American Journal of Humanities and Social Sciences Research (AJHSSR)
e-ISSN :2378-703X
Volume-5, Issue-4, pp-487-494
www.ajhssr.com
Research Paper Open Access

Factors Affecting the Earnings Management of State-Owned Enterprises in 2010-2019

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ABSTRACT : Earnings is one indicator used to estimate management performance. Earnings information is often the target of management's opportunistic manipulation actions to maximize satisfaction. The behavior of management to manage earnings according to their wishes is known as earnings management. This study measures earnings management with the value of Dechow's discretionary accrual model. This study aims to obtain empirical evidence of the effect of information asymmetry, profitability, and the employee stock ownership program (ESOP) on earnings management. This research was conducted at state-owned enterprises listed on the Indonesia Stock Exchange in 2010-2019. The population in this research is 12 state-owned enterprises. Determination of samples using purposive sampling technique. Data analysis using panel data regression analysis. The results of this study indicate that information asymmetry and the employee stock ownership program have no effect on earnings management, while profitability has a positive effect on earnings management. The results of this study can theoretically confirm Agency Theory which explains the interests between agents and principles as the cause of earnings management actions as well as Positive Accounting Theory which explains the motivation of managers who practice earnings management.

Keywords: *earnings management, information asymmetry, profitability, ESOP*

I. INTRODUCTION

The financial report describes the financial condition of a company and can be used as a description of the company's financial performance. The earnings information contained in the financial statements is one of the indicators used to estimate management performance. Earnings information is often the target of management's opportunistic engineering actions to maximize satisfaction. It often happens that the management (agent) in conveying information to the owner (principal) is not in accordance with the actual situation and tends to manipulate the information. Opportunistic actions are carried out by selecting certain accounting policies, so that company profits can be adjusted, increased or decreased according to management's wishes. The behavior of management to manage earnings according to their wishes is known as earnings management (Yanti & Setiawan, 2019). The flexibility that management has in preparing financial reports provides an opportunity for management to carry out earnings management practices through the freedom given to choose or change accounting methods (Wiyadi et al., 2015).

Earnings management can be explained from two basic perspectives, namely an informational perspective and an opportunistic perspective (Ado et al., 2020). Informational perspective, sees earnings management as an instrument used in reporting personal information related to the company's potential performance in financial markets. Opportunistic perspective views earnings management as an instrument strategy used by company managers to prevent certain conditions that can affect the company and also deceive investors about the current condition of the company in the form of a decrease or increase in income, company managers disclose to investors about the achievement of company results. They will be rewarded by optimizing for personal gain.

One of the government's real roles in participating in developing the Indonesian economy is by establishing State-Owned Enterprises (BUMN) which are intended to be agents of development. Public companies have a high level of publicity and accountability, including BUMN (Zain, 2015). Several cases of earnings management practices that have occurred in BUMN in Indonesia in recent years, namely PT Garuda Indonesia Tbk and PT Asuransi Jiwasraya (Persero). Garuda Indonesia is a state-owned enterprise that runs a business in the airline sector, established in 1950. Garuda Indonesia officially became a public company after its initial public offering of 6,335,738,000 shares of the company to the public. These shares were listed on the Indonesia Stock Exchange on February 11, 2011 under the code GIAA. Currently Garuda Indonesia is a five-star airline, with various international recognition and appreciation, including the achievement of “The World's

Best Cabin Crew" for four consecutive years, from 2014 to 2017, "The World's Most Loved Airline 2016", and "The World's Best Economy Class 2013" from Skytrax, a London-based independent aviation rating agency. However, despite its achievements, Garuda Indonesia is caught in a case of earnings management. In 2018, Garuda Indonesia reported a profit of US $ 5 million or equivalent to Rp.70.02 billion. However, after adjusting the records, the airline suffered a loss of US $ 175 million or equivalent to Rp. 2.45 trillion (exchange rate of Rp. 14,004 / US $) (Sandy, 2020).

