
Firm Size	0,276	3,628
Managerial Ownership	0,590	1,694
Leverage	0,311	3,220
Audit Committee Expertise	0,956	1,046
Audit Committee Tenure	0,964	1,037

Source: Data processed by SPSS 27 (2023)

The test results indicate that all independent variables have VIF values below 10 and tolerance values above 0.1, which suggests that there is no multicollinearity among the independent variables tested.

### Heteroscedasticity Test

**Table 4. Heteroscedasticity Test Results**

Coefficients <sup>a</sup>		Sig.
Model		
1 (Constant)		0,017
Firm Size		0,055
Managerial Ownership		0,070
Leverage		0,698
Audit Committee Expertise		0,193
Audit Committee Tenure		0,269

Source: Data processed by SPSS 27 (2023)

All variables in the test results have a significance value above 0.05, which means that all the data tested in this study have non-heteroscedasticity.

### Autocorrelation Test

**Table 5. Autocorrelation Test Results**

Model Summary <sup>b</sup>		
Model	Durbin-Watson	
1	2,083	

Source: Data processed by SPSS 27 (2023)

Based on the results of this test, it can be concluded that the data in this study does not exhibit autocorrelation, as the Durbin-Watson value is 2.083, which falls between the critical values of 1.7672 and 2.218

## Hypothesis Test

**Table 6. Multiple Linear Regression Test Results**

		Coefficients <sup>a</sup>	
Model		t	Sig.
1	(Constant)	3,253	0,002
	Firm Size	-2,754	0,008
	Managerial Ownership	1,519	0,134
	Leverage	-0,832	0,409
	Audit Committee Expertise	-0,089	0,929
	Audit Committee Tenure	0,173	0,863

Source: Data processed by SPSS 27 (2023)

The results of the test indicate that only firm size has a significant impact on earnings management, with a p-value of 0.008, which is smaller than the 0.05 threshold. In contrast, the other four variables—managerial ownership, leverage, audit committee expertise, and audit committee tenure—do not have a significant effect on earnings management, as their p-values are all above 0.05

## Discussion

### The Influence of Firm Size on Earnings Management

The results of this research demonstrate that firm size has a significantly negative effect on earnings management. This means that larger firms tend to engage in less earnings management, while smaller firms may be more likely to do so. Larger firms attract greater public attention, and as a result, every decision they make is closely scrutinized (Ugo & Frank, 2022). Consequently, management in these firms tends to exercise greater caution and is less likely to engage in fraudulent activities, such as earnings management, to maintain their public image and avoid reputational risks.

Furthermore, the findings of this study support Spence (1973) signaling theory, which posits that public perceptions of a firm—particularly its asset size—can influence the firm's approach to earnings management. These results align with the studies by Panjaitan & Muslih (2019), Ardian & Marcella (2023) and Sihombing & Izzah (2022), which also found that firm size has a significant negative impact on earnings management. This occurs because management of larger firms is more inclined to maintain strong performance and preserve the trust of the public and investors, reducing the temptation to engage in earnings manipulation.

### The Influence of Managerial Ownership on Earnings Management

The results of the tests indicate that managerial ownership does not have an impact on earnings management. This study's findings contradict Jensen and Meckling's (1976) agency theory, which posits that managerial ownership affects earnings management. Despite managers being shareholders, they still engage in self-benefiting actions like earnings management. The low average share ownership among managers in this study may account for the lack of influence on earnings management.

These results may be influenced by the fact that the firms in this study exhibited very low levels of managerial ownership. Such low ownership could reduce management's alignment with the company's owners, as there is less incentive for managers to act in the shareholders' best interests. As a result, the agency problem persists, and management may still have the motivation to engage in earnings management. The findings of this study are consistent with the research by Felicya & Sutristo (2020), Zakia et al. (2019), Moslemany & Nathan (2019), Augustine & Dwianika (2019) and Saputro & Gustinya (2022), all of which also concluded that managerial ownership does not have a significant impact on earnings management.

### **The Influence of Leverage on Earnings Management**

The findings from this research state that the level of leverage does not influence earnings management actions in the firm. Those results are in line with the research from Setiawati et al. (2019), Sawitri et al. (2023), Yullaikhah & Widati (2023), Irawan (2019), and Zakia et al. (2019), which state that the high or low leverage value of a company has no relationship whatsoever with the earnings management actions carried out. The results of this research contradict the signal theory proposed by Spence (1973) where in this research, the level of leverage a firm has does not influence firm management in carrying out earnings management to manipulate financial reports so that the public has a positive view of the firm.

