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DETERMINATION OF PROFIT MANAGEMENT AND ITS IMPLICATIONS ON STOCK RETURNS ("AN EMPIRICAL INVESTIGATION OF MANUFACTURING COMPANIES LISTED ON THE INDONESIA STOCK EXCHANGE BETWEEN 2018 AND 2022")

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Abstract

The purpose of this study is to examine the factors that influence earnings management and how they affect stock returns for manufacturing businesses listed on the Indonesia Stock Exchange (IDX) between 2018 and 2022", based on the findings of the model selection test, this study employs panel data regression with a random effect model (REM) approach. "The study's findings show that all independent variables significantly affect stock returns and earnings management, and that stock returns are significantly impacted by earnings management". These results suggest that investors may take earnings management strategies into account when choosing which investments to make. The study's ramifications help investors evaluate financial data before making an investment and firm managers handle financial reports. Furthermore, authorities might use the study's findings as a guide when creating more open regulations to boost investor trust in the Indonesian capital market.

Keywords: Earnings Management, Stock Returns.

INTRODUCTION

Profit is an indicator of operational activity measurement and is a benchmark for the success of achieving company performance. The profit value reported in the financial statements is the basis for decision-making for investors and creditors in evaluating management performance and predicting future profits (Fajri, 2019).

Until now, there is still controversy and it has become an important issue for practitioners and academics, they question whether earnings management is categorized as fraud or not. Dechow and Skinner (2000) show the difference between accounting manipulations and fraudulent accounting. Accounting manipulation is still on the threshold of tolerance of accounting rules while fraudulent accounting practices deviate from accounting rules and standards. The 2018 Report to the Nations survey by the Association of Certified Fraud Examiners (ACFE) found that 10% of financial disclosures for the period under consideration were fake. 16 cases (6.7%) of the 239 fraud cases that occurred in the country included financial statement fraud, according to ACFE Indonesia (2019).

"Earnings management is influenced by several factors including managerial ability which is reinforced by the statement of Demerjian, et al (2012) that company management with high ability uses its ability to increase discretionary accruals and conversely reduces real earnings management". The findings of this study are corroborated by Isnugrahadi & Kusuma (2009) and Utami and Syafruddin (2013), who claimed that a manager's intensity of earnings

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management increased with his or her level of skill. This occurs as a result of information asymmetry, which gives management access to data that can be utilized for engineering. Reducing earnings management practices that lead to accounting fraud requires the implementation of an effective corporate governance system. To prevent excessive earnings management, good corporate governance must be implemented (Bambang, 2009).

The internal governance structure of the business is one element that restricts managers' capacity and chance to implement earnings management strategies, according to Dechow et al. (2012). One of these elements is the function of independent commissioner oversight in ensuring that corporate governance effectively protects creditors and shareholders, ensuring that they receive a return on their investment. The presence of an independent board of commissioners, audit committee, and the caliber of external auditors are examples of compliance with internal and external governance that the business can execute.

In this study, the quality of external auditors is seen from the components of external auditors that can affect audit quality. DeAngelo (1981) defines audit quality as the auditor's ability to find and report errors in the accounting process at the audited company. Waweru and Prot (2018) stated that audit quality can reduce discretionary accruals.

However, board independence, gender, and managerial ownership can increase discretionary accruals. Audit quality is seen as being able to improve the quality of financial reporting because high-quality audits are expected to play an effective role as a deterrent to fraudulent accounting. The audit of financial statements aims to assess the fairness of the financial statements, so audit quality is an important factor in financial reporting with high integrity.

External auditors who have good audit quality are able to produce more relevant financial statement information that can describe the actual condition of the company. Making adjustments to the accounting rules in use is another attempt to curtail earnings management methods. Prior to the adoption of IFRS, Indonesia had more flexible accounting standards that permitted any company to use a variety of accounting techniques.

The potential for innovative accounting techniques and earnings management strategies is increased by this flexible accounting standard. This is supported by the findings of a study conducted by Barth, Landsman, and Lang (2008), which used a sample of 327 businesses in 21 countries (out of 1,896 businesses observed) that voluntarily embraced IAS between 1994 and 2003 to compare the quality of accounting before and after the adoption of IFRS.

“This study found evidence that after the introduction of IFRS, the level of earnings management became lower, value relevance became higher, and loss recognition became more timely compared to the period before the accounting transition was still based on local GAAP”.

The results of the study are supported by the results of research conducted by Gebhardt and Novotny (2011); Qomariah (2013); Kurniawati (2014) and Ayem & Wahidah (2018). Handayani (2014) who stated that the adoption of IFRS had no effect on accrual earnings management or real earnings management in manufacturing companies in Indonesia.

The Seybold Report
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According to Narendra (2013), “the implementation of IFRS has a favorable impact on earnings management; nonetheless, the degree of earnings management has not decreased significantly”. The adoption of IFRS as a financial accounting standard in Indonesia has no impact on the degree of accrual earnings management of the company, according to Fajarini & Wahyuningrum's (2019) analysis of data from 38 manufacturing companies listed on the IDX for the years 2013–2017. Jaya (2017) examined data from 30 mining companies listed on the IDX for the period studied from 2009 to 2014.

“The research conducted showed that the implementation of IFRS has a positive effect on earnings management activities”. Companies in the various manufacturing industry sectors “have more complex operational activities, starting from processing raw materials to finished goods, so it can be suspected that during this complex process, earnings management practices can occur”. Therefore, the various manufacturing industry sectors are ideal for research related to their earnings management. The phenomena related to the influence of managerial ability, independent commissioners, audit committees, external auditor quality, and IFRS implementation on earnings management and its implications for stock returns show that this research is important to conduct.

LITERATURE REVIEW

Agency Theory

A corporation with a capital market registration has several shareholders, or what are more often known as company owners, as a result of its shares being traded to the general public. “Owners or shareholders delegate authority to management to oversee the business's operations with the goal of enhancing shareholder welfare”. Nonetheless, management of the company often has their own interests and acts to satisfy them, which diverges from the interests of shareholders. Agency difficulties, which show a conflict between the two parties rather than a positive working relationship, “can occur when the interests of shareholders and firm management are not aligned”. Therefore, “executive compensation is offered to firm management in order to align their interests with those of shareholders and avoid agency concerns”. Reducing risky conduct is intended to boost the company's added value (Bebchuk et al., 2002).

Positive Accounting Theory

After the normative approach to accounting theory gave way to the positive approach, positive accounting theory was born. “Positive accounting theory aims to describe and forecast accounting-related occurrences, whereas normative accounting theory offers a formula for accounting procedures (Ghozali & Chariri, 2007)”. When Watts and Zimmerman's (1986) paper "Towards a Positive Theory of the Determination of Accounting Standard" was released, positive accounting theory was acknowledged. “Positive accounting theory has emerged as the predominant paradigm of accounting research based on qualitative empirical data it can be used to support various accounting procedures or methodologies that are currently in use or to identify new models for the future development of accounting theory”.