Another similar case happened to PT Asuransi Jiwasraya (Persero). Jiwasraya Insurance is the oldest life insurance company in Indonesia. Jiwasraya Insurance was able to win several prestigious awards in 2015, including: The 1st Champion of Indonesia Original Brand SWA Award, the Infobank Insurance Award in the Insurance category with excellent performance during 2010-2014, Top IT Implementation on Insurance Sector 2015, and the MURI Record award. for one of the company's Corporate Social Responsibility (CSR) activities in the framework of Jiwasraya's 156th Anniversary. Despite having a good performance as evidenced by a series of awards he has won, the results of the examination by the Audit Board of Indonesia state that the financial profit of PT Asuransi Jiwasraya (Persero) since 2006 is pseudo. This is because the profits so far obtained are a result of the manipulation of financial statements (window dressing), which actually causes the company to suffer losses. As happened in 2017, PT Asuransi Jiwasraya (Persero) claimed to have earned a profit of IDR 360.3 billion but received an adverse opinion from the Public Accounting Firm PricewaterhouseCoopers (KAP PwC), because there was fraud in reserve premiums of IDR 7.7 trillion. Then in 2018, Jiwasraya suffered a loss of IDR 15.3 trillion. These losses continued until September 2019, the losses reached IDR 13.7 trillion. Until November 2019, Jiwasraya is estimated to experience a negative equity of Rp 27.2 trillion (Abidin, 2020). From the above case, it can be concluded that the practice of earnings management has long been occurring in Indonesia. The goal to be achieved from engineering financial statements is a financial report that looks good, especially investors, so that investors want to invest in the company.

In fact, earnings management practices have occurred a lot, there are several factors that are thought to influence management in taking earnings management actions, including information asymmetry, profitability, and employee share ownership programs. Extensive information regarding the condition of the company owned by management (agents) and the least information received by the company owner (principal) is called information asymmetry (Yanti & Setiawan, 2019).

The tendency of management to manipulate company profits is carried out with the aim of maximizing value so that the company appears to be in good condition (Mustikawati, 2015). Several previous studies including (Mustikawati, 2015) and (Wicaksono, 2015) state that there is a positive relationship between information asymmetry and earnings management practices. The existence of information asymmetry indicates that company management tends to present false information. On the other hand, research conducted by (Barus, 2015), (Ghani et al., 2017), and (Yanti & Setiawan, 2019) states that information asymmetry has no effect on earnings management.

Profitability shows the company's ability to generate profits for a certain period of time. In general, the profitability value of a company can be used as an indicator to measure the performance of a company (Yanti & Setiawan, 2019). If the profitability obtained by the company is low, generally managers will take earnings management actions to save their performance in front of the owner. This is closely related to managers' efforts to show the best performance of the companies they lead (Yanti & Setiawan, 2019). Research conducted by (Prasadhita & Intani, 2017), (I. Purnama & Nurdiniah, 2019), (Yanti & Setiawan, 2019), and (Zakia et al., 2019) states that the level of profitability has a positive and significant effect on management practices. profit. Meanwhile, research (Fatmasari, 2016) states that earnings management is not influenced by the level of profitability.

Employee stock ownership program (ESOP) is an offering program to employees, members of the Board of Directors, and / or members of the Board of Commissioners of a Public Company and / or Controlled Company who qualify to own shares of a Public Company. One of the objectives of implementing this program is to create alignment of the interests and mission of shareholders, so that there is no conflict of interest between shareholders and those who carry out company activities and increase employee motivation towards the company because employees are also owners of the company. ESOP can be considered as a long-term incentive given by the company to create a sense of belonging to the employees of the company. This is believed to be able to increase employee productivity and company performance (Susanto et al., 2019). Research (Susanto et al., 2019) states that ESOP has a significant effect on earnings management. In addition, research (Waringin & Dewi, 2018) and (Wiyadi et al., 2015) stated that ESOP has a negative and significant effect on earnings management. On the other hand, research (Syariati et al., 2017) states that ESOP has a positive and significant effect on earnings management.

II. CONCEPTUAL MODEL AND HYPOTHESIS

Agency theory states that the principal and the agent have different interests, thus creating a conflict of interest because the agent does not act together for the principal's interests due to gaps or imbalances in information between what the agent has and the information obtained by the principal. A condition of imbalance in information acquisition between management as an information provider and shareholders as information users is called information asymmetry which provides an opportunity for agents to take practice earnings management actions (Yanti & Setiawan, 2019).

