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Determinants of Earnings Management in Food and Beverage Sector Companies in Indonesian

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Abstract

This research aims to provide evidence that leverage, managerial ownership, board of directors, and firm size affect earnings management. The type of research used in this research is quantitative research with a descriptive approach. The population in this study is all manufacturing companies in the food and beverage sector listed on the Indonesia Stock Exchange, which are 18 companies and disclose annual reports for 2017-2021. The data collection technique used in this study is more precisely using the purposive sampling technique so that the researcher will take 45 samples from the population. This study found that leverage, managerial ownership, and firm size positively and significantly affect earnings management. In contrast, the board of directors has a negative and insignificant effect on earnings management.

Keywords: Leverage, Managerial Ownership, Board of Directors, Firm Size, Earnings Management.

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Introduction

In this era of globalization, the rapid growth of technology and information flow necessitates businesses to provide helpful information to information users, such as investors and stakeholders. It causes competition to intensify and become more intense. Expanding their market share necessitates substantial funding sources for companies to remain competitive. A capital market is a location where buyers and sellers can negotiate the exchange of capital (Sudarmanto et al., 2021). Investors who wish to invest in a company must have access to information describing its condition. This information is disclosed in the company's financial statements.

Financial statements are a source of information used to evaluate the performance or soundness of a company; therefore, managers can engage in earnings management so that financial statements look good and meet the criteria for investors (Datta et al., 2013; Myková & Hájek, 2017). This erroneous financial report results from managers having the authority to manipulate financial statements to make them appear more attractive to investors so that they will invest capital in the company. The existence of information asymmetry and the tendency of external parties (investors) to pay more attention to earnings information as a parameter of company performance will encourage management to manipulate showing earnings information, known as earnings management (Arlita et al., 2019). One of the ways managers exercise their prerogative is by preparing company financial statements using the accrual basis.

Disclosure of corporate profits will undoubtedly affect the company's value and its stakeholders' decisions. Earnings management refers to the use of gaps in the use of the accrual basis by management when preparing financial statements to manage earnings by increasing, decreasing, or leveling profits. Earnings management arises because of agency problems in which the interests of owners and management are misaligned. According to agency theory, a conflict of interest occurs when both parties (owner and manager) seek to maximize their wealth, resulting in agency issues (Andrayani et al., 2018). Offering managers, the opportunity to participate in a stock option program, also known as stock-based compensation, is one way to reduce the conflict caused by the separation of ownership and control between the parties. Providing managers with this compensation will increase managerial ownership.

The agency theory explains this disagreement between shareholders and managers. According to agency theory, agency relationships are formed when one or more individuals (principals) hire another individual (agent) to perform a service and then delegate decision-making authority to the agent. According to agency theory, effective company performance management can overcome misaligned principal and agent interests. The performance of a company can be measured both internally and externally. Managers may be indirectly prompted to use earnings management by the company's performance, particularly its financial performance, as measured externally (Laksana, 2015). The externally measured financial performance of a company typically involves market conditions and values, such as the condition and market value of the company's investments and the conditions of its business competition. Dealing with competitive pressures and threats is a source of earnings management (Li & Zhan, 2019).

Earnings management is an indirect act of profit manipulation that company managers engage in to ensure that the company's financial statements are healthy in the eyes of stakeholders and fair in the eyes of the auditor. When a company reaches a crucial point, earnings management occurs. The objective of this critical point is for the company's management to increase profits when company profits decrease to attract investors and decrease profits when company profits increase to avoid taxes (Uswati & Mayangsari, 2016; Misniasih, 2018). It prohibits or disallows the application of earnings management in a business. This is because earnings management can be one factor that diminishes the credibility of financial statements. In any case, the reported numbers do not reflect the actual numbers.

PT. Three Pillars of Prosperous Food, Tbk, a manufacturer in the food and beverage subsector, was implicated in one of the numerous accounting reporting scandals caused by earnings management (AISA). In its March 12, 2019, report to the new management of AISA, PT Ernst & Young Indonesia (EY) outlined the results of its investigation. It was discovered that the previous directors had inflated funds by four trillion rupiah. In addition, the EBITDA post revealed an inflated income of 662 billion rupiah and other inflation of 329 billion rupiah (earnings before interest, taxes, depreciation, and amortization). In addition, it was discovered that relationships and transactions with affiliated parties lacked an adequate mechanism for disclosure to relevant stakeholders. Based on these data, it is possible to conclude that PT Tiga Pilar Sejahtera Food, Tbk (AISA) has engaged in earnings management (http://cnbcindonesia.com, 2021). It can be concluded that earnings management is still occurring at the Indonesia Stock Exchange-listed food and beverage manufacturing companies.