The Seybold Report
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Signaling Theory

Signal theory can be applied to situations where companies have different qualities, meaning that company management tries to reveal the type and performance of the company by using information signals to the market. Conelly, et al. (2011) stated that most signaling models use company quality characteristics to distinguish between the quality of one company and another. Their research explains that the main elements of signal theory are the signal giver and the signal receiver. So in the context of guarantees to external parties related to financial reporting, the signal giver is an insider, namely, company management with various information about the company's prospects that are not easily available to external parties such as shareholders and other stakeholders. Therefore, company management uses this information as a signal to external parties. Signal theory can be applied to situations where companies have different qualities, meaning that company management tries to reveal the type and performance of the company by using information signals to the market. Conelly, et al. (2011) stated that most signaling models use company quality characteristics to distinguish between the quality of one company and another. Their research explains that the main elements of signal theory are the signal giver and the signal receiver. So, in the context of guarantees to external parties related to financial reporting, the signal giver is an insider, namely, the company's management with various information about the company's prospects that are not easily available to external parties such as shareholders and other stakeholders. Therefore, the company's management uses this information as a signal to external parties.

Corporate Governance (CG)

“Corporate governance (CG) can be defined as a system designed to regulate and control a company”. Magnanelli & Pirolo (2021) “explain that CG plays a role in mitigating conflicts of interest between stakeholders in the company”. “The governance framework exists to encourage efficient use of resources and equally requires accountability for the management of those resources”. The goal is to align the interests of individuals, corporations and society as much as possible.

“The Organization for Economic Co-operation and Development (OECD) defines corporate governance (CG) as a set of connections between shareholders, the board of directors, management, and other stakeholders”. Additionally, CG offers a framework for establishing corporate objectives, deciding how to reach them, and tracking performance. In addition to facilitating efficient monitoring, good CG should encourage the firm to spend resources more efficiently by giving the board and management the proper incentives to pursue objectives that are in the best interests of the business and shareholders.

Earnings Management

There are two ways to look at earnings management techniques. According to Dechow et al. (2012), “who defined earnings management as profit that is purposefully declared but not in compliance with the application of accounting standards, one side views earnings management methods as improper (negative)”. A company's management may behave inside or outside the bounds of appropriate accounting principles when it comes to earnings management (Frank et

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al., 2009). Companies with significant information uncertainty also employ opportunistic earnings management, which has a negative correlation with future stock price performance, according to Yung & Root (2019). It has been demonstrated that managers of companies are motivated to publish results based on forecasts when earnings are unclear. Therefore, if the reported profit is purposefully outside the bounds of accounting rules and not in compliance with them, profits management can be considered an act of fraud.

Efficient Market Hypothesis

One of the fundamental frameworks of finance and a significant pillar in the evolution of financial theory is the efficient market hypothesis (Smith, 1990). One of the hypotheses that has drawn the greatest attention is the efficient market theory, which has been empirically tested in practically every capital market on the planet. Fama first proposed the Efficient Market Hypothesis in 1970. If no investor, whether individual or institutional, can generate abnormal returns over the long run using current trading tactics, the market is considered efficient. This indicates that stock prices reflect all available information or that market prices are a reflection of the information that is currently available. According to this idea, if new information is disseminated, the stock price will swiftly and impartially respond to the new information, bringing the price back to fair value and preventing investors from obtaining abnormal gains.

Managerial Ability

According to Finkelstein & Hambrick (1990), "managerial ability demonstrates that management of a corporation possesses a special blend of knowledge, experience, personal traits, political intelligence, and wisdom that they use to enhance performance". Furthermore, Kor (2003) clarified the connection between managerial aptitude and the expertise, experience, and knowledge of business management. Thus, it can be said that management's ability to increase the company's performance stems from their knowledge and expertise. Demerjian et al. (2012) evaluated managerial skill by looking at how well a company's management produced revenue. The Decision-Making Unit or Economic Activity Unit (UKE) states that DEA (Data Envelopment Analysis) is used to test managerial skills. The DEA technique, according to Abidin & Endri (2009), "is a non-parametric frontier method that computes the comparison of output and input ratios for all units compared in a population using a linear programming model". Similar to more popular efficiency metrics like return on assets and other profitability ratios, "DEA is a statistical process used to assess the relative efficiency of dividing entities known as Decision Making Units by converting specific inputs" (labor, capital, etc.) into outputs (revenue, profit, etc.) (Demerjian et al., 2012).

Independent Commissioner

"The Decree of the Chairman of Bapepam Number Kep-643/BL/2012 states that an independent commissioner is a member who is not affiliated with the issuer or public company, does not directly or indirectly own shares, and has no business relationship with the issuer or public company that is connected to its operations". "An independent commissioner is a member of the board of commissioners who is not connected to management, other commissioners, or controlling shareholders, and who is free from any business relationships or

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other relationships that might impair his capacity to act independently or exclusively in the company's best interests, according to the National Committee on Governance Policy, 2004".

Audit Committee

The Indonesia Stock Exchange (IDX) requires listed companies to establish an audit committee and independent commissioners in order for them to implement good corporate governance. At least three people make up the audit committee: one is the listed company's chairman and independent commissioner; another is an outside party; and at least one of them has financial and accounting qualifications (Suaryana, 2005).

External Auditor Quality

According to Waweru & Prot (2018), "the caliber of the external auditor is one of the crucial components of corporate governance". According to Babic (2003), "there are two main categories of corporate governance mechanisms" : (1) internal corporate governance mechanisms, which use different organizational components to control the company, such as managers owning shares, and (2) external corporate governance mechanisms, which use external mechanisms of the company, such as presenting reputational agents like the accounting profession, also known as external auditors**.**

IFRS Implementation

"The International Accounting Standards Board (IASB), Commission of the European Communities, International Organization of Securities Commissions (IOSOC), and International Federation of Accountants (IFAC) are the four main international organizations that prepare the International Accounting Standards Board (IASB), which is responsible for issuing the International Accounting Standard Board (IASB)". The IASB has issued "principles-based standards and taken steps to eliminate the accounting alternatives used and require better accounting measurements that are reflected by the company's economic position and performance in order to achieve its goal of developing higher quality financial reporting standards that can later be widely accepted by all countries in the world". The existence of limited alternatives can improve accounting quality and limit management's opportunistic policies in determining the amount of accounting quality (Ashbaugh & Pincus, 2001).

Hypothesis

Hypothesis 1: Managerial Ability Influences Earnings Management.

Hypothesis 2: Independent Commissioners have an effect on Earnings Management

Hypothesis 3: Audit Committee has an effect on Earnings Management

Hypothesis 4: External Auditor Quality has an effect on Earnings Management

Hypothesis 5: IFRS Implementation has an effect on Earnings Management

Hypothesis 6: Managerial Ability, Independent Commissioners, Audit Committee, External Auditor Quality, and IFRS Implementation have an effect together on Earnings Management

ISSN 1533-9211

DOI: 10.5281/zenodo.15486975

Hypothesis 7: Managerial Ability has an effect on Stock Returns

Hypothesis 8: Independent Commissioners have an effect on Returns

Hypothesis 9: Audit Committee has an effect on Stock Returns

Hypothesis 10: External Auditor Quality has an effect on Stock Returns

Hypothesis 11: IFRS Implementation has an effect on Stock Returns

Hypothesis 12: Earnings Management has an effect on Stock Returns

Hypothesis 13: Managerial Ability, Independent Commissioners, Audit Committee, External Auditor Quality, IFRS Implementation and Earnings Management have an effect together on Stock Returns

