

The Effect of Managerial Ownership, Information Asymmetry, Leverage, Company Size, and Bonus Compensation on Earnings Management: A Case Study of Manufacturing Companies in the Miscellaneous Industrial Sector Listed on the IDX in 2018-2023

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Abstract

This study aims to test and analyze the influence of managerial ownership, information asymmetry, leverage, company size and bonus compensation on earnings management. This study is a type of quantitative research with a population of manufacturing companies in various industries listed on the Indonesian Stock Exchange (IDX) in the observation period from 2018 to 2023. The sampling technique in this study used the purposive sampling method and the 20 companies were obtained in a period of six years so that 120 company data were obtained for the period 2018-2023. In this study, the data used are secondary data and hypothesis testing using the regression analysis method with analysis tool, namely IBM SPSS Statistics 25 program. The results of this study indicate that (1) managerial ownership has a positive not significant effect on earnings management, (2) information asymmetry has a positive and significant effect on earnings management, (3) Leverage has a negative and significant effect on earnings management, (4) company size has a negative and significant effect on earnings management, (5) bonus compensation has a negative and significant effect on earnings management.

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1. Introduction

Financial reports are often viewed as a crucial tool for assessing a company's performance, with earnings information being the most crucial element. Financial reports have a significant influence in attracting the attention of investors and potential investors, thus company management strives to optimize the results of these reports. Managers have the freedom to choose reporting methods that best reflect financial figures¹.

Agency theory explains the dynamics between principals and agents, which often face conflicts of interest due to differing goals. Within the context of agency theory, earnings management practices emerge as an issue caused by the divergence of goals between company owners and management. Management has broader access to information than shareholders, enabling them to make decisions that benefit themselves.

Earnings management refers to tactics used by company management to flexibly alter financial reports by manipulating company earnings. This practice can distort financial reports, making information unclear and influencing the decisions of users of financial statements. Therefore, unethical earnings management practices can negatively impact a company's reputation, value, and sustainability, as well as erode trust from investors and other stakeholders².

One case of earnings management practices in Indonesia occurred at PT Garuda Indonesia Tbk. This controversy began at the General Meeting of Shareholders (GMS) held on April 24, 2019. Tensions arose during the meeting when two commissioners refused to sign the financial statements. In the 2018 financial statements, Garuda Indonesia reported a net profit of US\$239.94 million, largely derived from a partnership with PT Mahata Aero Teknologi. These funds were actually still receivables under a contract valid for the next 15 years, but were recorded as revenue in the first year and included in other income. This manipulation of earnings shook the capital market, causing a drastic decline in share prices and eroding public trust in the company³.

Based on the phenomena described, earnings manipulation by companies is often carried out for personal gain. The opportunity to engage in these activities arises because of the opportunity to profit for management. However, this earnings management practice can be detrimental to various parties, including shareholders, investors, and the government. Although management is strongly motivated to increase profits for personal gain, the negative impacts are often greater, causing losses for many parties and undermining trust and the integrity of financial markets. Several factors contribute to the emergence of earnings management practices, including managerial ownership, information asymmetry, leverage, company size, and bonus compensation.

This study examines earnings management in companies in the miscellaneous industry sector listed on the Indonesia Stock Exchange from 2018 to 2023. The miscellaneous industry sector was selected as a sample based on its significant contribution to economic growth and the diversity of its products. With these considerations, the author sets the title: "The Effect of Managerial Ownership, Information Asymmetry, Leverage, Company Size, and Bonus Compensation on Earnings Management (Case Study of Manufacturing Companies in the Various Industrial Sectors Listed on the IDX in 2018-2023)."

¹ Hai Yen Chang, Li Heng Liang, and Hui Fun Yu, 'Market Power, Competition and Earnings Management: Accrual-Based Activities', *Journal of Financial Economic Policy*, 11.3 (2019), pp. 368–84, doi:10.1108/JFEP-08-2018-0108.

² Yulius Kurnia Susanto, Kashan Pirzada, and Sheryl Adrienne, 'Is Tax Aggressiveness an Indicator of Earnings Management?', *Polish Journal of Management Studies*, 20.2 (2019), pp. 516–27, doi:10.17512/pjms.2019.20.2.43.