The results of this study may be attributed to the low average leverage of the companies in the sample, which stands at just 0.5%. This indicates that the companies generally operate with relatively low leverage. Therefore, given their relatively low leverage, these companies do not face the pressure to engage in earnings management as a means of compensating for high levels of debt or financial instability (Panjaitan & Muslih, 2019).. That can happen considering that the companies tested in this study are companies that have been listed on the LQ45 list for five consecutive years, which means that these companies have high liquidity, large market capitalization, and good corporate fundamentals. Therefore, the companies on this list do not rely much on debt to finance their assets, so they have a low leverage value.

### **The Influence of Audit Committee Expertise on Earnings Management**

The results of this study indicate that the decision to engage in earnings management is not influenced by the number of audit committee members with expertise in accounting and finance. This finding contradicts Spence (1973) signaling theory, which suggests that competent oversight should reduce the likelihood of earnings management. In this case, the expertise of the audit committee does not appear to have a significant impact on whether management chooses to manipulate earnings. These findings are consistent with those of Ardyanti (2023), Pertiwi & Laksito (2019), and Widijaya & Veronica (2022), who also found no evidence that audit committee expertise affects earnings management practices.

According to POJK Number 55/POJK.04/2015, an audit committee must have at least one member with expertise in accounting or finance. This regulation also emphasizes that audit committee members should possess the ability to understand financial statements, the company's operations, audit processes, risk management, and relevant laws and regulations. Such qualifications are intended to enhance the audit committee's capacity to effectively oversee management and prevent fraudulent activities within the firm. The expertise in accounting or finance is believed to enable the audit committee to provide stronger oversight, ensuring that management's actions align with the company's best interests (Nurliasari & Achmad, 2020).

However, in practice, this competency is not accompanied by an understanding of the firm's operations and business activities, so audit committee members are unable to have a major influence on preventing earnings management actions (Sihombing & Laksito, 2017). Based on research from Karina (2020), it also states that a firm only complies with government regulations without emphasizing the actual function of the audit committee to prevent fraud within the firm. This is also supported by the results of the descriptive tests, which show that, on average, the audit committees have a significant proportion of members with expertise in finance, for approximately 60% of the total members of the audit committee.

### **The Influence of Audit Committee Tenure on Earnings Management**

The findings of this study indicate that the duration of an audit committee member's term does not significantly affect the occurrence of earnings management within the firm. These results align with Ulina et al. (2018), who also concluded that audit committee tenure does not influence the likelihood of earnings management actions.

The results of this study are not in line with the signal theory proposed by Spence (1973). In signal theory, the audit committee acts as a supervisor or control party regarding the suitability of information or signals that will be given by management to the public and shareholders and minimizes earnings management actions. Therefore, the term of office of the audit committee influences this supervisory function. However, based on the results of this research, the length or shortness of the audit committee's tenure of office has no effect on the earnings management actions that occur.

The term of office of the audit committee does not have a significant influence on the management of profits. This can be influenced by members of the audit committee who have a period of office that is less likely to be familiar with the characteristics of the firm (Cheung & Adelopo, 2022). This is supported by the descriptive test results, which reveal that the average tenure of audit committee members is relatively short, approximately 3 years. Given such a short tenure, audit committee members may not have enough time to gain a deep understanding of the company, its business activities, and management behavior, which limits their ability to provide effective oversight.

## **5. CONCLUSION**

This research aimed to examine the impact of firm characteristics on earnings management in LQ45 companies during the 2018–2022 period. The firm characteristics analyzed in this study include firm size, managerial ownership, leverage, audit committee expertise, and audit committee tenure. The results indicate that firm size has a significant impact on earnings management, suggesting that both large and small firms may be motivated to engage in earnings management. However, the study found that the other four variables—managerial ownership, leverage, audit committee expertise, and audit committee tenure—do not have a significant effect on earnings management.

Additionally, this study has several limitations. One key limitation is that the sample consisted only of firms that were consistently listed in the LQ45 index during the 2018–2022 period, resulting in a relatively small sample size. As a result, the findings may not be fully generalizable to other firms or industries outside the LQ45 index.

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