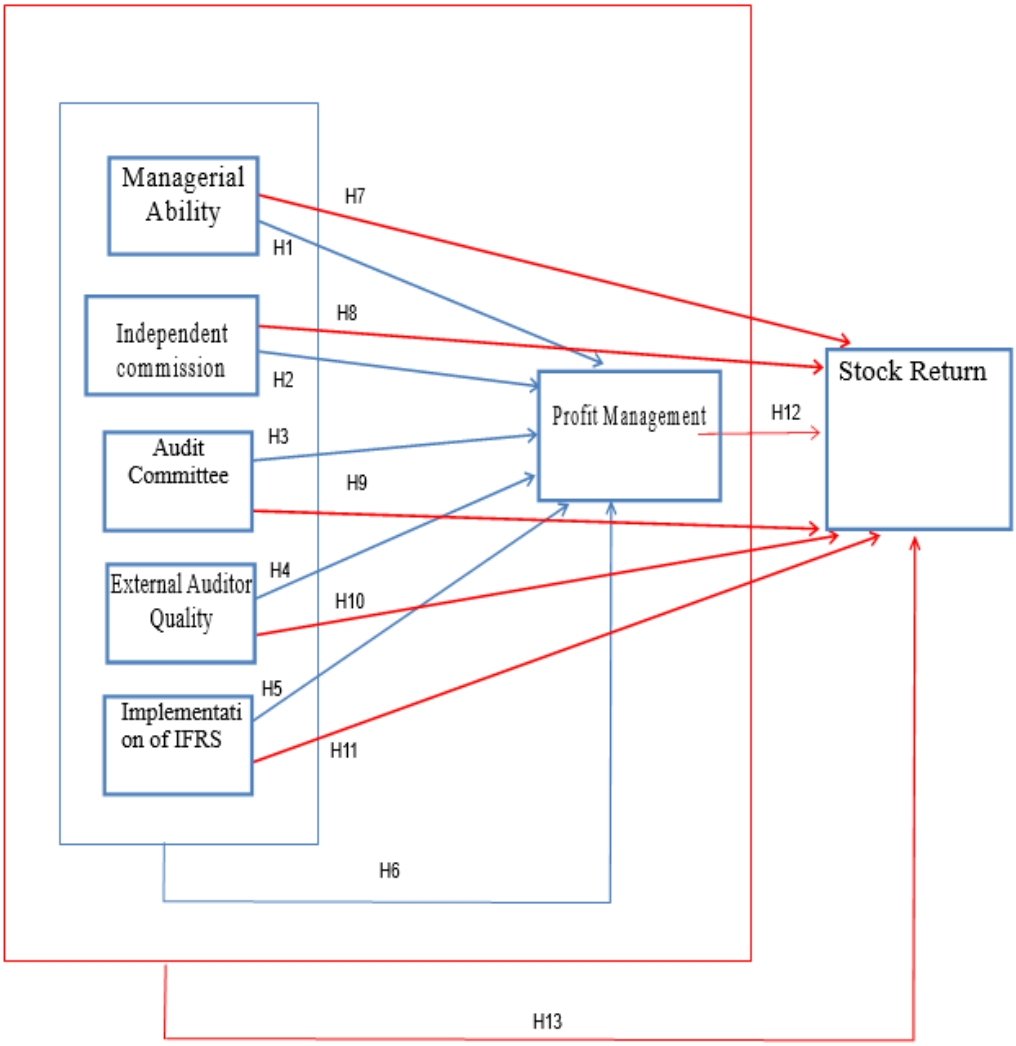

Figure 1: Research Framework

The Seybold Report
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METHODOLOGY

Research Design

In order to evaluate theories, this study employs a quantitative approach that measures variables as numerical values that are subsequently subjected to statistical analysis. The purpose of the study was to ascertain how managerial skill, governance adherence, and the application of IFRS affect earnings management and how this affects stock returns.

Participants

The focus of the research proposed by the researcher is the various manufacturing industry sectors listed on the Indonesia Stock Exchange (IDX) consisting of 36 companies.

Data Collection

This study uses secondary data to test the research hypothesis. Kabir (2016) "explains that data collected from sources that have been published in any form is called secondary data, so that the available information can be accessed for research purposes".

Secondary data is obtained by collecting various sources from various institutions related to and connected with this study such as books, journals, documents, literature, scientific works and literature from the internet.

"This study uses data sources from annual financial reports available on the official website accessed" via www.idx.co.id and stock price data accessed via www.yahoofinance.com. The unit of analysis used is various manufacturing industry companies listed on the Indonesia Stock Exchange (IDX).

The following are details of data collection:

1. Annual financial report data for manufacturing companies for the period 2018 - 2022 accessed via the site www.idx.co.id.
2. Stock price data for manufacturing companies for the period 2018 - 2022 accessed via www.yahoofinance.com or annual financial reports via the site www.idx.co.id.

Research Technique

In the first model, managerial skill, governance compliance (as measured by "independent commissioners, audit committees", and the caliber of external auditors), and IFRS implementation comprise the independent variables. "The dependent variable in this study is earnings management".

The relevance of financial information's worth is the dependent variable in the second model, whereas managerial skill, governance compliance (as measured by audit committees, independent commissioners, and the caliber of external auditors), and IFRS implementation are the independent factors.

The Seybold Report
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Table 1: Operational Variables

Variabel	Draft	Source	Measurement	Scale
Stock Return	Profit obtained from changes in stock prices from one period to the next.	Endri et al. (2021)	$Rt = \frac{P_t - P_{t-1}}{P_{t-1}}$	Ratio
Earnings Management	Conditional earnings model and earnings model to measure accrual earnings management become a proxy for firm performance.	(Stubben, 2010)	Revenue Model: $\Delta ARit = \alpha + \beta_1 \Delta R_{1\_3}it + \beta_2 \Delta R_4it + e$ Conditional Revenue Model: $\Delta ARit = \alpha + \beta_1 \Delta Rit + \beta_2 \Delta Rit \times SIZEit + \beta_3 \Delta Rit \times AGEit + \beta_4 \Delta Rit \times AGE\_SQit + \beta_5 \Delta Rit \times GRMit + \beta_6 \Delta Rit \times GRM\_SQit + e$	Ratio
Managerial Ability	"Management ability to make and implement business decisions that can affect efficiency".	(Charnes et al., 1978) (Demerjian et al., 2012)	$MAX\theta = \frac{\Sigma_1^s - 1U_1Y_{ik}}{\Sigma_j^m - V_1X_{jk}}$ $0 \leq \frac{\text{rutput}}{\text{Input}} < 1(\text{inefisien})$ $\frac{\text{rutput}}{\text{Input}} \leq 1(\text{efisien})$	Ratio
Independent Commissioner	Monitoring of policies and implementation of operational activities	(Xie et al., 2003)	$\frac{\Sigma\text{Independent Commissionern}}{\Sigma\text{the entire Board of Commissionersaris}}$	Ratio
Audit Committee	Governance principles related to transparency and disclosure have been implemented	(Abbott et al., 2004)	("Audit Committee consists of Independent Commissioners")/("Audit Committee in company i in period t")	Ratio
External Auditor	Quality Opinion on the fairness of financial statements	(DeAngelo, 1981) (Elder et al., 2015); (Behn et al., 2008); (Deis Jr & Giroux, 1992)(Francis & Yu, 2009) (Herusetya, 2009) Jordan et al., (2010)"	"Scoring: competence, independence, audit tenure, peer review, and affiliation with the big 4" (Score obtained/6) x 100%	Ratio
Application of IFRS	The basis of accounting principles includes assessment and disclosure of the substance of economic transactions.	(Deloitte Touche Tohmatsu, 2009)	$\frac{\text{Z SAK applied}}{\text{Z SAKdetermined}}$	Ratio

The Seybold Report
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Panel Data Regression Analysis

"Panel data is data that is structured in time series and cross-section, data like this is obtained by observing a series of cross-section observations (between individuals) in a certain period" (Ariefianto, 2012).