³ Syahla Pridehan and others, 2.4 (2024), pp. 903–08.

Literature Review

1) Agency Theory

Agency theory explains the conflict of interest arising between managers (agents) and shareholders (principals)⁴. Managers are assumed to act in their own interest and may engage in opportunistic behavior when information asymmetry exists. This conflict increases the likelihood of earnings management practices, as managers may manipulate reported earnings to achieve personal targets, secure bonuses, or maintain job security. In the context of manufacturing firms, the separation of ownership and control strengthens the relevance of agency theory as the foundation for understanding earnings manipulation.

2) Earnings Management

Earnings management refers to the intentional intervention in the financial reporting process to achieve a desired level of earnings. Managers may use accounting discretion to smooth income, meet debt covenants, influence investor perceptions, or maximize personal compensation. Earnings management can be performed through accrual-based manipulation or real activities manipulation. Prior studies emphasize that discretionary accruals are the most commonly used proxy to measure earnings management, particularly in industries with high flexibility in accounting choices⁵.

3) Managerial Ownership and Earnings Management

Managerial ownership reflects the percentage of shares owned by managers. According to agency theory, when managerial ownership increases, managers' interests become more aligned with those of shareholders, reducing opportunistic behavior. However, low levels of managerial ownership may intensify agency conflicts and encourage earnings manipulation. Empirical findings show mixed results: some studies find that higher managerial ownership reduces earnings management, while others indicate no significant effect, suggesting that ownership structure alone may not fully determine managerial behavior.

4) Information Asymmetry and Earnings Management

Information asymmetry occurs when managers possess more information about the firm's performance than external stakeholders. High information asymmetry provides managers with greater opportunity to manipulate reported earnings because monitoring becomes more difficult. Previous research indicates a positive relationship between information asymmetry and earnings management, as managers exploit undisclosed information to influence financial reporting outcomes.

5) Leverage and Earnings Management

Leverage represents the extent to which firms rely on debt financing. Highly leveraged firms face pressure to comply with debt covenants, which may encourage managers to manipulate earnings upward to appear financially stable. Studies show that firms with high leverage tend to engage in earnings management to avoid covenant violations and maintain favorable relationships with creditors. However, other evidence suggests that strict monitoring by lenders can reduce earnings manipulation, resulting in inconsistent empirical outcomes⁶.

6) Firm Size and Earnings Management

Firm size is commonly associated with the level of public scrutiny and monitoring. Larger firms are subject to stricter regulatory oversight and more extensive analyst coverage, which may

⁴ Michael C Jensen and William H Meckling, 'Theory of the Firm: Managerial Behavior, Agency Costs and Ownership Structure', *Journal of Financial Economics*, no. 4 (1976), pp. 305–60.

⁵ W. R Scott, *Financial Accounting Theory Seventh Edition*, 2015

⁶ Amelia Adityaningsih and Imam Hidayat, 'The Influence of Company Size, Company Age, Leverage, and Profit Management: A Study of Companies Listed on the Indonesia Stock Exchange 2018-2020', *El-Mal : Jurnal Kajian Ekonomi & Bisnis Islam*, 5.2 (2024), pp. 899–917.

reduce managers' ability to manipulate earnings⁷. Conversely, some studies argue that larger firms possess greater resources and flexibility, enabling them to mask earnings manipulation more effectively. Thus, the direction of the relationship between firm size and earnings management remains empirically varied.

7) Bonus Compensation and Earnings Management

Bonus compensation provides financial incentives for managers to achieve specific performance targets. When compensation schemes are tied to accounting profits, managers may manipulate earnings to maximize their bonuses⁸. Consistent with agency theory, bonus-driven motivation encourages income-increasing earnings management. Prior studies show that managers often adjust accruals upward to meet thresholds that trigger bonus payments.