Several factors, including leverage, trigger earnings management. Leverage is the ratio of a company's total liabilities to its total assets. As a measure of manager behavior in earnings management, leverage as an effort to increase operating profit can be used as a benchmark (Di Meo et al., 2017). Due to errors in decision-making or business strategies, the company may be at risk of failing to meet its financial obligations. When a company's ability to pay its obligations is in jeopardy, the management is permitted to manage earnings so that investors and the public can view the company favorably. Leverage indicates the proportion of a company's assets that are financed by debt. The measure of leverage is the ratio of total debt to total assets. The greater the leverage ratio, the greater the likelihood that a company will engage in earnings management to preserve its reputation in the eyes of investors and the public (Suwanti, 2017). According to research (Astuti et al., 2017; Agustia & Suryani, 2018; Lazzem & Jilani, 2018; Nalarreason et al., 2019), corporate leverage has a positive impact on earnings management.

It demonstrates that the greater the value of third-party funding for corporate assets, the greater the earnings management opportunities for the board of directors. In contrast, research (Dimarcia & Krisnadewi, 2016; Purnama, 2017) indicates that leverage has no material impact on earnings management. It demonstrates that high corporate debt causes investors to monitor the company, thereby reducing earnings management actions closely. Theoretically, management with a high proportion of share ownership will behave as if they are invested in the company. This assumption is consistent with the contracting-based theory, which indicates that management will choose accounting methods that add value to the organization. Managers who hold company shares will be evaluated by parties involved in contracts, such as the selection of an audit committee, which creates a demand for quality financial reporting among shareholders, creditors, and users of financial statements to ensure the efficacy of contracts made (Arthawan & Wirasedana, 2018). Consequently, management will be motivated to produce high-quality financial reports. It will reflect improved contract terms.

Therefore, it is probable that the level of managerial ownership will move in the same direction to limit the use of discretionary accruals by management (earnings management). By increasing managers' share ownership, it is anticipated that they will act by their principal's wishes because they will be motivated to improve their work. Moreover, institutional ownership is believed to reduce earnings management practices because management views institutional investors as sophisticated investors with the ability to monitor management, thereby reducing managers' motivation to engage in earnings management (Gustinya & Ak, 2016). Among the factors that can influence earnings management is managerial ownership.

According to (Mukhtaruddin et al., 2018), managerial ownership refers to many company shares. The amount of earnings management varies based on the motivation for doing so, such as managers who are also shareholders versus managers who do not qualify as shareholders (Ningrum, 2021). Earning management actions can be reduced by increasing managerial ownership in a company (Wahyuningrum & Munfaa, 2019). It is anticipated that increased managerial ownership will also increase supervision within the organization. The study's findings (Panjaitan & Muslih, 2019) indicate that managerial ownership influences earnings management. Managerial ownership is the ratio of the number of shares owned by managers to the total share capital outstanding. Previous research indicates that increasing the share ownership of company commissioners or directors can reduce the incidence of earnings management (Sitompul & Muslih, 2020). According to (Susanto, 2017; Kristanti & Hendratno, 2017), managerial ownership negatively impacts the earnings management actions of a company in different ways.

The board of directors also requires earnings management from the company's management. According to the explanation, a company's board of directors has duties and responsibilities that include implementing good corporate governance to achieve the company's desired goals. The emergence of the concept of Good Corporate Governance results from the demands of the company's external parties to prevent fraud against the public. Financial statements provide trustworthy information for decision-making. Companies that consistently apply the principles of Good Corporate Governance will enhance the quality of their financial reports and reduce earnings management practices.

Among other Good Corporate Governance mechanisms, a board of directors facilitates the implementation of several of these mechanisms. The board of directors is a management system charged with implementing Good Corporate Governance to achieve company objectives (Oktaviani, 2016). The study results (Taco & Ilat, 2017) indicate that the board of directors has a positive and substantial effect on earnings management. Meanwhile, Lestari & Murtanto (2018) discovered that the board of directors negatively impacted earnings management. It implies that the board of directors will increase its monitoring function of management to reduce earnings management practices. The board of directors plays a crucial role in the company by determining the short- and long-term direction and policies (Rahmawati et al., 2017).