The advantage of panel data is mainly because it is robust to heteroscedasticity and normality, in addition, with certain treatments, this type of data structure is expected to provide more information (Ariefianto, 2012).

In addition, "by combining time series and cross-section observations, panel data provides more information, more variation, less collinearity between variables, more degrees of freedom, and is more efficient" (Gujarati, 2009).

Because it includes individuals (cross sections) from many firms with a time series spanning 2018–2022, this study uses panel data. Since panel data combines time series and cross-sectional data, the model can be expressed as follows (Djalal, 2006):

$$\mathbf{Yit = \alpha + \beta Xit + \varepsilon it \; ; \; i = 1,2,...,N \; ; \quad t = 1,2,..., T}$$

with:

α = "Intercept"

β = "Variable coefficient"

ε = "Standard Error"

N = "Number of observations"

T = "Number of times"

N x T = "Number of panel data"

RESULTS AND DISCUSSION

Result

This study empirically proves and analyzes the factors that influence Earnings Management, as well as its implications for Stock returns in various manufacturing industry companies listed on the Indonesia Stock Exchange (IDX) during the research period between 2018 - 2022. Factors that influence Earnings Management include Managerial Ability, Independent Commissioners, Audit Committees, External Auditor Quality, IFRS Implementation, which have implications for Stock Returns.

The Econometric E-views 12 (eviews) tool was used to analyze the data in this study. This study uses data from manufacturing companies listed on the Indonesia Stock Exchange (IDX) during 2018-2022. Data includes Managerial Ability, Independent Commissioners, Audit Committees, External Auditor Quality, IFRS Implementation, Earnings Management and Stock Returns.

The Seybold Report
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Table 2: Descriptive Analysis

Date: 05/03/25 Time: 23:04						
Sample: 15						
Common sample						
	MNJ__LABA?	**KEMAMPUAN_MNJ?**	**KOMISARIS_INDEPENDEN?**	**KOMITE_AUDIT?**	**KUALIATAS_AUDITOR_EKS?**	**IFRS?**
Mean	3.414879	0.516667	4.216667	3.666667	3.183333	0.788889
Median	4.293450	1.000000	4.000000	4.000000	3.000000	1.000000
Maximum	19.49602	1.000000	9.000000	6.000000	4.000000	1.000000
Minimum	-9.000000	0.000000	1.000000	2.000000	1.000000	0.000000
Std. Dev.	3.623091	0.501116	1.861924	0.762237	0.602370	0.409235
Skewness	-0.432429	-0.066704	0.348733	1.020423	-0.405783	-1.415785
Kurtosis	5.494104	1.004449	2.192062	4.060651	3.981387	3.004448
Jarque-Bera	52.26402	30.00015	8.544185	39.67526	12.16321	60.13358
Probability	0.000000	0.000000	0.013953	0.000000	0.002285	0.000000
Sum	614.6781	93.00000	759.0000	660.0000	573.0000	142.0000
Sum Sq. Dev.	2349.695	44.95000	620.5500	104.0000	64.95000	29.97778
Observations	180	180	180	180	180	180
Cross sections	36	36	36	36	36	36

The Seybold Report
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"Mean, median, maximum, minimum, standard deviation, skewness, kurtosis, Jarque-Berra statistics, and p-value are all included in the description of statistical data". For every variable employed in the study, the "mean, median, maximum, and minimum values" display distinct numbers, and the Independent Commissioner has the greatest number of all four indicators. The standard deviation, a metric used to quantify data dispersion or spread, displays varying values. The Independent Commissioner variable has the highest standard deviation value (1.728042), indicating that it deviates more from expectations than other variables. In contrast, the IFRS and managerial ability factors had the lowest variation (0.050094). "Skewness is a measure of the asymmetry of the statistical data distribution around the average (mean)". Zero skewness characterizes a symmetrical normal distribution. "Positively skewed data distributions have a long tail on the right (long right tail), whereas negatively skewed data distributions have a long tail on the left (long left tail)". Quality of External Auditor, Independent Commissioner, Audit Committee, and Earnings Management, and Stock Return variables have positive values, however the IFRS and Managerial Ability factors have negative values.

Kurtosis calculates the data distribution's height. Kurtosis is three in a normal distribution. "The data distribution is referred to as leptokurtic if the kurtosis value is higher than 3, indicating that the distribution has a higher peak than the normal distribution". On the other hand, the data distribution is regarded as platykurtic—that is, flatter than the normal distribution—if the kurtosis is smaller than 3. The IFRS, Managerial Ability, Audit Committee, External Auditor Quality, and Earnings Management variables in this study have kurtosis of less than 3, but the Independent Commissioner and Stock Return variables have kurtosis of greater than 3. "A statistical test called the Jarque-Bera (JB) test is used to determine if the study's data has a normal distribution". This test compares the data to the normal distribution in order to assess the variations in skewness and kurtosis. "In this test, the JB distribution has a degree of freedom of two, while the null hypothesis (H0) asserts that the data has a normal distribution". The computed probability indicates the chance that the JB value will exceed (in absolute value) the observed value under the null hypothesis. According to the data utilized in this study, which examines the panel data regression model for the years 2018–2022, H1 is accepted and the data is not normally distributed with $\alpha = 5\%$. This is because, according to the statistical results, all variables have Jarque-Bera values greater than 5% (Jarque-Bera> 5%). Although a non-normal distribution is found, this is not a problem in Panel Data Regression, so data that is not normally distributed can be ignored (Djalal, 2006).

Results and Analysis of Model I Estimation of Earnings Management Panel Data Regression Estimation Model

Table 3: Random Effect Estimation Model Model 1

Dependent Variable: MNJ__LABA?			
Method: Pooled EGLS (Cross-section weights)			
Date: 05/02/25 Time: 11:52			
Sample: 1 5			
Included observations: 5			
Cross-sections included: 36			

The Seybold Report
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Total pool (balanced) observations: 180				
Linear estimation after one-step weighting matrix				
Variable	**Coefficient**	**Std. Error**	**t-Statistic**	**Prob.**
C	10.14717	1.328393	7.638676	0.0000
KEMAMPUAN_MNJ?	0.719803	0.238827	3.013911	0.0031
KOMISARIS_INDEPENDEN?	0.117650	0.050878	2.312407	0.0222
KOMITE_AUDIT?	1.120555	0.332587	3.369214	0.0010
KUALIATAS_AUDITOR_EKS?	0.416226	0.148170	2.809104	0.0057
IFRS?	0.545843	0.241686	2.258482	0.0255
Fixed Effects (Cross)				
ADMG--C	-2.858771			
AMIN--C	0.883732			
ASII--C	2.815299			
BATA--C	1.526288			
BIMA--C	2.805672			
BOLT--C	1.885454			
BRAM--C	-0.843787			
ERTX--C	2.382714			
ESTI--C	1.284389			
GDYR--C	-7.422443			
GJTL--C	-0.711400			
HDTX--C	-5.089809			
IKBI--C	3.268656			
IMAS--C	-2.979980			
INDR--C	-3.248279			
INDS--C	-3.539219			
JECC--C	2.691254			
KBLI--C	4.018742			
KBLM--C	2.246592			
KRAH--C	0.367540			
LPIN--C	5.314649			
MASA--C	-2.454728			
PBRX--C	0.412511			
POLY--C	1.154490			
PRAS--C	1.105224			
PTSN--C	1.708081			
RICY--C	-3.740522			
SCCO--C	0.358419			
SMSM--C	1.903892			
SRIL--C	-0.634282			
SSTM--C	-0.326667			
STAR--C	-3.103028			
TFCO--C	-4.646519			
TRIS--C	-1.283578			
UNIT--C	0.768362			
VOKS--C	3.981052			
	Effects Specification			
Cross-section fixed (dummy variables)				