2. Method

The population of this study includes manufacturing companies operating in various industrial sectors and listed on the Indonesia Stock Exchange between 2018 and 2023. The focus on various industrial sectors was intended to minimize the influence of differences in characteristics between industries that could influence the results. The panel data in this study was obtained using a purposive sampling technique. The criteria used in the sample selection process were:

Table 1. Sample Selection Criteria

Criteria	n
Manufacturing companies in the miscellaneous industry sector listed on the IDX	62
Companies not consistently listed on the IDX during 2018–2023	(17)
Companies that did not publish or provide accessible financial statements for 2018–2023	(10)
Companies not using Rupiah (IDR) as reporting currency	(10)
Companies reporting losses during 2018–2023	(5)
Total companies selected as sample	20
Total observations (6 years)	120

Source: Indonesia Stock Exchange and Processed Data, 2024

3. Results and Discussions

3.1. Result

3.1.1. Normality Test

The Kolmogorov–Smirnov (KS) test was used as the primary method to evaluate data normality, supported by the analysis of the probability plot and histogram. A regression model meets the normality assumption when the significance value of the KS test exceeds 0.05. The detailed results are presented below:

Table 2. Normality Test Results

		Unstandardized Residual
N		110
Normal Parameters ^{a,b}	Mean	.0000000
	Std. Deviation	96.14107315
Most Extreme Differences	Absolute	.073
	Positive	.046
	Negative	-.073

⁷ Wina Anindya and Etna, Nur, Afri Yuyetta, *Diponegoro Journal Of Accounting*, 9.3 (2020), pp. 1–14.

⁸ Diana Gustinya, SE., M.Ak. and Bagas Wahyu Eko Saputro, *Jurnal Akuntansi Dan Bisnis Krisnadwipayana*, 9.3 (2022), p. 945, doi:10.35137.

	Unstandardized Residual
Test Statistic	.073
Asymp. Sig. (2-tailed)	.195 ^c

Based on Table 3, the significance value obtained is 0.195 (> 0.05). Referring to Ghozali (2018), this indicates that the residuals meet the normality assumption. Therefore, the regression model is deemed suitable for further analysis.

3.1.2. Multicollinearity Test

This test was conducted to assess whether correlations exist among the independent variables. A good regression model should be free from multicollinearity. The results of the analysis are presented below:

Table 3. Multicollinearity Test Results

Model	Collinearity Statistics	
	Tolerance	VIF
(Constant)		
Kepemilikan Manajerial	.969	1.032
Asimetri Informasi	.966	1.035
Leverage	.929	1.077
Ukuran Perusahaan	.982	1.018
Kompensasi Bonus	.920	1.087

Based on Table 4, the significance value obtained is 0.195 (> 0.05). Referring to Ghozali (2018), this indicates that the residuals meet the normality assumption. Therefore, the regression model is deemed suitable for further analysis.

3.1.3. Autocorrelation Test

Table 4. Autocorrelation Test (Durbin-Watson)

Model	RR Square	Adjusted R Square	Durbin-Watson
1	.620 ^a	.583	.534

The Durbin-Watson value obtained was 1.912 ($du = 1.7851$; $dl = 1.5955$; $4-du = 2.2149$). Since the DW value lies between du and $4-du$, the model is considered free from autocorrelation and is appropriate for regression analysis.

Coefficient of Determination (R^2)

Table 5. Coefficient of Determination (R^2)

Model	RR Square	Adjusted R Square
1	.620 ^a	.583

The R-square value obtained is 0.583, meaning that 58.3% of the variation in earnings management can be explained by managerial ownership, information asymmetry, leverage, firm size, and bonus compensation. The remaining 41.7% is influenced by other factors not included in this model.

3.1.4. F-Test (Simultaneous Test)

Table 6. F-Test Results

Model	Sum of Squares	df	Mean Square	F	Sig.
Regression	514619.643	5	102923.929	10.624	.000 ^b
Residual	1007498.548	104	9687.486		
Total	1522118.191	109			

The F-statistic is 10.624 with a significance value of 0.000 (< 0.05). Following Ghozali (2018), this indicates that the regression model is statistically significant, meaning that all independent variables collectively influence earnings management.