Research (Veno & Sasongko, 2017) states that information asymmetry has a positive and significant effect on earnings management, this is in line with the results of research (Wicaksono, 2015) which states that information asymmetry has a positive and significant effect on earnings management. Earnings management increases along with the increase in information asymmetry that occurs in the company. When information asymmetry is high, stakeholders do not have the information needed to undo manipulated earnings. The existence of information asymmetry will encourage managers to present information that is not true, especially if the information is related to the manager's performance measurement. management's tendency to undertake earnings management can be reduced by providing higher quality information to outsiders. The quality of financial reports will reflect the level of earnings management (Wicaksono, 2015).

H_1: Information asymmetry has a positive effect on earnings management

Positive Accounting Theory states that there are three hypotheses that form the basis of thought regarding earnings management according to (Watts & Zimmerman, 1986), namely the bonus plan hypothesis, debt equity hypothesis (debt covenant hypothesis), and political cost hypothesis (size hypothesis). These three hypotheses explain that managers will regulate company profits in such a way as to achieve predetermined goals, namely to get bonuses, postpone debt agreements, and minimize political costs incurred by the company. The level of profitability that often changes shows that the company has a risk in paying dividends to investors. so as to increase the confidence of the market, the manager will try to maintain the level of profitability in order to remain consistent and stable. The higher the level of company profitability, the higher the level of earnings management carried out by managers to keep company profits stable so that company performance looks good (I. Purnama & Nurdiniah, 2019).

Research from (I. Purnama & Nurdiniah, 2019) states that profitability has a positive and significant effect on earnings management. The higher the level of profitability, the greater the actions of managers or shareholders in earnings management. This is in line with research conducted by (Fitri et al., 2018) and (Zakia et al., 2019) which state that profitability has a positive and significant effect on earnings management. (Fitri et al., 2018) stated that the effectiveness of the company in generating profits through the operation of its assets is a benchmark for company performance which can also motivate earnings management actions in a company. The greater the Return on Assets (ROA) as the profitability ratio of a company, the more efficient the use of assets is to increase profits. ROA is an important measure to assess the health of a company, which affects investors because the company has a higher rate of return. In other words, the higher the ROA, the better the productivity of assets in generating net income. So that ROA motivates management to carry out earnings management.

H_2: Profitability has a positive effect on earnings management

Agency theory states that principals and agents have different interests, thus creating a conflict of interest because agents do not act together in the interests of the principal. According to (Jensen & Meckling, 1976), agency problems will occur when the proportion of managers' ownership of the company's shares is less than 100% so that managers tend to act to pursue their own interests and are not based on maximizing firm value in making funding decisions. The employee share ownership program (ESOP) is a policy offered by the company to reward employee performance by giving shares. Through the ESOP, it is expected to increase employee motivation so that it can improve company performance (Yunita, 2018). ESOP can be considered as a long-term incentive given by the company to create a sense of belonging to the employees of the company. This is believed to be able to increase employee productivity and company performance (Susanto et al., 2019). ESOP provides an opportunity for company employees to share ownership in the company.

The company has several objectives in implementing ESOP, including to improve employee performance in the company, reduce the company's tax burden, and provide voting rights for employees in management, because by owning company shares, employees automatically become one of the owners of the company, thereby reducing conflicts of interest that occur. between managers and company owners. Psychologically, as owner managers, employees and company executives will be motivated by improving performance by working effectively and efficiently. This will minimize earnings management practices, so the implementation of ESOP is expected to reduce earnings management. Research (Susanto et al., 2019) states that ESOP has a significant effect on earnings management. This is because in Indonesia there are controlling and non-controlling shareholders who are concentrated in certain groups such as families. Thus, this program is attractive to use to reduce agency problems between shareholders and managers. In addition, research from (Waringin & Dewi, 2018) and (Andika & Suputra, 2019) states that ESOP has a negative and significant effect on earnings management.