The Seybold Report
ISSN 1533-9211
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	Weighted Statistics		
Root MSE	2.389882	R-squared	0.878855
Mean dependent var	7.387541	Adjusted R-squared	0.843993
S.D. dependent var	8.087419	S.E. of regression	2.719602
Sum squared resid	1028.077	F-statistic	25.20952
Durbin-Watson stat	1.928440	Prob(F-statistic)	0.000000
	Unweighted Statistics		
R-squared	0.540486	Mean dependent var	3.414879
Sum squared resid	1079.718	Durbin-Watson stat	2.034661

Fixed Effects Model Estimation

$$Y = 10.14717 + 0{,}719803*X1 + 0{,}117650*X2 + 1{,}120555*X3 + 0{,}416226*X4 + 0{,}545843*X5 + e$$

Description:

X1= "Managerial Ability"

X2= "Independent Commissioner"

X3= "Audit Committee"

X4= "Audit Quality"

X5= "IFRS"

Y = "Earnings Management"

DISCUSSION OF MODEL I

1. The Influence of Managerial Ability on Earnings Management

"The results of this hypothesis test are consistent with the research hypothesis that managerial ability has a significant effect on earnings management in manufacturing sector companies listed on the Indonesia Stock Exchange (IDX) in the 2018–2022 period". "Table 3 above demonstrates that managerial ability has a significant effect on earnings management with a regression coefficient" value of 0,719803, as indicated by the t-statistic value = 3.013911 a probability value (Prob) of 0.0031, smaller than $\alpha = 0.05$ (0.0000 <0.05) so that H0 is rejected and H1 is accepted.

2. The Influence of Independent Commissioners on Earnings Management.

With a regression coefficient value of 0.117650, "Table 3 above demonstrates the enormous impact independent commissioners have on earnings management". H0 is rejected and H2 is accepted, as evidenced by the t-statistic value = 2.312407 and a probability value (Prob) of 0.0222, which is less than $\alpha = 0.05$ (0.0222 <0.05). "Every rise in independent commissioners will result in an increase in earnings management, according to the independent commissioner variable's regression coefficient value of 0.117650 on earnings management". "The findings of this hypothesis test support the research hypothesis which holds that independent

The Seybold Report
ISSN 1533-9211
DOI: 10.5281/zenodo.15486975

commissioners significantly impact earnings management in manufacturing businesses listed between 2018 and 2022 on the Indonesia Stock Exchange (IDX)".

3. The Influence of the Audit Committee on Earnings Management

With a regression coefficient value of 1.120555, a t-statistic value of 3.369214, and a probability value (Prob) of 0.0010, less than α = 0.05 (0.0010 <0.05), "Table 3 above demonstrates that the audit committee significantly affects earnings management". As a result, H0 is rejected and H3 is accepted. "Every rise in the audit committee will result in an increase in earnings management, according to the independent commissioner variable's regression coefficient value of 1,120555". "The findings of this hypothesis test support the study hypothesis, which holds that over the 2018–2022 timeframe, the audit committee significantly affects earnings management in manufacturing sector companies listed on the Indonesia Stock Exchange (IDX)".

4. The Effect of External Auditor Quality on Earnings Management

"The results of this hypothesis test are consistent with the research hypothesis that the quality of external auditors has a significant effect on earnings management in manufacturing sector companies listed on the Indonesia Stock Exchange (IDX) in the 2018–2022 period". Table 3 above demonstrates that the quality of external auditors has a significant effect on earnings management with a regression coefficient value of 0.416226, indicated by a t-statistic value = 2.809104 and a probability value (Prob) of 0.0057, smaller than α = 0.05 (0.0057 <0.05), thus rejecting H0 and accepting H4.

5. The Effect of IFRS on Earnings Management

With a regression coefficient value of 0.545843 shown by a t-statistic value = 2.258482 and a probability value (Prob) of 0.0255, smaller than α = 0.05 (0.0255 <0.05), Table 3 above demonstrates that IFRS has a considerable impact on earnings management. "As a result, H0 is rejected and H5 is approved". "Every increase in IFRS will result in an increase in earnings management, according to the external auditor quality variable's regression coefficient" value of 0.545843. "The research hypothesis, which asserts that IFRS significantly affects earnings management in manufacturing sector companies listed on the Indonesia Stock Exchange (IDX) over the 2018–2022 timeframe, is supported by the results of this hypothesis test".

6. Joint Panel Data Regression Model Estimation

Table 3 F test findings indicate that H0 is rejected with an F-Statistic value of 25.20952 > 1.74 F Table and a probability value of 0.000000, both of which are less than α = 0.05. "This demonstrates how the earnings management of numerous industrial companies listed on the Indonesia Stock Exchange during the 2018–2022 period is greatly impacted by all independent variables, including Managerial Ability, Independent Commissioners, Audit Committee, External Auditor Quality, and IFRS. These results support the study hypothesis, which holds that IFRS, External Auditor Quality, Audit Committee, Managerial Ability, and Independent Commissioners all have an impact on earnings management".

The Seybold Report
ISSN 1533-9211
DOI: 10.5281/zenodo.15486975

7. Panel Data Regression Model Estimation for Each Company

"Even with the same regressor coefficient for each Earnings Management determinant variable, the estimation results from using the random effect model for the panel data regression method can demonstrate the difference in the constant (intercept) of the 36 companies in various industries listed on the Indonesia Stock Exchange during the 2018–2022 period that were the selected samples in this study". According to the random effect model used in this study, every business has a constant (intercept) that stays the same across time, and every business in every industry that was listed on the Indonesia Stock Exchange between 2018 and 2022 has its own constant. Likewise with the regression coefficient, the value of the magnitude remains the same over time (time invariant). The estimation of the panel data regression method equation for each company in various industries listed on the Indonesia Stock Exchange during the 2018-2022 period is shown in table 3. Of the 36 companies in various industries listed on the Indonesia Stock Exchange during the 2018-2022 period in the panel data regression method equation of the random effect model for each company, the following can be concluded:

a. With a total constant value of [Ci +10.14717] = 5.314649 + 10.14717 = 15.4611819, PT Multi Prima Sejahtera, Tbk (LPIN) is the company in a variety of industries listed on the Indonesia Stock Exchange that is most sensitive to changes in the Earnings Management variable due to factors that influence it, both internal and external, during the 2018–2022 period.

b. With a total constant value of [Ci +10.14717] = -7.422443 + 10.14717 = 2.724727, PT. Goodyear Indonesia, Tbk (RICY) is the company in a variety of industries listed on the Indonesia Stock Exchange that is least sensitive to changes in the RS variable as a result of factors that influence it, both internal and external, during the 2018–2022 period.