Companies with relatively large sizes whose performance is visible to the public can be identified by firm size. The company will report its financial condition with more excellent care, provide more detailed information, and be more forthcoming (Medyawati & Dayanti, 2017). The company's size has a significant impact on earnings management because it must be able to meet the expectations of investors and shareholders (Agustia & Suryani, 2018; Muiz & Ningsih, 2018; Paramitha & Idayati, 2020). According to Astuti et al., (2017), the size of a company has no negative impact on earnings management. Due to the inconsistency of previous studies' findings, this study aims to provide evidence that leverage, managerial ownership, the board of directors, and firm size affect earnings management.

According to Jensen & Meckling, (1976), an agency relationship is a contract between two parties, the principal, and the agent, in which the principal hires the agent to perform services on the principal's behalf. The principal also delegated decision-making authority to the agent. When the agent and the principal are utility maximizers, the agent may take actions that are not in the principal's best interests. Based on Jensen & Meckling, (1976) explanation of the agency relationship, it can be concluded that agency theory is a theory that explains the moral hazard behavior of agents toward the principal. Furthermore, agency theory is based on the relationship between the principal, the company's owner, and the agent, the company's manager. Due primarily to information asymmetry in the implementation of principal and agent contracts, agency issues relating to the company's separation of ownership and control began to emerge (Sari & Helmayunita, 2019). Assume that there is asymmetrical information between managers and shareholders. In that case, it will limit the resources, motivations, or ability of shareholders to access relevant information that is useful for monitoring and controlling the activities of managers, thereby increasing the likelihood of earnings management.

The theory of signaling explains that management uses signaling to reduce information asymmetry. If leadership is more informed than shareholders about the company's financial condition and prospects, they can signal by recording discretionary accruals. Assume the company's financial condition and outlook are positive. In such a case, management can indicate by recording positive discretionary accruals that the company's financial condition and earnings for the current and subsequent periods are superior to those applied by non-discretionary earnings for the current period (Adryanti, 2019). Assume that the company's financial condition and outlook are poor. By recording negative discretionary accruals, management indicates that the company's financial condition and earnings for the current and subsequent periods are worse than non-discretionary earnings for the current period. Management provides both positive and negative signals. In a bad company's financial condition, management performs earnings management to signal to the market that they have integrity, act honestly, and are confident in their ability to overcome the challenges they face. In addition to demonstrating their managerial abilities, management may hope to gain market appreciation to halt the company's stock price decline by sending negative signals.

Due to errors in decision-making or business strategies, the company may be at risk of failing to meet its financial obligations. When a company's ability to pay its obligations is in jeopardy, the management is permitted to manage earnings so that investors and the public can view the company favorably. Leverage is the ratio of a company's total liabilities to its total assets. The greater the leverage ratio, the greater the likelihood that a company will engage in earnings management to preserve its reputation in the eyes of investors and the public (Suwanti, 2017). According to agency theory, the closer a company is to accounting-based debt covenant violations, the more likely managers will select accounting procedures that transfer reported earnings from future periods to the current period. Financial leverage utilizes fixed-cost sources of funds in the hope that it will generate additional profits that exceed fixed costs, thereby increasing shareholder profits (Sutama & Lisa, 2018). Companies with more enormous debts are likelier to violate debt agreements than those with smaller debts. The greater the obligation, the more difficult it is for the company's management to predict its future course. Companies that violate debt terms may face accelerated maturity, increased interest rates, and renegotiation of debt terms, among other potential consequences. According to the research conducted (Astuti et al., 2017; Agustia & Suryani, 2018; Lazzem & Jilani, 2018; Arlita et al., 2019; Nalarreason et al., 2019), corporate leverage has a positive effect on earnings management. This means that the higher the value of corporate asset funding from third parties, the more opportunities the board of directors will have to manage profit. Contrary to prior research like (Dimarcia & Krisnadewi, 2016; Purnama, 2017), leverage has no significant impact on earnings management. It indicates that high corporate debt causes funders to monitor the company more closely, thereby reducing earnings management actions.

