The Effect of Corporate Strategy and Firm Characteristics on Earnings Management with Managerial Ownership as a Moderating Variable: An Empirical Study of Companies in the Consumer Non-Cyclicals Sector

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Article Info

Article history:

Received July 23th, 2024
Accepted Oct 21th, 2024

Keywords:

Earning Management; Corporate Strategy; Company Size; Leverage; Profitability

ABSTRACT

The rapid development of the manufacturing industry today has brought new challenges, particularly the increasing competition among manufacturing companies. As a result, companies must optimize their performance to excel in the competition. The purpose of this study is to examine the impact of corporate strategy and company characteristics, which include company size, leverage, and profitability, on earnings management, with managerial ownership as a moderating variable. The population of this study consists of Consumer Non-Cyclicals sector companies listed on the Indonesia Stock Exchange (IDX). The research sample includes 54 selected companies used as data, obtained from the IDX website. The results show that corporate strategy does not affect earnings management. However, company characteristics, such as size, leverage, and profitability, do influence earnings management practices. Managerial ownership, used as a moderating variable, does not moderate the relationship between corporate strategy and company characteristics.

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1. INTRODUCTION

In today's increasingly sophisticated environment, companies worldwide are required to enhance their ability to survive amidst intense competition in order to maintain their position in the global market, particularly in the consumer goods manufacturing sector. It is expected that every company possesses competitiveness and advantages over its peers. To achieve a high level of corporate quality, it is essential for organizations to have a strong strategy alongside distinct company characteristics (Nugraha & Affan, 2023).

A company is built on agreements between stakeholders with individual interests. There is a growing need for organizations to enhance transparency in disclosing financial data, especially for those publicly traded on stock exchanges (Wardani & Isbela, 2018). These disclosures are intended to benefit various stakeholders involved in economic decision-making while also demonstrating management's accountability in resource allocation (Zubaidi, 2021). Therefore, management should adopt strategies aimed at improving the quality of financial reports through the use of earnings management techniques.

Company managers view corporate goals as measurable targets, which serve as benchmarks for evaluating the company's performance success (Zhafirah et al., 2022). However, there are instances where managers deviate from the company's fundamental principles, such as engaging in earnings manipulation (Umarsono, 2016). This is facilitated by the accrual basis used in financial reporting, which allows management the freedom to choose accounting methods as long as they comply with applicable Financial Accounting Standards. As a result, earnings management practices can easily be carried out unintentionally by management through accrual-based earnings management, which relies on managerial policies and decisions (Chandra & Kaling, 2021).

Earnings management practices in the consumer non-cyclicals sector can be exemplified by the case of PT Tiga Pilar Sejahtera Food, Tbk (AISA) on March 12, 2019, where suspicions arose regarding violations in the 2017 financial statements, which were restated in 2020. This included the 2018-2019 financial statements that had not been previously reported by management. The conflict occurred between the previous management team and the current one. PT AISA inflated its financials by Rp 4 trillion, recording a net loss of Rp 5.23 trillion (Wanri & NR, 2021).

Earnings management practices are influenced by various factors, such as business strategy and company characteristics. A business strategy is a plan developed by a company to evaluate and determine the actions needed to achieve its goals (Paylosa, 2014). According to Miles and Snow (1978), there are four categories of business strategies: prospector, defender, analyzer, and reactor. The prospector and defender strategies are the two most distinct in their approaches to the market environment, and these two strategies have extreme differences, making them easier to understand and explain in the context of business strategy and earnings management.

In the prospector strategy, companies find it more challenging to achieve maximum profits but consistently avoid low profitability, which increases the likelihood of managers engaging in earnings management practices. On the other hand, companies using the defender strategy incur fewer production costs, resulting in relatively stable profits, which reduces the likelihood of earnings management (Alnoor et al., 2022). Therefore, this study will focus on the defender and prospector categories. The defender strategy emphasizes efficiency in the production and distribution of goods or services, while the prospector strategy is characterized by a commitment to innovation and the pursuit of new market opportunities (Widyasari et al., 2017). The most dominant and contrasting categories used in this research will be defender and prospector.

The second factor is company characteristics, which in this study include company size, leverage, and profitability. Company size relates to the scale of the entity, typically measured by its total assets at the end of the year (Effendi, 2020). Large companies usually attract more attention from external stakeholders, making them more cautious in managing their financial reports. This reduces the likelihood of large companies engaging in earnings management (Kadek Chindi Febriana Arista et al., 2023).

Leverage or debt policy is a measurement of the amount of assets obtained from debt, where the debt is not from shareholders or investors, but comes from creditors in order to realize the company's goal of maximizing the wealth of company owners (Effendi, 2020). In a debt agreement, the company has an interest in being rated positively by creditors, a positive assessment from creditors is important because it can affect the terms and conditions of the loan, as well as the creditor's trust in the company (Verawati, 2012).

Profitability is a company's ability to generate profit from various sources, such as sales, total assets, and equity. It reflects how effectively the company can produce earnings from its operational activities and the use of its assets and capital (Astuti, 2017). There are times when a company's profit in a given period is very high, which could lead to a decline in profit in the following period (Kadek Chindi Febriana Arista et al., 2023). This suggests that managers may adjust profits to avoid reporting excessively high earnings, allowing the undisclosed surplus to be presented in the next period’s profit report.

Managerial ownership involves the direct involvement of managers in owning shares of the company they manage. This ownership provides an additional incentive for managers to act in the long-term interests of the company, as they have a personal investment in its success. As a result, managers are more likely to adopt sustainable business strategies and prioritize the long-term health of the company, rather than pursuing short-term gains through earnings management practices. This can reduce the occurrence of earnings management practices that may harm shareholders (Wardana et al., 2024).

This study builds on the research of (Tian et al., 2024) which examined the differences in corporate strategy and earnings management, revealing that variations in corporate strategy impact earnings management practices. It also refers to the study by (Nugraha & Affan, 2023) which used independent variables such as corporate strategy and firm characteristics, finding that firm characteristics influence earnings management. Specifically, company size has a positive effect, leverage has a negative effect, and profitability has a negative effect. Corporate governance was used as a moderating variable. The research by (Wanri & NR, 2021) suggests that corporate governance can minimize earnings management practices, where corporate governance is measured by the percentage of managerial ownership. It is expected that a higher managerial ownership stake will strengthen the influence of corporate governance on the relationship between business strategy and earnings management actions.

However, in this study, corporate strategy is measured differently, using two categories: prospector and defender. This approach is used because the prospector and defender strategies are the most dominant in their approach to the market environment, particularly in the Consumer Non-Cyclicals sector. Additionally, the Consumer Non-Cyclicals sector plays a crucial role in driving the country's economic growth. This industry is especially compelling as consumer goods are always in demand for daily life, given that the consumer goods industry provides products that are essential to society's basic needs.