Results and Analysis of Stock Return Model II Estimation

Panel Data Regression Model Model II

Table 4: Fixed Effect Model Estimation Model 2

Dependent Variable: LRETURN_SAHAM?				
Method: Pooled EGLS (Cross-section weights)				
Date: 05/02/25 Time: 16:45				
Sample: 1 5				
Included observations: 5				
Cross-sections included: 36				
Total pool (balanced) observations: 180				
Linear estimation after one-step weighting matrix				
Variable	**Coefficient**	**Std. Error**	**t-Statistic**	**Prob.**
C	0.196026	0.077076	2.543278	0.0121
ZKEMAMPUAN_MNJ?	0.144899	0.038067	3.806455	0.0002
ZKOMISARIS_INDEPENDEN?	-0.013665	0.006229	-2.193672	0.0299
ZKOMITE_AUDIT?	-0.036594	0.014170	-2.582528	0.0108
ZKUALIATAS_AUDITOR_EKS?	0.065895	0.015213	4.331519	0.0000
ZIFRS?	-0.038601	0.017719	-2.178529	0.0311
MNJ__LABA?	0.225610	0.027723	0.020239	0.0439

The Seybold Report
ISSN 1533-9211
DOI: 10.5281/zenodo.15486975

Fixed Effects (Cross)				
ADMG--C	-1.653134			
AMIN--C	0.583422			
ASII--C	-0.046303			
BATA--C	-1.924629			
BIMA--C	-0.461432			
BOLT--C	-0.962262			
BRAM--C	0.044521			
ERTX--C	-1.996831			
ESTI--C	-1.383974			
GDYR--C	1.293735			
GJTL--C	0.597569			
HDTX--C	1.510328			
IKBI--C	-0.095770			
IMAS--C	-0.240437			
INDR--C	-0.268190			
INDS--C	0.676509			
JECC--C	0.285477			
KBLI--C	-0.409732			
KBLM--C	0.689129			
KRAH--C	-1.225511			
LPIN--C	0.963342			
MASA--C	0.385065			
PBRX--C	-0.428553			
POLY--C	-0.226481			
PRAS--C	-0.099651			
PTSN--C	-0.055852			
RICY--C	-0.618822			
SCCO--C	0.462393			
SMSM--C	1.179194			
SRIL--C	-1.250172			
SSTM--C	-0.205267			
STAR--C	1.598107			
TFCO--C	1.071209			
TRIS--C	0.762276			
UNIT--C	0.359975			
VOKS--C	1.090751			
	Effects Specification			
Cross-section fixed (dummy variables)				
	Weighted Statistics			
Root MSE	1.292710	R-squared		0.791198
Mean dependent var	0.688696	Adjusted R-squared		0.729163
S.D. dependent var	3.080866	S.E. of regression		1.476378
Sum squared resid	300.7976	F-statistic		12.75398
Durbin-Watson stat	2.486183	Prob(F-statistic)		0.000000
	Unweighted Statistics			
R-squared	0.349823	Mean dependent var		0.410769
Sum squared resid	307.1066	Durbin-Watson stat		2.751431

The Seybold Report
ISSN 1533-9211
DOI: 10.5281/zenodo.15486975

Fixed Effect Regression Model

$$Y = 0.196026 + 0.144899*X1 + (-0.013665)*X2 + (-0.036594)*X3 + 0.065895*X4 + (-0.038601)*X5 + 0.225610*Y + e$$

Description:

X1= "Managerial Ability"

X2= "Independent Commissioner"

X3= "Audit Committee"

X4= "Audit Quality"

X5= "IFRS"

Y = "Earnings Management"

Panel Data Regression Model Estimation for Each Company

"The estimation results from using the random effect model for the panel data regression method can show the difference in the constant (intercept) of the 36 companies in various industries listed on the Indonesia Stock Exchange during the 2018-2022 period which were the selected samples in this study, even with the same regressor coefficient for each determinant variable of Stock Return". The random effect model referred to in this study is that each company has a constant (intercept) that remains the same for various time periods and each company in various industries listed on the Indonesia Stock Exchange during the 2018-2022 period has its own constant. Likewise with the regression coefficient, the value of the magnitude remains the same over time (time invariant). "The estimation of the panel data regression method equation for each company in various industries listed on the Indonesia Stock Exchange during the 2018-2022 period is shown in table 4". Of the 36 companies in various industries listed on the Indonesia Stock Exchange during the 2018-2022 period in the panel data regression method equation of the random effect model for each company, the following can be concluded:

1. The company in various industries listed on the Indonesia Stock Exchange that has the largest sensitivity to changes in Stock Return variables due to factors that influence it, both internal and external factors during the 2018-2022 period is PT Buana Artha Anugerah Tbk (STAR) with a total constant value of [Ci +1.598107] = 0.196206 + 1.598107 = 1.598107
2. The company in various industries listed on the Indonesia Stock Exchange that has the smallest sensitivity to changes in Stock Return variables due to factors that influence it, both internal and external factors during the 2018-2022 period is PT. Eratex Djaja Tbk (ERTX) with a total constant value of [Ci +(-1.996831)] = 0.196206 - 1.996831 = -1.800625.

Discussion of Model II

1. The Effect of Earnings Management on Stock Returns

"Table 4 above shows that earnings management has a significant effect on stock returns with a regression coefficient value of 0.225610", this is indicated by the t-statistic value = 0.020239

The Seybold Report
ISSN 1533-9211
DOI: 10.5281/zenodo.15486975

and "a probability value (Prob) of 0,0439", smaller than α = 0.05 (0.0439 <0.05) so that H0 is rejected and H6 is accepted. "The regression coefficient value of the earnings management variable on stock returns is 0.225610 indicating that every increase in earnings management will increase stock returns". "The results of this hypothesis test are in line with the research hypothesis which states that earnings management has a significant effect on stock returns in manufacturing sector companies listed on the Indonesia Stock Exchange (IDX) in the 2018-2022 period".

2. The Effect of Managerial Ability on Stock Returns

"Table 4 above shows that managerial ability has a significant effect on stock returns with a regression coefficient" value of 0.144899, this is indicated by the t-statistic value = 3.806455 and a probability value (Prob) of 0.0002, smaller than α = 0.05 (0.0002 <0.05) so that H0 is rejected and H7 is accepted. The regression coefficient value of the managerial ability variable on stock returns is 0.225610, indicating that every increase in managerial ability will increase stock returns. "The results of this hypothesis test are in line with the research hypothesis which states that managerial ability has a significant effect on stock returns in manufacturing sector companies listed on the Indonesia Stock Exchange (IDX) in the 2018-2022 period".

3. The Influence of Independent Commissioners on Stock Returns

"Table 4 above shows that independent commissioners have a significant effect on stock returns with a regression coefficient value of -0.013665 this is indicated by the t-statistic value = -2.193672 and a probability value (Prob) of 0,0299, smaller than α = 0,05 (0,0299 <0,05) so that H0 is rejected and H8 is accepted". The regression coefficient value of the independent commissioner variable on stock returns is -0.013665, indicating that every increase in independent commissioners will increase stock returns. "The results of this hypothesis test are in line with the research hypothesis which states that independent commissioners have a significant effect on stock returns in manufacturing sector companies listed on the Indonesia Stock Exchange (IDX) in the 2018-2022 period".

4. The Influence of the Audit Committee on Stock Returns

"The results of this hypothesis test are consistent with the research hypothesis that the audit committee has a significant effect on stock returns in manufacturing sector companies listed on the Indonesia Stock Exchange (IDX) between 2018 and 2022". Table 4 above demonstrates that the audit committee has a significant effect on stock returns with a regression coefficient value of -0.036594, as indicated by the t-statistic value = -2.582528 and a probability value (Prob) of 0.0108, smaller than α = 0.05 (0.0108 <0.05), indicating that H0 is rejected and H9 is accepted.