H_3: Employee Stock Ownership Program has a negative effect on earnings management

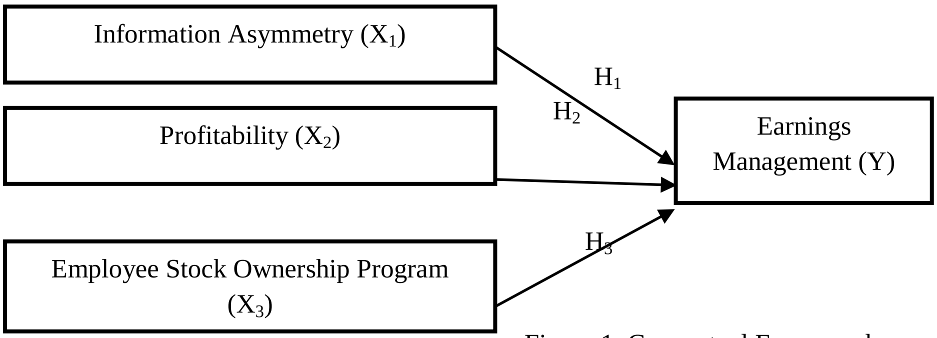

Figure 1. Conceptual Framework

III. RESEARCH METHODS

The approach used in this research is an associative quantitative approach. This research was carried out in particular for state-owned enterprises listed on the Indonesia Stock Exchange for the period 2010 - 2019 which were accessed on the official website of the Indonesia Stock Exchange. Information asymmetry is projected using the relative bid - ask spread which refers to research (Yanti & Setiawan, 2019) because information asymmetry cannot be observed directly. Profitability describes the company's ability to manage assets to generate profits. The profitability variable is measured by the return on assets (ROA) ratio. The ROA ratio is used because it is a comprehensive technique, which is sensitive to everything that affects the company's financial condition (Wijaya, 2019). To find out whether a company has implemented the ESOP or not, this is done by looking at the company's annual report in the Employee Stock Ownership Program section. This variable is proxied using dummy variables. If the company has implemented ESOP, then it is given a value of 1, if the company has not implemented ESOP then it is given a value of 0. Earnings management in this study is proxied by Discretionary Accrual Modified Jones with the Dechow model. This model has the smallest standard error for the estimated total accrual value compared to other models (Dechow et al., 1995). The Modified Jones Model is calculated by means of total accruals minus non-discretionary accruals (Sulistiawan et al., 2017: 72).

The population in this study were all state-owned enterprises listed on the Indonesia Stock Exchange from January 2010 to December 2019, totaling 12 companies. The sample in this study were all state-owned enterprises listed on the Indonesia Stock Exchange from January 2010 to December 2019 which had been selected using purposive sampling technique. The data collection methods used in this study were non-participant observation methods and documentation methods. The analysis technique used in this research is panel data regression analysis.

IV. RESULTS AND DISCUSSION

The method of determining the sample in this study was determined by using a non-probability sampling method with purposive sampling technique by selecting samples according to certain criteria. The sample selection process is as listed in Table 1 as follows.

Table 1 Sample Selection Results

No.	Information	Accumulated Number of Companies
1	State-owned enterprises listed on the Indonesia Stock Exchange during 2010-2019.	12
2	State-owned enterprises that did not publish annual reports and financial reports consecutively during 2010-2019 and the data presented is in accordance with the needs of this study.	(2)
3	State-owned enterprises that do not use the rupiah currency in their financial reports during 2010-2019.	(3)
The number of company samples that are worthy of observation		7
Observation years		10
Number of observations during 2010-2019		70

Source : *Secondary data processed, 2020*

Based on Table 1, it can be seen that the number of state-owned enterprises listed on the Indonesia Stock Exchange in 2010-2019 was 12 companies. There were 2 companies that did not publish complete financial reports and annual reports in 2010-2019, while the companies that did not use the rupiah currency in their financial statements in 2010-2019 were 3 companies, then after selecting the sample, 7 companies met the criteria, samples with an observation period of 10 years, then the number of research samples became 70 samples.