Based on the background outlined above, the author is interested in conducting a study titled “**The Effect of Corporate Strategy and Firm Characteristics on Earnings Management with Managerial Ownership as a Moderating Variable: An Empirical Study of Companies in the Consumer Non-Cyclicals Sector”.**

Literature Review

Agency Theory

The primary theory related to earnings management is agency theory. (Jensen & Meckling, 1976) explain the relationship between managers as agents and capital or stock owners as principals. According to agency theory, a contract is established between two parties: the agent and the principal. The agent is the party authorized to manage the company and has broader access to internal company information compared to the principal. Meanwhile, the principal is responsible for providing the necessary resources and funding for the company's operations (Roreng, 2021).

The relationship can lead to an information imbalance between the parties involved. Due to the information gap between managers and the owners of the company, managers have the opportunity to maximize their own interests, one of which is through earnings management practices (Jensen & Meckling, 1976). On the other hand, shareholders are interested in the actual value of the company, not in manipulated results. Agency conflicts can be reduced through transparency in financial reporting and by strengthening internal oversight and control (Hadinata & Oktorina, 2023). Therefore, corporate strategy and company characteristics are needed to assess the extent to which managers act in their own interest through earnings management.

Dependent Variable

Earnings Management

Earnings management is an action in which a manager takes advantage of certain situations or information to prepare financial statements according to their preferences (Lekok & Febrina, 2021). This practice can lead to inaccurate and irrelevant information, causing users of the reports to doubt the quality of the data. Meanwhile, managers have the freedom to select or apply specific accounting methods when recording and preparing financial statements. Earnings management is measured through accrual-based earnings management, as examined in the research by (Indriani & Pujiono, 2021). Accrual-based earnings management involves manipulating financial statements by altering accrual components, such as unrealized revenues or expenses.

Dechow et al. (1995) developed a modified version of the Jones Model for empirical analysis. This modification aims to address potential errors in measuring discretionary accruals by the Jones Model when management exercises discretion over revenue. In the modified model, non-discretionary accruals are estimated during the event period, where management is assumed to engage in earnings management (Fiqriansyah et al., 2024). Improvements to the original Jones Model include adjustments to revenue changes by accounting for changes in receivables during the event period. Meanwhile, the modified version of the Jones Model suggests that earnings management is responsible for all fluctuations in credit sales during the event period (Shah & Wan, 2024). This is based on the assumption that earnings management is simplified in relation to revenue recognition for credit sales rather than cash sales.

Independent Variable

Corporate Strategy

Corporate strategy refers to the long-term plan or direction undertaken by an organization to achieve its goals, create value, and gain a competitive advantage in the market. This strategy encompasses various decisions that determine how the company will position itself in the market, interact with competitors, and allocate resources to achieve its business objectives (Alnoor et al., 2022). According to Miles and Snow (1978), there are several types of business strategies, with prospector and defender being the most dominant and contrasting types. Corporate strategy is measured using four indicators, which are quintiled to generate a corporate strategy score.

Company Size

Firm size refers to the amount of assets a company possesses. A company's size can be classified as large or small by looking at factors such as average total sales, average total assets, total sales, and total assets, which indicate that a company can be measured by its total acquired assets, affecting its financial performance. The larger the company, the greater the total assets it acquires (Nugraha & Affan, 2023). As a company grows in size, controlling it becomes more challenging, which can lead to agency problems. Firm size is measured by the total assets the company holds, both physical and non-physical, that are used to support its operational activities. Total assets can be used to classify companies into small, medium, or large categories. According to (Surjandari et al., 2021), measuring a company's size using total assets reflects its capacity to generate revenue and achieve long-term growth.

Leverage

Leverage refers to a company's ability to use assets and/or funds with fixed obligations (such as debt and/or preferred stock) to achieve its goal of maximizing the wealth of the company's owners (Ghofir & Yusuf, 2020). By utilizing leverage, it's expected that the company can increase its earnings beyond the value of the leveraged assets and borrowed funds. Thus, using leverage can boost profits for shareholders. However, leverage also comes with the risk of decreasing profits. If the company's fixed costs are not favorable, leverage can reduce shareholders' returns. Companies often report higher earnings to maintain their reputation with the public. This is because a high leverage ratio makes it difficult to secure additional funds from external sources, as external parties may perceive the company as being at risk of defaulting on its debt (Kalbuana et al., 2022). Leverage is measured by the debt ratio, or Debt to Total Assets. According to Sawir (2005), the debt ratio indicates the proportion of liabilities relative to the company's total assets. If the debt ratio increases while the total asset proportion remains the same, the company’s debt will grow larger. High leverage places greater pressure on management to ensure that the company can meet its debt obligations, which may lead managers to engage in earnings management practices.

Profitability

Profitability is the company’s ability to generate profit in relation to sales, total assets, or its own capital, which reflects the success of the company's operations (Effendi, 2020). If a company can achieve high profits, it indicates that its profitability ratio is in good condition. However, a lack of oversight can give management more room to act according to personal interests, which may not always align with the owners’ interests. This creates the risk of agency conflicts between the principal and the agent (Wardani & Isbela, 2018). Profitability is measured using the Return on Assets (ROA) indicator. Companies with higher ROA have greater potential for growth. ROA is one of the metrics used by investors to evaluate a company's performance and to make investment decisions. Measuring profit generated from sales and revenue demonstrates a company’s efficiency (Setiowati et al., 2023).

Moderating Variable

Managerial Ownership

Profitability is a company's ability to generate profit in relation to sales, total assets, or its own capital, which reflects the success of its operations. When a company achieves high profits, it indicates that its profitability ratio is in good condition. However, a lack of oversight can give management more room to act in their own interests, which may not always align with the owners' interests, leading to agency risk between the principal and the agent (Wardani & Isbela, 2018). Managerial ownership within a company helps align the interests of management with those of the shareholders. When managers hold shares, they have a greater incentive to improve the company's performance, thereby reducing the risk of agency conflicts and encouraging more careful decision-making to enhance the company's value and long-term interests. Profitability is measured using the Return on Assets (ROA) indicator. Companies with high ROA levels have greater potential for growth. ROA is one of the metrics investors use to evaluate a company's performance when making investment decisions. Measuring profitability by calculating the profit generated from sales and revenue reflects a company's efficiency (Setiowati et al., 2023).

Hypotheses Development

The Effect of Corporate Strategy on Earnings Management

According to Jensen & Meckling (1976), agency theory assumes that agents possess more information than principals, and the differing interests between the two parties can create agency problems. Viewing business strategy as a series of consistent decisions that determine how a company competes in a specific product market, it becomes clear that a well-defined business strategy is essential for achieving the company's goals (Pramesti & Cahyono, 2024).