5. The Effect of External Auditor Quality on Stock Returns

"The results of this hypothesis test are consistent with the research hypothesis that the audit committee has a significant effect on stock returns in manufacturing sector companies listed on the Indonesia Stock Exchange (IDX) between 2018 and 2022". Table 4 above demonstrates that the audit committee has a significant effect on stock returns with a regression coefficient

The Seybold Report
ISSN 1533-9211
DOI: 10.5281/zenodo.15486975

value of 0.065895, as indicated by the t-statistic value = 4.331519 and a probability value (Prob) of 0.0000, smaller than α = 0.05 (0.0000 <0.05), indicating that H0 is rejected and H9 is accepted**.**

6. The Effect of IFRS Implementation on Stock Returns

"H0 is rejected and H11 is accepted because Table 4 above demonstrates that the implementation of IFRS has a significant impact on stock returns with a regression coefficient" value of -0.038601, as indicated by the t-statistic value = -2.178529 and a probability value (Prob) of 0.0311, which is smaller than α = 0.05 (0.0311 <0.05). Every increase in IFRS implementation will result in higher stock returns, according to the regression coefficient value of -0.038601 for the IFRS implementation variable on stock returns. "The findings of this hypothesis test support the study's premise, which holds that the adoption of IFRS has a major impact on stock returns for manufacturing businesses listed between 2018 and 2022 on the Indonesia Stock Exchange (IDX)"**.**

7. Earnings Management Mediates the Effect of Managerial Ability, Audit Commissioner, Independent Commissioner, External Auditor Quality, IFRS on Stock Returns

Table 4 shows that the combined analysis of the discussion for two panel data regression models with the aim of analyzing the relationship pattern of both direct and indirect influences of independent variables on the dependent mediated by the Earnings Management (ML) variable. "The first model is a determinant of company performance as measured by the Earnings Management ratio and the second model is an implication for Stock Returns". **"**All independent variables, including Managerial Ability, Independent Commissioner, Audit Committee, External Auditor Quality, and IFRS, have a significant partial impact on Earnings Management, according to the first ML determinant model". Earnings management is significantly impacted by the combined effects of the Independent Commissioner, Audit Committee, Managerial Ability, External Auditor Quality, and IFRS. Both Managerial Ability, Independent Commissioner, Audit Committee, External Auditor Quality, IFRS, and Earnings Management have a significant impact on Stock Return (Tobin's Q), while the second model is an implication for Stock Return Value with independent variables that include "Managerial Ability, Independent Commissioner, Audit Committee, External Auditor Quality, IFRS, and Earnings Management".

Hypothesis Testing

1. Determination Coefficient (R2)

The degree to which independent factors like "independent commissioners, audit committees, auditor quality, managerial skill, and IFRS may explain the dependent variable—earnings management—can be ascertained using the determination coefficient (R2)". The degree to which independent variables and the dependent variable (earnings management) are closely related is gauged by the determination coefficient (R2). The dependent variable may be explained by its independent factors by 72,9%, according to the r-squared value of 0.729, or 72,9%.

ISSN 1533-9211

DOI: 10.5281/zenodo.15486975

2. Statistical F test

To ascertain if the independent and dependent variables are changed concurrently, the F test is utilized. The above coincidence effect table shows that the F value of 12.75398 and the likelihood of 0.002 are significant at α = 5%, indicating that the percentage of stock returns is simultaneously impacted by independent commissioners, audit committees, auditor quality, managerial skill, and IFRS.

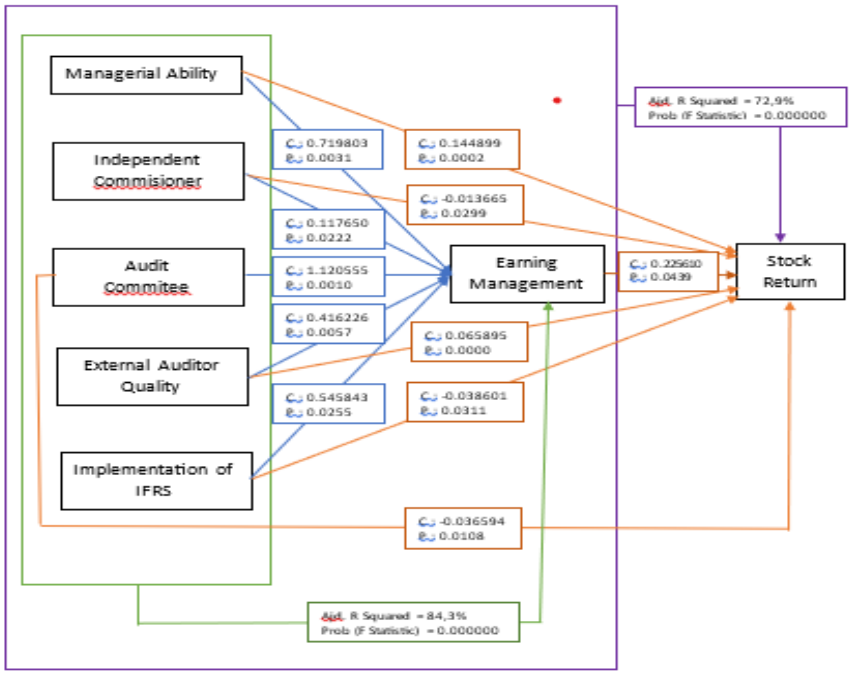

Figure 2: Hypothesis Result

Sobel Test

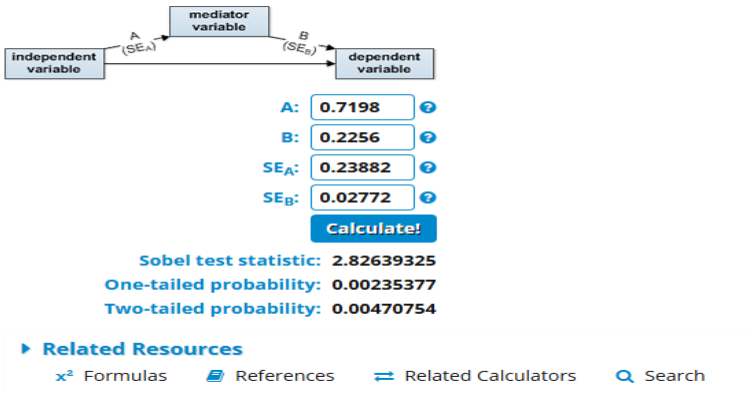

Figure 3: Earnings Management mediates the effect of Management Ability with Stock Return

The Seybold Report
ISSN 1533-9211
DOI: 10.5281/zenodo.15486975

The results of the sobel test shown in figure 3 conclude that earnings management significantly mediates the relationship between Management Ability and stock returns, which is indicated by a probability value of less than 0.05. This shows that the effect of management ability on stock returns is partially transmitted through earnings management practices.