This study uses panel data regression analysis. The estimation model testing that has been done produces the Random Effect as the best model used in this study. Following are the results of the Random Effect model estimation:

Table 2 Random Effect Model Estimation Results

Dependent Variable: DA			
Method: Panel EGLS (Cross-section random effects)			
Variable	Coefficient	t-Statistic	Prob.
C	-0.008389	-5.363136	0.0000
BAS	-0.000715	-0.631848	0.5297
ROA	0.001436	3.283093	0.0016
ESOP	-0.001230	-1.253212	0.2146
R-Squared			0,155505
Adjusted R-Squared			0.117119
F-statistic			4.051072
Prob (F-statistic)			0.010507
Durbin-Watson stat			1.522195

Source : *Secondary data processed, 2020*

Based on the results of the regression coefficients in Table 2 above, the equation model can be stated as follows: **Y = - 0.008389 - 0.000715 BAS + 0.001436 ROA - 0.001230 ESOP + ε**

The Effect of Information Asymmetry on Earnings Management

The first hypothesis (H_1) states that information asymmetry has a positive effect on earnings management. The results of the analysis in Table 2 show that the information asymmetry regression coefficient is -0.000715 with a significance value of 0.5297 which is greater than $\alpha = 0.05$. This shows that the information asymmetry of state-owned enterprises listed on the Indonesia Stock Exchange in 2010 - 2019 has no effect on earnings management, which is proxied by discretionary accruals. Thus, the first hypothesis (H_1) in this study was rejected.

The results of this study do not support the research conducted by (Mustikawati, 2015) and (Wicaksono, 2015) which states that information asymmetry has a significant positive effect on earnings management, but supports the results of research conducted by (Yanti & Setiawan, 2019), (Barus, 2015) and (Ghani et al., 2017) which state that information asymmetry has no effect on earnings management. The results of this study failed to prove the validity of agency theory as the theory underlying this study. Agency theory states that the principal and the agent have different interests, thus creating a conflict of interest because the agent does not act together for the principal's interests due to the information gap between what the agent has and the information obtained by the principal.

The results of this study indicate that information asymmetry has no effect on earnings management, meaning that the level of information asymmetry between principals and agents has no effect on earnings management actions by company management. This indicates that information asymmetry is not a factor that is highly considered in the earnings management actions taken by company management. The existence of tight internal supervision can cause information asymmetry to have no effect on earnings management, this is due to tight internal supervision so that managers do not have the opportunity to take actions to cover existing information (Putri & Machdar, 2017). Internal supervision within the company is carried out by the Audit Committee. The audit committee assists the Board of Commissioners in reviewing the quality and integrity of financial disclosures, overseeing the effectiveness of the Company's internal control and risk management and supervision systems so as to reduce the opportunistic actions of managers to carry out earnings management practices.

The Effect of Profitability on Earnings Management

The second hypothesis (H_2) states that profitability has a positive effect on earnings management. The results of the analysis in Table 2 show that the value of the profitability regression coefficient is 0.001436 with a significance value of 0.0016 which is smaller than $\alpha = 0.05$. This shows that the profitability of state-owned enterprises listed on the Indonesia Stock Exchange from 2010 to 2019 has a positive effect on discretionary accruals as a proxy for earnings management. The higher the level of profitability, the higher the value of discretionary accruals in state-owned enterprises on the Indonesia Stock Exchange in 2010-2019. The higher the value of the company's discretionary accruals, an indication that the company's earnings management actions are getting higher. Thus, the second hypothesis (H_2) in this study is accepted.

The results of this study are in line with research (Yanti & Setiawan, 2019), (Prasadhita & Intani, 2017), (Zakia et al., 2019), and (I. Purnama & Nurdiniah, 2019) which state that profitability has a positive effect on earnings management. This indicates that the company's management actions tend to carry out earnings management by means of income minimization (profit minimization) and income maximization (profit maximization). The behavior of company management in earnings management by means of income minimization (profit minimization) aims for tax consideration purposes, namely minimizing corporate tax obligations, while the income maximization method is intended to maximize manager bonuses, creating good company performance so as to increase firm value (capital market considerations) which aim to gain the trust of investors so that they want to invest in the company, delay the breach of debt covenants and managers can gain control over the company (D. Purnama, 2017). This is supported by research from (I. Purnama & Nurdiniah, 2019) which states that the greater the level of company profitability, the more likely the company will experience a decrease in profitability in the future so that the greater the company experiences income fluctuations which causes instability of the company in earning revenue, then the greater the profitability of the company, the bigger the company. carry out earnings management practices to maintain stability in company decision making. In other words, the greater the profit the company gets, the greater the profit management measures taken so that the state-owned enterprises will still look good.