The business strategy used by a company varies depending on the type of strategy, such as prospector and defender (Widyasari et al., 2017). The defender strategy focuses on maintaining the company's current market position by preserving operational efficiency and the quality of existing products. This strategy typically adjusts profits to reflect more consistent financial stability and tends to adopt conservative accounting policies, minimizing the likelihood of earnings management practices. In contrast, the prospector strategy focuses on exploring new markets and innovation, often employing more aggressive accounting techniques or utilizing flexible accounting policies to reflect potential profits. As a result, companies using the prospector strategy are more likely to engage in earnings management practices (Alnoor et al., 2022). Research by (Wahyuni et al., 2022) shows that corporate strategy has a positive influence on earnings management. Therefore, the hypotheses in this study is:

H1: Corporate strategy has a positive effect on earnings management

The Effect of Company Size on Earnings Management

Company size is derived from the total assets owned by the company (Astuti, 2017). According to agency theory, larger companies face stronger external oversight and control from parties such as investors, analysts, and government agencies. As a result, these companies are more cautious in monitoring their financial reports. The strict external oversight reduces opportunities for managers to engage in earnings management practices (Syaputra, 2022).

Large companies tend to have better corporate governance structures, including more transparent reporting systems. With transparent reporting, information asymmetry between managers and shareholders is reduced (Felicya & Sutrisno, 2020). Adherence to accounting standards can also limit managers' ability to engage in earnings management. Studies by (Astuti, 2017) and (Syaputra, 2022) found that company size has a negative impact on earnings management practices. Therefore, the hypothesis in this study is:

H2: Company size has a negative effect on earnings management

The Influence of Leverage on Earnings Management

Leverage is a measurement of the amount of assets financed by debt, and the debt comes from creditors, not from shareholders or investors (Selius, 2021). Debt policy is another alternative to obtaining funds other than selling shares. In debt agreements, it is very important for companies to receive favorable evaluations from creditors regarding their capacity to meet their debt obligations (Verawati, 2012). With performance pressure from creditors, companies can engage in earnings management practices.

Companies with high levels of leverage have significant debt obligations. The pressure to meet these obligations may lead companies to feel compelled to present strong financial performance. One way to demonstrate good performance is through earnings management, such as delaying the recognition of expenses or accelerating the recognition of revenues (Felicya & Sutrisno, 2020). Research by (Wibisana & Ratnaningsih, 2014) and (Felicya & Sutrisno, 2020) indicates that high leverage can drive earnings management practices as a strategy to achieve the company’s goals. Therefore, the hypothesis in this study is:

H3: Leverage has a positive effect on earnings management

The Effect of Profitability on Earnings Management

Profitability refers to the net profit achieved by a company through its operational activities (Astuti, 2017). According to agency theory, highly profitable companies may face pressure to continuously demonstrate strong performance to meet market expectations and maintain high stock prices. When a company’s earnings are significantly high in a given period, there is a potential for decreased profits in the following period (Kadek Chindi Febriana Arista et al., 2023). Therefore, companies with strong profitability have more opportunities to engage in earnings management. The higher the profitability, the greater the likelihood that managers will engage in earnings management.

In general, a company's profitability can be used to measure its performance. The higher the profitability, the better the company's performance and its ability to generate profits. This will help maintain or enhance the company's positive image in the eyes of investors and stakeholders, by using accounting policies such as adjustments in revenue or expense recognition (Felicya & Sutrisno, 2020). Research conducted by (Nugraha & Affan, 2023) suggests that profitability has a positive impact on earnings management. Therefore, the hypothesis in this study is:

H4: Profitability has a positive effect on earnings management.

The Effect of Managerial Ownership on Earnings Management

Agency theory is an important perspective that addresses earnings management (Suartama & Sukartha, 2020). Agency theory holds that managerial ownership can minimize issues related to earnings management. Managerial ownership acts as a governance tool to align various interests within the company. With managerial ownership, management becomes more cautious in preparing financial reports. This is due to the fact that managers also become principals, or shareholders, with a personal interest in the company's financial success. Research conducted by (Ocal, 2021) shows that managerial ownership has a negative effect on earnings management. This is supported by (Purnama, 2017), who found that the greater the managerial ownership, the less likely earnings management practices will occur, as management will choose accounting methods that add value to the company and result in high-quality financial reports. Therefore, the hypothesis in this study is:

H5: Managerial ownership has a negative effect on earnings management

The Effect of Corporate Strategy on Earnings Management with Managerial Ownership as a Moderating Variable

Agency theory provides a strong conceptual framework for determining the extent to which corporate strategy effects earnings management practices, particularly under the strong control of managerial ownership. When managers hold company shares, their interests are more aligned with those of the owners. This alignment can reduce agency conflicts and motivate managers to make decisions that benefit the company in the long term, including in the selection of corporate strategies (Ocal, 2021). Research by (Intan et al., 2019) suggests that managerial ownership can weaken the influence of business strategy on earnings management. This means that when managers own shares in the company, they tend to mitigate the negative effects of corporate strategies that could lead to earnings management practices.

H6: Managerial ownership moderates the relationship between corporate strategy and earnings management.

The Effect of Company Size on Earnings Management with Managerial Ownership as a Moderating Variable

Company size serves as a factor that reflects the scope of its operations, as measured by the total value of the company's assets. As a company grows in size, it also enhances its internal control capabilities to ensure the accuracy of information disseminated to the public and stakeholders (Habibie & Parasetya, 2022). Agency theory posits that potential differences in information and the separation of management and ownership functions within a company can result in imbalances between the involved parties (Jensen & Meckling, 1976). However, conflicts of interest among these parties can be avoided if managers hold positions as directors in the organization and have shares under their control. Research by (Zakia et al., 2019) and (Wardana et al., 2024) shows a favorable relationship between company ownership and earnings management. In other words, when managers own shares in the company, larger company size can increase the tendency for managers to engage in earnings management practices, as they stand to gain personal benefits by boosting stock prices or achieving specific profit targets. Based on this, the hypothesis in this study is:

H7: Managerial ownership moderates the relationship between company size and earnings management.

The Effect of Leverage on Earnings Management with Managerial Ownership as a Moderating Variable

Managers have the ability to obtain financial resources to support their business activities, both internally and externally. One option for external financing is through loans from financial institutions. Leverage represents the proportion of a company's liabilities relative to its total assets. Higher leverage indicates a larger amount of debt held by the company (Wardana et al., 2024). According to agency theory, when agents (managers) have more control compared to principals (owners), it can encourage managers to engage in earnings management practices for personal benefit.