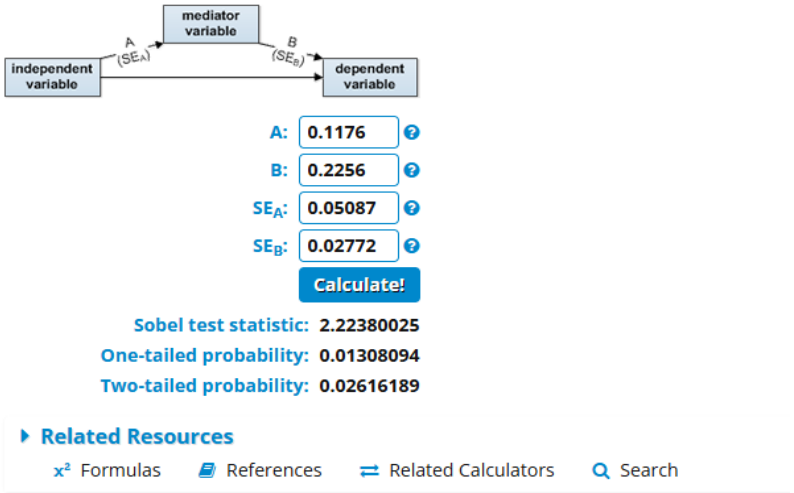

Figure 4: Earnings Management mediates the effect of Independent Commissioner with Stock Return

Sobel test results in figure 4 show that earnings management significantly mediates the relationship between independent commissioners and Stock Returns, as indicated by a probability value of less than 0.05. This shows that the effect of Independent Commissioners on Stock Returns is partially transmitted through Earnings Management practices.

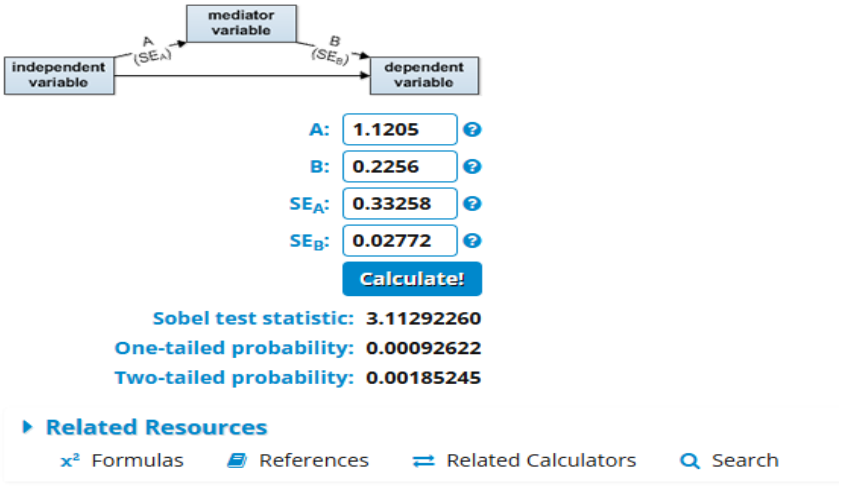

Figure 5: Earnings Management mediates the effect of Audit Committee with Stock Return

ISSN 1533-9211

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Based on the result of the sobel test in figure 5, it is known that earnings management significantly mediates the relationship between the Audit Committee and Stock Return, which is indicated by a probability value of less than 0.05. This shows that the effect of the Audit Committee on Stock Returns is partially transmitted through Earnings Management practices.

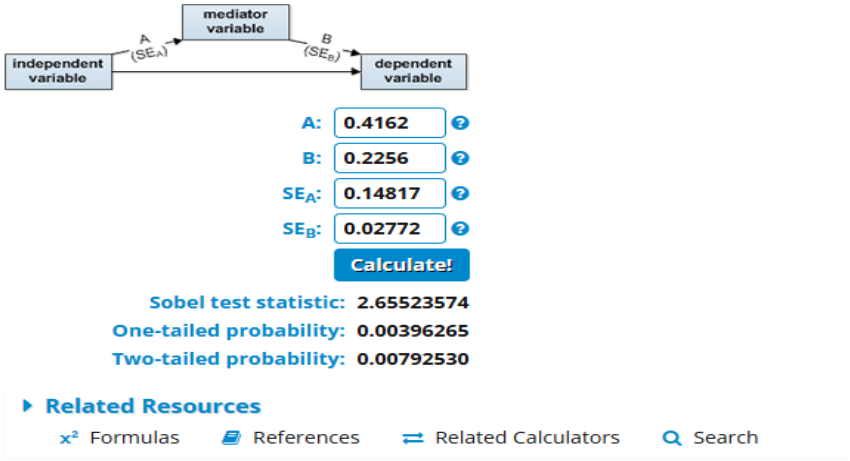

Figure 6: Earnings Management mediates the effect of Auditor Quality with Stock Return

Figure 6 show that Earnings Management significantly mediates the relationship between Auditor Quality and Stock Returns, as indicated by a probability value of less than 0.05. This suggests that the influence of Auditor Quality on Stock Returns is partially transmitted through Earnings Management practices.

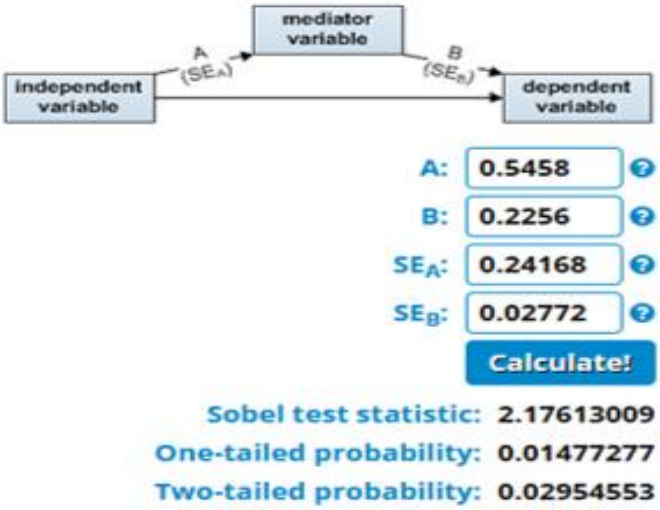

Figure 7: Mediation Effect of Earnings Management on the Relationship between IFRS Implementation and Stock Returns

The Seybold Report
ISSN 1533-9211
DOI: 10.5281/zenodo.15486975

The sobel test results in figure 7 show that earnings management significantly mediates the relationship between IFRS implementation and stock returns, as indicated by a probability value of less than 0.05. This finding suggests that the adoption of IFRS indirectly impacts stock returns through its influence on earnings management practices.

CONCLUSION

This study investigates the effects of managerial ability, independent commissioner, audit committee, IFRS implementation, auditor quality, and auditor competence on earnings management and stock returns in Indonesian manufacturing firms. The findings reveal that all variables significantly influence both earnings management and stock returns, with managerial ability, independent commissioner, audit committee, and IFRS implementation showing strong positive impacts. The model explains 38.5% of the variation in earnings management, suggesting that other influential factors remain unexplored.

The study's empirical findings have significant ramifications for the evolution of earnings management theory, particularly in relation to the Determinants of Earnings Management and how they affect stock returns in Indonesian manufacturing firms. In addition to advancing theory, this study can serve as a review of the literature for additional, as yet limited, research, particularly for scholars who wish to use a panel data regression model to investigate the factors influencing earnings management and how they affect stock returns in manufacturing sector firms. The study's empirical findings and their theoretical ramifications are predicated on factors that significantly impact earnings management and its consequences for manufacturing stock returns.

Future studies should consider incorporating additional internal and external factors, including market sentiment and investor psychology, to enrich the understanding of earnings management and stock return determinants. Expanding the research period, applying cross-country comparisons, or exploring different sectors such as banking, property, and trade may also yield broader insights and validate the generalizability of the current findings.

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