3.1.5. Partial Test (t-Test)

Table 7. t-Test Results

Model	Standardized Coef.	Beta	t	Sig.
(Constant)			3.238	.002
Kepemilikan Manajerial	.110	1.363	1.363	.176
Asimetri Informasi	.145	1.790	1.790	.006
Leverage	-.442	-5.334	-5.334	.000
Ukuran Perusahaan	-.349	-4.336	-4.336	.000
Kompensasi Bonus	-.076	-.919	-.919	.013

The explanation of each variable's partial effect on earnings management is presented in detail below:

1) Effect of Managerial Ownership on Earnings Management

The t-test shows that managerial ownership (X1) has a regression coefficient of 1.363 with a significance value of 0.176, which exceeds the 0.05 threshold. This indicates that although the coefficient is positive, the effect is not statistically significant. A positive coefficient suggests that higher managerial ownership tends to increase earnings management practices; however, the lack of significance implies that managers' share ownership in the sampled firms is not strong enough to influence their discretionary accounting decisions. This result may occur because the proportion of shares owned by managers is generally low, causing their economic incentives to be insufficient to align or misalign their interests with shareholders. As a consequence, managerial ownership does not play a decisive role in determining earnings manipulation behavior. Therefore, H1 is rejected.

2) Effect of Information Asymmetry on Earnings Management

Information asymmetry (X2) shows a positive regression coefficient of 1.790 with a significance value of 0.006, which is below 0.05. This indicates a positive and statistically significant effect on earnings management. The finding suggests that when insiders (managers) possess more information than outside parties (investors, creditors), they gain opportunities to influence reported earnings through discretionary accruals. Higher information asymmetry limits external monitoring, allowing managers to adjust earnings in ways that serve personal or internal corporate objectives. This supports agency theory, which argues that unequal information distribution increases managerial opportunism. Therefore, H2 is accepted, confirming that information asymmetry is a strong and significant driver of earnings management.

3) Effect of Leverage on Earnings Management

Leverage (X3) has a regression coefficient of -5.334 with a significance value of 0.000, indicating a negative and significant effect on earnings management. A negative coefficient means that higher leverage levels reduce the likelihood of managers engaging in earnings management. This can occur when firms with high leverage face tighter monitoring from creditors, lenders, or

financial institutions. Strict debt covenants and regular assessments from creditors may limit managers flexibility to manipulate earnings, thus decreasing earnings management behavior. The significance of the variable suggests that leverage plays a substantial role in controlling managerial discretion. Therefore, H3 is rejected, as the direction of the effect is opposite from what the hypothesis expected.

4) Effect of Firm Size on Earnings Management

Firm size (X4) shows a regression coefficient of -4.336 with a significance value of 0.000 , demonstrating a negative and significant relationship with earnings management. Larger firms generally face greater scrutiny from regulators, external auditors, and stakeholders. They are also more transparent and tend to have more comprehensive reporting systems, reducing opportunities for earnings manipulation. Larger firms may also prioritize maintaining their reputation, thereby encouraging more conservative financial reporting practices. The significant negative result indicates that firm size is an important factor in reducing earnings management practices. Thus, H4 is rejected because although the variable is significant, the direction is negative rather than positive.

5) Effect of Bonus Compensation on Earnings Management

Bonus compensation (X5) has a regression coefficient of -0.919 with a significance value of 0.013 , showing a negative and significant effect on earnings management. The negative coefficient suggests that firms with better-designed bonus compensation systems tend to reduce managerial incentives to manipulate earnings. This can occur when bonus schemes are structured fairly and include performance metrics that discourage opportunistic behavior. Transparent compensation policies and strict oversight mechanisms may reduce the motivation for managers to manipulate reported earnings merely to achieve bonus targets. The significant result indicates that bonus compensation effectively influences managerial behavior in a way that limits earnings manipulation. Therefore, H5 is rejected, as the expected positive relationship is not supported.

3.2. Discussion

The discussion section provides an interpretation of the hypothesis testing results presented earlier. This part aims to explain the meaning of the findings, link them to relevant theories, and compare them with previous research to provide a comprehensive understanding of the factors influencing earnings management.