However, managerial ownership can reduce managers' tendency to manipulate earnings, even under high leverage conditions. Research by (Pratomo & Alma, 2020) shows that managerial ownership weakens the relationship between leverage and earnings management. This means that when managers hold shares in the company, they are more likely to act in the company's long-term

interests. Therefore, managerial ownership provides an incentive for managers to avoid earnings management practices, even under high leverage pressure. Consequently, the hypothesis in this study is:
H8: Managerial ownership moderates the effect of leverage on earnings management.

The Effect of Profitability on Earnings Management with Managerial Ownership as a Moderating Variable

Company management strives to maintain high profits to present positive performance results to the public, which is considered effective in attracting investor interest. According to agency theory, information asymmetry often leads management to employ various strategies to ensure stable and strong corporate profits and to foster investor confidence (Partati & Almalita, 2022). Management acts as a representative of the organization's interests, and all their actions are aimed at improving organizational performance. However, managerial ownership within the company can reduce the likelihood of managers engaging in earnings management, as they are more tied to long-term interests that affect the value of their own shares (Wardana et al., 2024). Research by (Christian & Addy Sumantri, 2022) and (Tjandrakirana Dp, 2023) shows that profitability influences earnings management. Therefore, the hypothesis of this study is:
H9: Managerial ownership moderates the effect of profitability on earnings management.

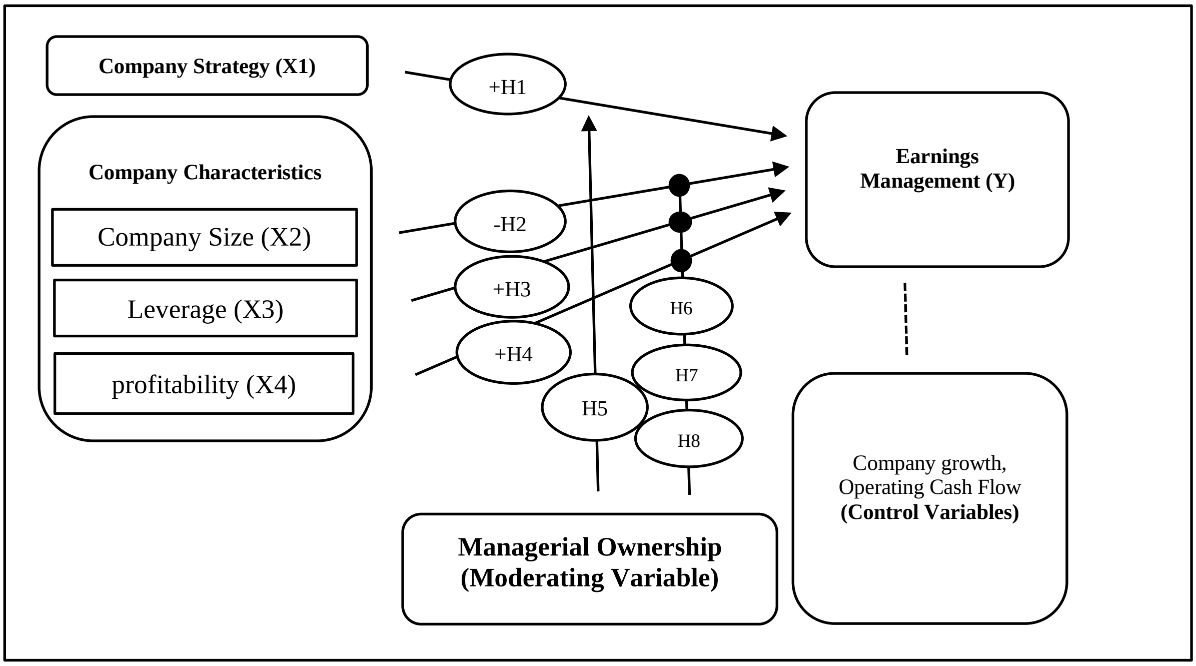

Figure 1: Research Framework

2. METHOD

Research Design

This research uses a quantitative approach, which emphasizes quantitative data collection. Quantitative data is data in the form of numbers or summarized data. This study uses secondary data, namely data in the form of documents or financial reports which are written data related to the object of research published by companies on the Indonesia Stock Exchange (IDX). This means that research is carried out by taking certain samples to formulate the whole of the research population (Ibrahim, 2021).

Participants/Sample Selection and Data Sources

According to (Ibrahim, 2021), a sample is an important part of the population and can describe all its characteristics. The sample of this study will be taken from part of the population of consumer non-cyclicals sector companies in 2018-2022. To determine the sample size, it must be adjusted to the sampling criteria. Of the total 125 non-cyclicals consumer sector companies listed on the IDX, which are in accordance with the research criteria, there are 54 non-cyclicals consumer sector companies to be used as research samples.

The sampling technique in this study is non-probability sampling, namely a medote where each member does not have the same opportunity to be selected as a sample. Non-probability sampling technique with purposive sampling type where the sampling technique is based on consideration of certain criteria. The sampling criteria are as follows:

Table 1: Sampling Criteria

Sample Criteria	**Total**
All *Consumer non-cyclicals* sector companies listed on the IDX	**125**
Consumer non-cyclicals sector companies that **do not** publish consecutive Annual Reports in 2018-2022	(71)
Companies that do not have information related to variables / accounts in the financial statements that will be used in the study	-
Number of Research Samples	**54**
Number of Observations (54 x 5 years)	**270**

Instrumentation/Data Collection

Earnings Management (Y)

Determination of earnings management from the modified Jones model (1995) in (Atin & Pujiono, 2022) to measure earnings management variables, namely:

a. Determinan the *total accruals* score

$$\mathrm{TACit} = \mathrm{Nit} - \mathrm{CFOit}$$

b. Determining the *accruals* score estimated by the OLS regression equation

$$\frac{TACit}{Ait-1} = \beta 1\left(\frac{1}{Ait-1}\right) + \beta 2\left(\frac{REVit-REVit-1}{Ait-1}\right) + \beta 3\left(\frac{PPEit}{Ait-1}\right) + \varepsilon$$

c. Determining the *Non discretionary accrual* (NDA) score

$$\mathrm{NDAit} = \beta 1\left(\frac{1}{Ait-1}\right) + \beta 2\left(\frac{REVit-REVit-1}{Ait-1} - \frac{RECit-RECit-1}{Ait-1}\right) + \beta 3\left(\frac{PPEit}{Ait-1}\right)$$

d. Calculate the value of DA *(discretionary accruals)* which is a measure of earnings management using the formula:

$$DAit = \frac{TACit}{Ait - 1} - NDAit$$

Dimana :