The results of this study are in accordance with agency theory which states that company management as an agent takes action that is only concerned with its own interests because it has manipulated financial statements to the detriment of investors. This study supports positive accounting theory which explains the motivation for company management to take earnings management actions. By controlling the reported earnings with the aim of maximizing the number of bonuses he will receive (bonus plan hypothesis), delaying the debt covenant hypothesis, and minimizing the tax obligations paid by companies (political cost hypothesis).

The Effect of Employee Stock Ownership Program on Earnings Management

The third hypothesis (H_3) states that employee stock ownership programs have a negative effect on earnings management. The analysis results show that the regression coefficient value of the employee stock ownership program is -0.001230 with a significance value of 0.2146 which is greater than $\alpha = 0.05$. This shows that the share ownership program by employees of state-owned enterprises listed on the Indonesia Stock Exchange in 2010 - 2019 has no effect on earnings management, which is proxied by discretionary accruals. Thus, the third hypothesis (H_3) in this study is rejected.

The results of this study do not support research conducted by (Waringin & Dewi, 2018) and (Andika & Suputra, 2019) which states that employee share ownership programs have a negative effect on earnings management, but support the results of research conducted by (Mukhtar & Taqwa, 2016) which states that the employee share ownership program (ESOP) has no effect on earnings management. The results of this study failed to prove the validity of agency theory as the theory underlying this study which states that principals and agents have different interests, thus creating a conflict of interest because agents do not act the same for the principal's interests. According to (Jensen & Meckling, 1976), agency problems will occur when the proportion of managers' ownership of the company's shares is less than 100% so that managers tend to act to pursue their own interests and are not based on maximizing firm value in making funding decisions. One of the objectives of implementing ESOP in a company is to create alignment of the interests and missions of employees and executive officers with the interests and missions of shareholders, so that there is no conflict of interest between shareholders and parties running the company's business activities. Thus, it is expected that the actions of employees and executive officers to do earnings management will decrease because they will bear the good and bad consequences of the actions taken. However, even though the ESOP gives voting rights to employees as shareholders, employees cannot directly control management activities because company owners will continue to control and supervise the running of the company. Therefore, stock ownership by employees has no effect on earnings management. Although the ESOP grants certain voting rights to employees as shareholders, founding shareholders rarely relinquish control over their companies. Even though employees also own shares in the company, they cannot directly control management activities because the percentage of share ownership is very small, so this employee share ownership program has no effect on earnings management practices.

V. CONCLUSION

Based on the results of data analysis and discussion, it can be concluded that this study cannot prove the effect of information asymmetry on earnings management in accordance with the theory. Profitability has a positive effect on earnings management. The higher the profitability of a company, the greater the earnings management actions taken by agents within the company, and vice versa. This is because management will keep the company's financial performance increasing and stable with the aim of obtaining bonuses, avoiding breaches of debt covenants, and reducing corporate tax obligations. This study cannot prove the effect of employee stock ownership programs on earnings management in accordance with the theory.

Suggestions from this study for companies, the company should reconsider not taking earnings management actions that can harm the company and users of financial statements, especially investors and creditors, because the impact of adverse earnings management actions can reduce the company's image in the eyes of the public and affect the future prospects of the company. For investors, it is better if before investing in a company, first pay attention to the condition of the company such as the level of company profitability. Investors should also increase their supervision of decisions or policies taken by the company so as not to cause harm to the company and shareholders, given that there are several cases of earnings management in Indonesia. This study only uses 7 companies with 10 years of observations as research samples, for further research it can select the research period and the company sector whose companies regularly publish financial reports and annual reports so that more companies are used as research samples so that they can produce more precise and accurate research.

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