3.2.1. The Influence of Managerial Ownership on Earnings Management

The hypothesis testing shows that managerial ownership has a positive but insignificant effect on earnings management, as indicated by a significance value of 0.176 (> 0.05). This result means that although an increase in managerial share ownership tends to be followed by higher earnings management, the influence is not statistically strong enough to be considered meaningful. The insignificant result suggests that the proportion of shares owned by managers in the sample firms is likely too small to give them substantial control over financial reporting decisions. From an agency theory perspective, managerial ownership should reduce agency conflicts by aligning the interests of managers and shareholders. However, in this study, the effect remains insignificant, indicating that other monitoring mechanisms such as the board of commissioners, audit committee, and external auditors may play a stronger role in constraining earnings manipulation than ownership structure alone. This finding is consistent with prior empirical evidence⁹, which also reported a positive but insignificant relationship between managerial ownership and earnings management. However, it differs from other studies¹⁰ that documented a negative and significant effect. Differences in industry context, the proportion of managerial share ownership, and the effectiveness of governance mechanisms may explain the inconsistencies across these findings.

⁹ Dudi Pratomo and Nelda Alma, *Journal of Financial and Business Accounting*, 13.2 (2020), pp. 98–107, doi:10.35143/jakb.v13i2.3675.

¹⁰ Aristi Ardiyanti Pratika and Ida Nurhayati, *Fair Value: Jurnal Ilmiah Akuntansi Dan Keuangan*, 5.2 (2022), pp. 762–75, doi:10.32670/fairvalue.v5i2.2074.

3.2.2. The Effect of Information Asymmetry on Earnings Management

The results of the hypothesis testing indicate that information asymmetry has a positive and significant effect on earnings management. The regression coefficient of 0.018 shows that higher information asymmetry tends to increase earnings management practices, while the significance value of 0.006 (< 0.05) confirms that this influence is statistically significant. Thus, the second hypothesis is accepted. This finding suggests that greater information gaps between managers and external stakeholders enable managers to manipulate financial information more freely. Limited transparency creates an opportunity for managers to engage in opportunistic reporting to present a more favorable financial performance. This interpretation aligns with agency theory, which states that when managers hold superior information, the likelihood of opportunistic behavior increases. Empirically, this result is supported by previous studies¹¹, which also found that information asymmetry significantly increases the likelihood of earnings management. The consistency of these findings across different research settings reinforces the conclusion that information asymmetry is one of the key determinants of earnings manipulation in manufacturing firms.

3.2.3. The Effect of Leverage on Earnings Management

The hypothesis testing indicates that leverage has a negative and significant effect on earnings management. The regression coefficient of -0.105 shows that higher leverage is associated with a decrease in earnings management practices, and the significance value of 0.000 (< 0.05) confirms that this influence is statistically significant. Accordingly, the third hypothesis which proposed a positive and significant relationship is rejected. This finding suggests that firms with higher leverage are subject to more stringent monitoring from creditors, thereby limiting managerial discretion in manipulating financial reports. External oversight, the risk of covenant violation, and the pressure to maintain credibility with lenders collectively act as disciplinary mechanisms that reduce opportunistic reporting behavior. These results align with agency theory, which states that external control can mitigate conflicts between managers and principals by restricting managerial opportunism. Empirically, this result is consistent with earlier studies¹² that also reported a negative and significant relationship between leverage and earnings management. However, it differs from other research that found a positive and significant effect. These discrepancies may arise from variations in sample characteristics, industry environments, or the methodological approaches applied in each study.

3.2.4. The Effect of Company Size on Earnings Management

The hypothesis testing shows that firm size has a negative and significant effect on earnings management. The regression coefficient of -0.153 indicates that larger firms tend to engage less in earnings manipulation, and the significance value of 0.000 (< 0.05) confirms that this relationship is statistically significant. Therefore, the fourth hypothesis which proposed a positive and significant influence is rejected. This result suggests that larger firms are generally subject to greater scrutiny from shareholders, regulators, external auditors, and other stakeholders. Their broader operational scale is typically accompanied by stronger internal control systems and more comprehensive governance mechanisms, which collectively limit managerial opportunities for manipulating financial information. From an agency theory perspective, firm size acts as a monitoring mechanism that reduces information asymmetry and managerial opportunism. The empirical findings of this study are consistent with prior research¹³ that also documented a negative relationship between firm size and earnings management. However, they differ from other studies¹⁴ that reported the opposite

¹¹ Rizki Fionissa Noor, 'The Influence of Information Asymmetry, Leverage, Company Size, and Profitability on Earnings Management', *Ajar*, 04.02 (2021), pp. 187–204.