Ait-1	: Total assets of company i in year t-1
NDAit	: Non discretionary accruals at company i in year t
TACit	: Total Accruals at company i in period t
REVit-1	: Revenue at company i year t-1
Nit	: Net income at company i year t
DAit	: Discretionary accrual for company i in year t
PPEit	: Fixed assets of company i year t
CFOit	: Operating cash flow in company i year t
RECit-1	: Receivables at company i in year t-1
RECit	: Receivables at company i in year t
REVit	: Revenue of company i in year t

Company Strategy (X1)

This study uses four indicators to measure company strategy where all indicators will be summed up to show the value of the strategy including (Nurwati et al., 2023), The company's strategy includes implementing various measurement methods (Higgins et al., 2010), such as:

a. Ability to Efficiently Produce and Distribute Goods and Services

Stating that the company's ability to produce and distribute goods and services efficiently is very important for the company's business strategy, especially for companies that focus on efficiency, because defender companies have fewer employees than prospector companies. The equation is:

$$EMP/\,SALE = \frac{Number\ of\ employees}{Sales}$$

b. Company Growth Rate *(Market to Book Ratio)*

Companies that embrace a prospector strategy have a greater chance of growth than companies that use a defender strategy. The company's growth rate is measured by comparing the stock price and book value. The equation:

$$MtoB = \frac{Stock\ Market\ Price}{Total\ capital\ or\ number\ of\ shares}$$

c. Marketing and Sales

Marketing and sales are measured by comparing advertising expenses for one year with total sales. The equation:

$$Market = \frac{Advertising\ Expense}{Total\ Sales}$$

d. Fixed Asset Intensity

This measurement aims to see the company's focus on the production of its assets, then a larger ratio reflects a defender company. Equation:

$$PREINT = \frac{Property, Plant\ and\ Equipment}{Total\ Asets}$$

Scoring is reflected in the number of values sorted by quintiles from the results of the above measurements. For the first three proxies (EMP/SALES, MtoB, and Market), sample companies in the top quintile score 5, sample companies in the bottom quintile score 4, and so on. The score for PPEINT is the reverse of the first three proxies. The following are the criteria for determining the STRATEGY score:

Score Strategi	Kode	Strategies Employed
Score 4-10 Score 11-20	0 1	*Defender* *Prospector*

Company size (X2)

Company size describes the dimensions or scale of a company. The dimensions of the company can be assessed through various metrics, such as market capitalization, overall assets, and other indicators (Kadek Chindi Febriana Arista et al., 2023). In this study, company size is measured using the total assets owned by the company.

$$\text{SIZE} = \text{Ln (Total assets)}$$

***Leverage* (X3)**

Leverage is an indicator used for the purpose of evaluating the company's capacity to finance its assets or the use of borrowed / debt funds to increase the financial potential or losses in investment and business. Companies characterized by high levels of leverage tend towards the dissemination of additional information, serving as a mechanism to lower monitoring costs for stakeholders (Kadek Chindi Febriana Arista et al., 2023). In this study, leverage is calculated using Debt to Total Assets.

$$\text{DTA} = \frac{Total\ hutang}{Total\ asset}$$

Profitability (X4)

Profitability serves as an indicator of the company's ability to generate profit income (Wibisana & Ratnaningsih, 2014). Profitability in this study is measured by Return on Assets (ROA) which shows the company's ability to generate profits from the assets owned by the company.

$$\text{ROA} = \frac{Laba\ bersih}{Total\ aset}\ x\ 100\%$$

Managerial Ownership (Moderating Variable)

Managers who are also shareholders have an incentive to prevent engaging in earnings management in order to maximize their return on investment mereka (Suartama & Sukartha, 2020). Managerial ownership is measured using the percentage of share ownership by managerial parties.

$$\%\ \text{Kepemilikan manajerial} = \frac{Total\ share\ ownership\ of\ managerial\ parties}{Total\ shares\ outstanding}$$

Company Growth (Control variable / K1)

In accordance with research conducted by (Amijaya, 2013). Formula:

$$Price\ to\ Book\ Value\ (PBV) = \frac{Stock\ Market\ Price\ (Current\ Price)}{Stock\ Book\ Value\ (Book\ Value)}$$

Operating Cash Flow (Control variable / K2)

This variable is symbolized by OCF in the equation. In accordance with research conducted by (Amijaya, 2013). Formula:

$$\text{OCF} = \frac{Cash\ Flow\ from\ Operating\ Activities}{Total\ Assets}$$

Data Analysis/Estimating Model/ Variable Measurement

Data analysis was carried out using eviews version 10: Descriptive statistical analysis describes data with minimum, maximum, mean, and range sizes. Then the selection of panel data regression estimation models includes the common effect model (CEM), fixed effect model (FEM), random effect model (REM), which is selected through the Chow test and Hausman test. Then the classical assumption test consists of normality test, multicollinearity test, and heteroscedasticity test. However, if the selected model is FEM, only Multicollinearity test and Heteroscedasticity test need to be done. By using multiple regression analysis. Multiple regression is able to test the relationship between more than one independent variable and one dependent variable terikat (Montgomery C et al., 2021). The equation is built as follows:

First equation

$$\text{Y} = \alpha + \beta1(\text{SP}) + \beta2(\text{UK}) + \beta3(\text{LV}) + \beta4(\text{PF}) + \beta5(\text{PBV}) + \beta6(\text{OCF})$$

Second equation

$$\begin{aligned}\text{Y} = \alpha + \beta1(\text{SP}) + \beta2(\text{UK}) + \beta3(\text{LV}) + \beta4(\text{PF}) + \beta5(\text{PBV}) + \beta6(\text{OCF}) + \beta7(\text{KM}) \\ + \beta8(\text{SB} * \text{KM}) + \beta9(\text{UK} * \text{KM}) + \beta10(\text{LV} * \text{KM}) + \beta11(\text{PF} * \text{KM}) \\ + \varepsilon\end{aligned}$$

The model accuracy test is carried out through the coefficient of determination (R2) test, the F test to test the effect of independent variables simultaneously affecting the dependent variable. And the last is the t test or hypothesis test to measure the individual effect of the independent variable on the dependent variable.