H1: Leverage has a significant effect on Earnings Management

Managerial ownership consists of shares owned by management personally or by subsidiaries and affiliates of the company in question. If the manager owns the company, the manager will act in the shareholders' best interests because they have a stake in the company (Suri & Dewi, 2018). The size of the number of shares held by company management can indicate the similarity of management and shareholder interests. The indicator of managerial ownership is the ratio of the number of shares owned by management to the total number of outstanding shares of the company. It indicates that the greater the managerial ownership, the greater the management's propensity to engage in earnings management. The study's findings (Panjaitan & Muslih, 2019) demonstrate managerial ownership by demonstrating that managerial ownership influences earnings management. Managerial ownership is the ratio of the number of shares owned by managers to the total share capital outstanding. According to (Susanto, 2017; Kristanti & Hendratno, 2017), managerial ownership negatively impacts the earnings management actions of a company in different ways.

H2: Managerial Ownership has a significant effect on Earnings Management

The board of directors bears full responsibility for all operations and management within the context of achieving company objectives. The board of directors is also responsible for the company's interactions with outside parties. Typically, a smaller board size allows for improved coordination, which reduces earnings management. The greater the board of directors, the less effective and weaker the management's oversight becomes. The larger the board of directors, the lower the level of management oversight. On the other hand, it is found that large board sizes have advantages over small board sizes when it comes to information (Puspitowati & Mulya, 2017; Prasetyo & Hadiprajitno, 2019). The study's results (Taco & Ilat, 2017) indicate that the board of directors has a positive and statistically significant effect on earnings management. The number of board members improves the monitoring process or reduces earnings management activities and contributes to a higher company value, thereby increasing the effectiveness and decreasing the likelihood that a manager will engage in earnings management. Meanwhile, Lestari & Murtanto, (2018) discovered that the board of directors had a negative impact on earnings management.

H3: The Board of Directors has a significant effect on Earnings Management

Firm size is a value indicating the size of the company (Taures, 2011). The size of a company can be measured in terms of total assets, sales, and market capitalization. Therefore, the greater the size of the company, the more information must be disclosed to satisfy the needs of the company's stakeholders. One of the factors that can influence earnings management practices is the size of the company. Large corporations have more complex operations than small ones (Lubis & Suryani, 2018). Companies with larger sizes will have greater investor confidence than those with smaller sizes. Therefore, large corporations are more likely to engage in earnings management because they want to manage earnings in every financial report they produce.

Investors and external parties are more interested in firms with consistent profit margins in each financial statement (Medyawati & Dayanti, 2017). According to studies (Agustia & Suryani, 2018; Muiz & Ningsih, 2018; Paramitha & Idayati, 2020), firm size positively and statistically significant influences earnings management. The company's size significantly impacts earnings management, as it must be able to meet the expectations of investors and shareholders the more significant the company. Similarly, smaller companies tend to engage in earnings management by reporting more considerable earnings to demonstrate satisfactory company performance. According to Astuti et al. (2017), the firm size has no negative impact on earnings management.

H4: firm size has a significant effect on earnings management

Research Design and Method

This study employed quantitative research with a descriptive methodology. The population of this study consists of all food and beverage manufacturing companies listed on the Indonesia Stock Exchange between 2017 and 2021, a total of 18 companies. This study employs the sampling technique of purposive sampling for its data collection. The consideration for taking the sample is that the object of research must meet the following criteria:

1. A food and beverage company still actively operating on the Indonesia Stock Exchange until 2021.
2. A food and beverage company that publishes an annual report audited consecutively during 2017-2021.
3. Financial reports presented in rupiah. This criterion is intended to obtain consistent data in terms of monetary units.
4. A food and beverage company that experienced profits during 2017-2021.
5. Food and beverage companies that have complete data needed for four consecutive years in this study.