¹² Adityaningsih and Hidayat, 'The Influence of Company Size, Company Age, Leverage and Profit Management.

¹³ Dewi Sarifah Tullah Siti Wulan Astriah, Rizky Trinanda Akhbar, Erma Apriyanti, 'The Effect of Company Size, Profitability and Leverage on Earnings Management', 10.2 (2021), pp. 387–401.

¹⁴ Widhian Hardiyanti, Andi Kartika, and Sri Sudarsi, 'Analysis of Profitability, Company Size, Leverage and Their Influence on Profit Management in Manufacturing Companies', *Owner*, 6.4 (2022), pp. 4071–82, doi:10.33395/owner.v6i4.1035.

effect. These inconsistencies may be influenced by differences in industry characteristics, sample periods, or the measurement techniques applied in each study.

3.2.5. The Effect of Bonus Compensation on Earnings Management

The hypothesis testing shows that bonus compensation has a negative and significant effect on earnings management. The regression coefficient of -0.185 indicates that higher bonus compensation reduces earnings manipulation, while the significance value of 0.013 (< 0.05) confirms the statistical significance of this relationship. Therefore, the fifth hypothesis which proposed a positive and significant influence is rejected. This finding suggests that well-designed bonus schemes encourage managers to focus on actual performance rather than manipulating reported earnings. Strong and transparent compensation systems help align managerial incentives with long-term organizational goals, reducing the motivation to engage in opportunistic reporting behavior. This interpretation is aligned with agency theory, which highlights the importance of incentive structures in reducing agency conflicts and enhancing the integrity of financial reporting. The results of this study are supported by prior empirical evidence¹⁵ that also documented a negative and significant effect of bonus compensation on earnings management. However, they differ from other studies¹⁶ that reported a positive and significant influence. Variations in compensation schemes, firm characteristics, and measurement periods may explain the differences in these research outcomes.

Limitations

This study has several limitations that should be acknowledged. The research focuses solely on companies within the miscellaneous manufacturing sector. This industry-specific scope restricts the generalizability of the findings. Future studies are encouraged to examine other sectors or compare multiple industries to obtain broader and more representative insights. The number of variables examined is limited, and the analytical method used relies primarily on linear regression. Future research may incorporate additional relevant variables, adopt alternative or more advanced analytical techniques, and consider external factors such as macroeconomic conditions or regulatory developments. Expanding these aspects would allow future studies to produce more comprehensive and robust conclusions.

4. Conclusion

This study examined the influence of managerial ownership, information asymmetry, leverage, firm size, and bonus compensation on earnings management in manufacturing companies within the miscellaneous industry sector listed on the Indonesia Stock Exchange during 2018–2023. The results show that information asymmetry has a positive and significant effect on earnings management, indicating that limited transparency and unequal access to information allow managers to engage in discretionary reporting practices. In contrast, leverage, firm size, and bonus compensation have a negative and significant effect on earnings management. These findings suggest that strong creditor monitoring, larger organizational scale, and well-designed compensation schemes can effectively reduce managerial incentives to manipulate earnings. Meanwhile, managerial ownership shows a positive but insignificant influence, implying that the ownership proportion held by managers in the sampled firms is not substantial enough to affect earnings reporting behavior. Overall, the study highlights the importance of information transparency, monitoring mechanisms, corporate governance practices, and compensation structures in controlling earnings management. The findings contribute to a better understanding of how internal and external factors shape managerial discretion in financial reporting within the Indonesian manufacturing sector.

¹⁵ Puji Lestari Dewi, Kodriyah, and Entis Haryadi, *Jurnal Perpajakan*, 2.1 (2023), pp. 47–59, doi:10.30656/lawsuit.v2i1.1158.

¹⁶ David Pangaribuan, Gilbert Rely, and Dimas Aditia, ‘The Effect of Bonus Compensation and Leverage on Earnings Management Moderated by Company Size (An Empirical Study of Food and Beverage Sub-Sector Companies Listed on the Indonesia Stock Exchange for the 2018-2021 Period)’, *Jurnal Akuntansi, Auditing Dan Keuangan*, 20.2 (2023), pp. 130–53.

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