RESULTS AND DISCUSSION

Results

Descriptive Statistical Analysis

Table 2: Descriptive Statistical Test Results

	ML	SP	UK	LV	PF	KM	PBV	OCF
Mean	0.023059	0.959259	29.26227	2.599045	0.072070	0.049269	17702.61	0.443376
Median	0.030158	1.000000	29.26298	0.503677	0.046932	2.76E-07	1.894152	0.076255
Maximum	0.753992	1.000000	32.82638	561.3475	4.224806	1.718608	1087608.	92.13365
Minimum	-0.306247	0.000000	22.92258	0.097914	-0.582526	0.000000	-0.326160	-0.236678
Std. Dev.	0.116732	0.198056	1.564937	34.13223	0.280123	0.170915	125080.9	5.603875
Skewness	1.835762	-4.646281	-0.347665	16.33813	12.13114	5.722886	7.305147	16.31374
Kurtosis	13.01872	22.58793	3.844120	267.9576	180.5334	43.78361	55.18522	267.4230
Jarque-Bera	1280.867	5287.933	13.45525	801790.4	361201.0	20185.97	33038.52	798570.8
Probability	0.000000	0.000000	0.001197	0.000000	0.000000	0.000000	0.000000	0.000000

Sum	6.226042	259.0000	7900.813	701.7421	19.45901	13.30264	4779705.	119.7115
Sum Sq. Dev.	3.665489	10.55185	658.7883	313387.4	21.10808	7.857995	4.21E+12	8447.518
Observations	270	270	270	270	270	270	270	270

(Source : Output Eviews 10, 2024)

Based on table 2 above, it can be seen that the earnings management variable has a minimum value of -0.306247 while the maximum value is 0.753992, an average value of 0.023059 and a standard deviation value of 0.116732. Based on the test results, it can be seen that the corporate strategy variable has a minimum value of 0.000000 while the maximum value is 1.000000, an average value of 0.959259 and a standard deviation value of 0.198056. Based on the test results, it can be seen that the company size variable has a minimum value of 22.92258 while the maximum value is 32.82638, an average value of 29.26227 and a standard deviation value of 1.564937. Based on the test results, it can be seen that the leverage variable has a minimum value of 0.097914 while the maximum value is 561.3475, an average value of 2.599045 and a standard deviation value of 34.13223. Based on the test results, it can be seen that the profitability variable has a minimum value of -0.582526 while the maximum value is 4.224806, an average value of 0.072070 and a standard deviation value of 0.280123.

Based on the test results, it can be seen that the managerial ownership variable has a minimum value of 0.000000 while the maximum value is 1.718608, an average value of 0.049269 and a standard deviation value of 0.170915. Based on the test results, it can be seen that the company growth variable has a minimum value of -0.326160 while the maximum value is 1087608, an average value of 17702.61 and a standard deviation value of 125080.9. Based on the test results, it can be seen that the operating cash flow variable has a minimum value of -0.236678 while the maximum value is 92.13365, an average value of 0.443376 and a standard deviation value of 5.603875.

Panel Data Regression Model Selection

To determine the appropriate panel data estimation model among CEM, FEM, and REM that aligns with the research data conditions, a panel data regression model selection needs to be conducted. The tests used to select the regression model are the Chow test and the Hausman test. If these two tests do not yield a consistent model, the Lagrange Multiplier test must be performed. Based on the results of the regression model selection tests, the Fixed Effect Model (FEM) was chosen because the F probability was 0.0000, which is less than 0.05. Therefore, in the panel data regression model selection, the Fixed Effect Model (FEM) was selected.

Panel Data Regression Analysis Results

Table 7: Fixed Effect Model Regression Test Results (FEM)

Dependent Variable: Y
Method: Panel Least Squares
Date: 06/21/24 Time: 11:21
Sample: 2018 2022
Periods included: 5
Cross-sections included: 54
Total panel (balanced) observations: 270

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	-0.801633	0.294349	-2.723405	0.0070
SP	-0.008211	0.029158	-0.281589	0.7785

UK	0.027116	0.009985	2.715583	0.0072
LV	0.029600	0.004879	6.067356	0.0000
PF	0.800278	0.052749	15.17144	0.0000
PBV	-3.11E-08	2.60E-07	-0.119683	0.9048
OCF	-0.214203	0.030006	-7.138626	0.0000

(Source: Output Eviews 10, 2024)

Model Accuracy Test

Determinant Coefficient Test (R2)

Table 8: Determinant Coefficient Test Results

R-squared	0.439053	Mean dependent var	0.023059
Adjusted R-squared	0.424066	S.D. dependent var	0.116732
S.E. of regression	0.088588	Akaike info criterion	-1.980453
Sum squared resid	2.056144	Schwarz criterion	-1.873834
Log likelihood	275.3612	Hannan-Quinn criter.	-1.937640
F-statistic	29.29538	Durbin-Watson stat	1.409790
Prob(F-statistic)	0.000000		

(Source: Output Eviews 10, 2024)

Based on the results of the coefficient of determination (R2) test in table 8, the adjusted R-squared value is 0.439053 (43.9053%). This means that the company strategy variables and company characteristics along with the control variables are able to explain the earnings management variable by 43.90%, the rest is explained by other variables outside the model.

F Test

Table 9: F Test Results

R-squared	0.439053	Mean dependent var	0.023059
Adjusted R-squared	0.424066	S.D. dependent var	0.116732
S.E. of regression	0.088588	Akaike info criterion	-1.980453
Sum squared resid	2.056144	Schwarz criterion	-1.873834
Log likelihood	275.3612	Hannan-Quinn criter.	-1.937640
F-statistic	29.29538	Durbin-Watson stat	1.409790
Prob(F-statistic)	0.000000		

(Source: Output Eviews 10, 2024)

Based on the test results in table 9, the probability F statistic value is 0.000000 (<0.05), which means that the independent variables are jointly able to influence the dependent variable.

T Test

Table 10: T Test Results (First model)

Dependent Variable: Y
Method: Panel Least Squares
Date: 06/21/24 Time: 11:49
Sample: 2018 2022
Periods included: 5
Cross-sections included: 54
Total panel (balanced) observations: 270

Variable	Coefficient	Std. Error	t-Statistic	Prob.

C	-0.801633	0.294349	-2.723405	0.0070
SP	-0.008211	0.029158	-0.281589	0.7785
UK	0.027116	0.009985	2.715583	0.0072
LV	0.029600	0.004879	6.067356	0.0000
PF	0.800278	0.052749	15.17144	0.0000
PBV	-3.11E-08	2.60E-07	-0.119683	0.9048
OCF	-0.214203	0.030006	-7.138626	0.0000

Table 11: T Test Results (Second model)

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	-0.804507	0.297999	-2.699699	0.0075
SP	-0.005007	0.034697	-0.144312	0.8854
UK	0.027200	0.010093	2.694905	0.0076
LV	0.029071	0.004936	5.890092	0.0000
PF	0.816660	0.054686	14.93361	0.0000
PBV	-2.64E-08	2.62E-07	-0.100924	0.9197
OCF	-0.211720	0.030307	-6.985896	0.0000
KM	0.420120	4.887938	0.085950	0.9316
SP_KM	-0.454464	3.703130	-0.122724	0.9024
UK_KM	0.000414	0.119456	0.003470	0.9972
LV_KM	0.010371	0.435823	0.023797	0.9810
PF_KM	-1.119019	1.029684	-1.086760	0.2784

(Source: Output Eviews 10, 2024)

Based on the t test results in table 10, it can be analyzed that the corporate strategy variable has a regression coefficient of -0.008211 with a probability value of 0.7785 (>0..05) which indicates that corporate strategy has no effect on earnings management, so H1 is rejected. While the company characteristics variable consisting of company size, leverage, profitability has a regression coefficient of 0.027116, 0.029600, 0.800278 with a probability value of 0.0076, 0.0000, 0.0000 (<0.05) which indicates that company characteristics consisting of company size, leverage, and profitability have an effect on earnings management, so H2 is rejected, while H3 and H4 are accepted.