Table 1. Research Sample

No	Stock code	Company Name
1	CEKA	Wilmar Cahaya Indonesia Tbk
2	ICBP	Indofood CBP Sukses Makmur Tbk
3	INDF	Indofood Sukses Makmur Tbk
4	MLBI	Multi Bintang Indonesia Tbk
5	MYOR	Mayora Indah Tbk
6	ROTI	Nippon Industri Corporindo Tbk
7	SKBM	Sekar Bumi Tbk
8	SKLT	Sekar Laut Tbk
9	ULTJ	Ultrajaya Milk Industry and TrandingCompany Tbk

Variable Operational Definition

1) Independent variables are often referred to as stimulus, predictor, and antecedent variables. According to Sugiyono (2017:39): "Independent variables are variables that influence or are the cause of changes or the emergence of the dependent variable (bound)." So, in this study, there were four independent variables studied, including:
   a) Leverage

The Leverage Ratio is: "The leverage ratio measures how much the company is financed with debt. The use of debt that is too high will endanger the company because the company will enter extreme leverage, namely, the company is trapped in a high level of debt, and it is difficult to release the debt burden. The leverage indicator used in this study is the Debt Equity Ratio (DER).

$$DER\ (Debt\ to\ Equity\ Ratio) = \frac{TotalDebt}{Equity} \ldots\ldots (1)$$

b) Managerial Ownership
Managerial ownership is "the ownership of company shares by the manager or in other words the manager is also a shareholder."

$$Managerial\ Ownership\ = \frac{Number\ Of\ Shares\ Owned\ by\ Institution}{Total\ Shares\ Outstanding} \ldots\ldots (2)$$

c) Board of Directors
The board of directors is a company organ that is authorized and entirely responsible for the company's management for the company's benefit by the company's aims and objectives. It represents the company, both inside and outside the court, by the provisions of the articles of association. The size of the board of directors is measured by the number of members of the board of directors in the company (Faisal, 2005). According to Bank Indonesia regulation Number 8/4/PBI/2006 concerning the Implementation of Good Corporate Governance, the number of members of the Board of Directors is at least 3 (three) people.

d) Firm size According to Brigham & Houston (2010) firm size is as follows: "Firm size is the size of a company that is shown or assessed by total assets, total sales, total profits, tax burdens and others."

$$FirmSize = LN\ Total\ Assets \ldots\ldots (3)$$

2) Dependent Variable
The dependent variable is often the output variable, criteria, and consequent. According to Sugiyono (2017), "The dependent variable is a variable that is influenced or is the result of the existence of an independent variable." So, in this study, the dependent variable is Earnings Management.

$$DAit = \frac{TAit - TAit - 1}{ACit - 1} \ldots\ldots (4)$$

Information:
TACit = Total accruals of company i in period t
TACit-1 = Total accruals of company i in period t-1
ACit-1 = Total assets of company i in year t-1
DAit = Discretionary Accruals of company i in period t.

Results and Discussion

Statistical Result

Descriptive statistics aim to calculate a data set's average value, maximum value, minimum value, and standard deviation. The descriptive statistics of the dependent variable and independent variables' descriptive statistics are as follows.

Table 2. Descriptive Statistics Test Results

	N	Minimum	Maximum	Mean	Std. Deviation
Profit management (PM)	45	0.19	3.03	0.9991	0.55769
Leverage (Lv)	45	11.35	56.39	32.6198	14.82953
Board of Directors (BoD)	45	2.00	12.00	5.9111	2.72882
Managerial ownership (Mo)	45	12.71	18.38	15.3211	1.61085
Firm size (Fs)	45	277.11	10160.56	2077.9058	2484.05732
Valid N (listwise)	45				

Source: Processed Secondary Data, 2022

Based on table 2, earnings management has an average of 0.9991, a minimum value of 0.19, and a maximum value of 3.03. Judging from the positive earnings management of 0.9991. It can be concluded that with a positive earnings management value, companies included in the sample of food and beverage sector companies for the 2017-2021 period take earnings management actions by increasing company profits. Leverage has an average of 32.6198, a minimum value of 11.35, and a maximum of 56.39. Managerial ownership has an average of 15.3211, a minimum value of 12.71, and a maximum value of 18.38. The board of directors has an average score of 15.3211, a minimum score of 12.71, and a maximum of 18.38. The firm size has an average of 2077.9058, a minimum value of 277.11, and a maximum value of 10160.56.

Hypothesis testing was conducted to determine the effect of leverage, managerial ownership, board of directors, and firm size on earnings management. This test is carried out either simultaneously or partially. The following results can be seen after performing the F statistical test and Hausman test.