The control variable consisting of company growth and operating cash flow has a regression coefficient of -3.11E-08, -0.214203 with a probability value of 0.9048 (>0.05) which indicates that company growth has no effect on earnings management, a probability value of 0.0000 (<0.05) indicates that operating cash flow affects earnings management. while the managerial ownership variable has a regression coefficient value of 0.420120 with a probability value of 0.9316 (>0.05) which indicates that managerial ownership has no effect on earnings management, so H5 is rejected. In this study, the managerial ownership variable is used as a moderating variable which has a regression coefficient interaction value of -0.454464, 0.000414, 0.010371, -1.119019 with an interaction coefficient value of 0.9024, 0.9972, 0.9810, 0.2784 (>0.05) which indicates that the managerial ownership variable cannot moderate the effect of corporate strategy, firm size, leverage, profitability on earnings management, so that H6, H7, H8, H9 are rejected.

Discussion

The effect of corporate strategy on earnings management

Based on the results of the regression analysis, it can be concluded that corporate strategy (SP) does not have an effect on earnings management, meaning that H1 is not supported. This indicates that whether a company employs a prospector or defender strategy, it does not influence a manager's decision to engage in earnings management. According to agency theory, the presence of agency conflicts and the frequent concealment of negative information can lead to information asymmetry between managers and shareholders (Jensen & Meckling, 1976), which may result in earnings management practices. However, the findings of this study do not align with agency theory, as corporate strategy does not appear to have an effect on earnings management.

These results are also inconsistent with the research conducted by (Paylosa, 2014), which stated that corporate strategy (SP) has a positive effect on earnings management. However, the findings of this study are supported by (Nugraha & Affan, 2023) and (Wardani & Isbela, 2018), who also found that SP does not affect earnings management. The analysis shows that SP has a negative but insignificant effect, indicating that neither the prospector nor defender strategy influences earnings management. This may be because companies in Indonesia have not yet identified the right strategies to grow their business, so whether a company adopts a specific strategy or not does not necessarily affect managers' decisions to engage in earnings management (Nugraha & Affan, 2023). Another possible reason is that if a company's strategy focuses on long-term goals and does not put pressure on achieving short-term financial targets, it may reduce the incentive for managers to engage in earnings management practices.

The effect of company size on earnings management

The regression analysis shows that the UK variable has a positive effect on earnings management, meaning that H2 is not supported. According to agency theory, larger companies generally have more advanced and stricter oversight and internal control systems compared to smaller companies (Perwitasari, 2014). This makes company management more cautious about engaging in earnings management due to the higher risk of detection. The larger the company UK, the lower the likelihood of earnings management. In contrast, smaller companies are more likely to engage in earnings management due to the lack of effective oversight. However, this study's findings do not align with agency theory, which may be due to factors such as the monitoring and control systems implemented by managers and shareholders.

The results of the hypothesis test, which states that company size (UK) has a positive effect, can be explained through conflicts of interest and information asymmetry. Managers have the opportunity to maximize personal interests through earnings management, especially when they have greater control over information and sufficient resources to manipulate financial statements. Thus, the test results, which differ from the initial hypothesis, can be understood as reflecting the diversity of agency conflicts, where managers of larger companies are more likely to engage in earnings management to meet personal goals or market expectations, despite strict oversight. These findings align with the study by (Medyawati, 2016), which found that company size has a positive and significant effect on earnings management. The larger the company, the higher the level of earnings management practices. However, these results are inconsistent with studies by (Astuti, 2017) and (Syaputra, 2022), which stated that company size negatively affects earnings management practices.

The effect of leverage on earnings management

Based on the regression test results above, it can be concluded that LV has a positive and significant effect on earnings management. This is evidenced by a significant value less than 0.05, thus supporting H3. When a company has a high LV level, it indicates the company is in an insolvent state, meaning its assets are smaller than its liabilities, which leads the company to engage in earnings (Kadek Chindi Febriana Arista et al., 2023). According to agency theory, this issue arises due to an information gap, causing agents to engage in earnings management. However, higher leverage can further reduce the likelihood of earnings management.

The hypothesis test aligned with the proposed hypothesis, proving that a high LV increases financial pressure, creating incentives for managers to engage in earnings management to meet debt obligations, maintain the company's reputation, and ensure future access to capital. Moreover, the greater information asymmetry and potentially less effective oversight structures in companies with high LV provide significant opportunities for management to engage in earnings management. Therefore, the positive relationship between LV and earnings management is consistent with agency theory, which suggests that pressure can influence managerial behavior. These research findings are consistent with studies by (Kadek Chindi Febriana Arista et al., 2023) and (Wardani & Isbela, 2018), which state that LV has a significant positive effect on earnings management.

The effect of profitability on earnings management

Based on the regression test results above, it can be concluded that the PF variable has a positive and significant effect on earnings management H4 is supported. This means that if PF increases, the company will tend to practice earnings management. Based on agency theory, it states that the cause of the problem is due to information gaps that make agents carry out earnings management. especially in matters relating to the net profit that the company achieves effectively through its operational activities (Astuti, 2017).

The supported hypothesis demonstrates that a high PF encourages management to engage in earnings management to meet shareholder expectations, maintain a positive performance trend, and ensure that reported earnings align with targets. This is consistent with agency theory, which explains that managers, as agents, may exploit their position to manipulate earnings in order to fulfill shareholder expectations and achieve specific goals. Information asymmetry also provides managers with the opportunity to manage financial reports for short-term gains, which could ultimately harm the company. These findings are consistent with the research by (Dewi, 2021), which states that PF has a positive and significant effect on earnings management.

The effect of managerial ownership on earnings management

The analysis results show that the KM (Managerial Ownership) variable has a positive but not significant effect on earnings management, so H5 is not supported. According to agency theory, the issue arises due to information asymmetry, which leads agents to engage in earnings management (Suartama & Sukartha, 2020). In this context, managerial ownership is often seen as a tool to align the interests of managers and shareholders. However, this means that whether a company has managerial ownership or not, it does not necessarily determine whether managers will engage in earnings management practices.

However, these findings indicate that managerial ownership (KM) does not significantly influence earnings management. This is due to the relatively small proportion of KM, making the managers' influence on earnings management not strong enough. Out of 270 observations in the study, only 36 had an average KM value above 4%, which suggests that KM is less effective in controlling or mitigating earnings management practices within companies. The generally low levels of KM across the sample reduce the incentive for managers to take an active role in company management, including influencing earnings management. These findings are consistent with the study by (Wanri & NR, 2021), which states that managerial ownership has no effect on earnings management. However, they differ from the study conducted by (Purnama, 2017).

The effect of corporate strategy on earnings management moderated by managerial ownership

The expected outcome of this research was that corporate strategy (SP) would influence earnings management with managerial ownership (KM) as a moderating variable. However, the test results for SP showed that the coefficient value of the SP variable moderated by KM was -0.454464, with a probability value of 0.9024 > 0.05, indicating that H6 is not supported. According to agency theory, when managers hold shares in the company, their interests are more aligned with those of the owners. This alignment can reduce agency conflicts and motivate managers to make decisions that benefit the company in the long term, including in the selection of corporate strategies (Ocal, 2021).

This means that managerial ownership (KM) cannot strengthen or weaken the influence of corporate strategy (SP) on earnings management practices. The relatively low percentage of ownership by managers in the company limits their authority to significantly alter SP. With limited ownership, managers lack sufficient influence to determine the direction of company policies or control earnings management practices within the organization. Out of 270 observations in the study, only 36 observations had KM above the average, suggesting that low ownership reduces the role of KM in moderating the impact of SP on earnings management. These findings are supported by (Navissi et al., 2017). However, they differ from the study conducted by (Intan et al., 2019).

The effect of Company Size on Earnings Management Moderated by Managerial Ownership

The hypothesis test indicates that managerial ownership (KM) does not moderate the effect of company size (UK) on earnings management, as the significance value is 0.9972 > 0.05. This suggests that the presence or level of KM neither strengthens nor weakens the relationship between UK and earnings management. This finding is inconsistent with agency theory, which asserts that more advanced internal controls and oversight should reduce managers' engagement in earnings management practices. Therefore, conflicts of interest among the involved parties could be mitigated if managers hold positions as directors within the organization and have shares under their control (Jensen & Meckling, 1976).

This is due to the fact that the level of managerial ownership (KM) is too small to influence policies or earnings management practices in large companies. Out of the 270 observations in the study, only 36 had KM above the average, meaning that low ownership reduces the role of KM in moderating the impact of company size (UK) on earnings management. As a result, KM cannot strengthen or weaken the influence of UK on earnings management (Sari & Khafid, 2020). These findings are consistent with the studies conducted by (Kristi & Dewi, 2023) & (Rosiana et al., 2024).

The Effect of Leverage on Earnings Management Moderated by Managerial Ownership

The expected outcome of this study was that leverage (LV) would affect earnings management with managerial ownership (KM) as the moderating variable. However, the test results for LV show that the coefficient of the LV variable moderated by KM is 0.010371, with a probability value of 0.9810 > 0.05. This indicates that KM cannot moderate the relationship between LV and earnings management, so H8 is not supported. The results are inconsistent with agency theory, which suggests that managers with greater control can minimize earnings management that could harm their interests.

Managerial ownership (KM) cannot moderate the influence of leverage (LV) on earnings management due to the relatively low percentage of KM. Low ownership reduces the role of KM in moderating the impact of LV on earnings management. Out of 270 observations in the study, only 36 had KM above the average of 4%. The observations with KM below the average indicate that managers are not actively involved in managing the company, including moderating earnings management. As a result, managers do not have the authority to change policies or earnings management practices, such as altering the company's financial statements. These findings align with the studies conducted by (Puspaningrum & Indriyani, 2022) & (Wijayanti, 2021), which state that KM does not strengthen the effect of LV on earnings management. However, they differ from the study by (Pratomo & Alma, 2020).

The Influence of Profitability on Earnings Management Moderated by Managerial Ownership

In this study, the hypothesis was that corporate performance (PF) would affect earnings management with managerial ownership (KM) as the moderating variable. However, the test results for PF show that the coefficient of the PF variable moderated by KM is -1.119019, with a probability value of $0.2784 > 0.05$. This indicates that KM cannot moderate the relationship between PF and earnings management, so H9 is not supported. These results are inconsistent with agency theory, which suggests that managers with greater authority can better align their interests with those of shareholders and reduce conflicts related to earnings management practices (Roreng, 2021).

The research results indicate that managerial ownership (KM) cannot moderate the influence of profitability (PF) on earnings management. This is because the percentage of KM in the company is very small. Of the 270 observations, only 36 had KM values above the average of 4%, while 234 observations were below the average. Observations below the average suggest that KM does not play an active role in managing the company, including strengthening or weakening the influence of PF on earnings management. With low KM, managers do not feel a significant impact from their managerial decisions on the value of their shares. Therefore, managerial ownership cannot strengthen or weaken the influence of PF on earnings management.These findings are consistent with the studies conducted by (Verdian et al., 2022) & (Fitriani, 2020), which state that KM cannot moderate the relationship between PF and earnings management.

CONCLUSION

The purpose of this study is to examine the impact of company strategy and company characteristics on earnings management, with managerial ownership as a moderating variable (a case study of the consumer non-cyclicals sector) listed on the Indonesia Stock Exchange for the period 2018-2022. Based on the data analysis and discussion presented in the previous chapters, the conclusions of this study are as follows:Corporate strategy has no effect on earnings management in the consumer non-cyclicals sector listed on the IDX in 2018-2022.

a. Company strategy does not affect earnings management in the consumer non-cyclicals sector listed on the Indonesia Stock Exchange (IDX) from 2018 to 2022.
b. Company characteristics, including company size, leverage, and profitability, influence earnings management practices in the consumer non-cyclicals sector listed on the IDX from 2018 to 2022.
c. Managerial ownership cannot moderate the effect of company strategy on earnings management in the consumer non-cyclicals sector listed on the IDX from 2018 to 2022.

d. Managerial ownership cannot moderate the effect of company characteristics, including company size, leverage, and profitability, on earnings management practices in the consumer non-cyclicals sector listed on the IDX from 2018 to 2022.

This study offers several benefits to all stakeholders. For investors, it provides guidance when making investment decisions by considering how company characteristics and strategies can affect financial statement transparency and understanding the risks of earnings management. For companies, it offers insights and internal evaluations regarding the impact of strategies and company characteristics on financial report quality. For future researchers, it provides a foundation for further studies by adding new variables or exploring different, broader, and more in-depth theoretical contexts.

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