Table 3. Model Selection Results

Test Type	Tested Model	Results	Preferred Model
F Statistic Test	Common Effect VS Fixed Effect	Prob F Statistic is l ower than α 0.000 i s lower than 0.05	Fixed Effect
Hausman test	Fixed Effect VS Ra ndom Effect	Prob Chi Square is lower than α 0.000 is lower than 0.05	Fixed Effect

Based on the tests that have been carried out, the results show that the fixed effects model is the most suitable model to be used in this study.

Table 4. Simultaneous F Test

No	Information	Simultaneous Test
1	F. Statistics Prob. F	46.115 0.000

Source: Output Eviews 12 which has been processed, 2022

Based on table 4, which shows the results of the simultaneous F test, the prob value (F-statistic) is 0.0000, which is lower than the significance level of 5 percent or prob (F-statistic) is lower than 0.05. So, the decision taken is to reject H0 and accept Ha. Simultaneously, the independent variables, namely leverage, managerial ownership, board of directors, and firm size, significantly affect the dependent variable, namely earnings management.

Table 5. Coefficient of Determination

Information	Coefficient of Determination
R Squared	0.551
Adj. R-Squared	0.538

Source: Output Eviews 12 which has been processed, 2022

The R Square number is 0.551, while the Adjusted R Square value is 0.538. The result of R Square is 55.10 percent of leverage, managerial ownership, board of directors, and firm size significantly influence earnings management. At the same time, the remaining 44.90 percent can be explained by other variables not found in this study.

Table 6. Partial t test

Variable	Coefficient	t-Statistic	Prob.	Hypothesis
Contant	1.891	7.152	0.000	Approved
Leverage	0.417	5.961	0.000	Approved
Managerial ownership	0.229	2.440	0.018	Approved
Board of Directors	(0.049)	(1.026)	0.307	Rejected
Firm size	0.347	3.614	0.000	Approved

$$\mathbf{PM = 1.891 + 0.417\ Lv + 0.229\ Mo - 0.049\ BoD + 0.347\ Fs \ldots\ldots\ldots\ldots\ldots\ (1)}$$

The constant value of 1.891 means that if the independent variables are leverage, managerial ownership, board of directors, and firm size are 0, and earnings management will be worth 1.891 units. The leverage coefficient value is 0.417 with a significance of 0.0000, which indicates that leverage has a significant effect on the direction of a positive relationship. So, if there is an increase in leverage of 1 unit and the value of other variables is constant, earnings management will increase by 0.417 units. The coefficient of managerial ownership is 2.229 with a significance of 0.018, which indicates that managerial ownership has a significant effect on the direction of a positive relationship. So, if there is an increase in managerial ownership by 1 unit and the value of other variables is constant, earnings management will increase by 2.229 units. The coefficient value of the board of directors is -0.049 with a significance of 0.307, which means that the board of directors has no effect. The firm size coefficient value is 0.347 with a significance of 0.000, which indicates that firm size has a significant effect on the direction of a positive relationship. So, if there is an increase in firm size by 1 unit and the value of other variables is constant, earnings management will increase by 0.347 units.

Discussion

Since the company's debt level is high, it can encourage management to engage in earnings management to avoid entering into debt agreements. This study is consistent with research by (Astuti et al., 2017; Agustia & Suryani, 2018; Lazzem & Jilani, 2018; Arlita et al., 2019; Nalarreason et al., 2019), indicating that corporate leverage has a positive effect on earnings management, indicating that the greater the value of corporate asset funding from third parties, the greater the opportunities for the board of However, the results of this study contradict findings from (Dimarcia & Krisnadewi, 2016; Purnama, 2017), which indicate that leverage does not significantly impact earnings management. It demonstrates that high corporate debt causes funders to monitor the company more closely, thereby reducing earnings management actions.

The management who owns shares in the company has a personal interest, which is the return on those shares. It results from information asymmetry inequality, which occurs when one party has more information than the other. The greater a manager's share ownership, the greater the likelihood of earnings management. Managers' motivation primarily determines earnings management. Different motivations, such as between managers who are also shareholders and managers who are not, will result in varying degrees of earnings management. These two factors will impact earnings management because a manager's ownership determines company policies and decisions. Generally, a certain percentage of management's share ownership tends to influence earnings management decisions. This study's findings support previous research (Panjaitan & Muslih, 2019) demonstrating that managerial ownership affects earnings management. Managerial ownership is the ratio of the number of shares owned by managers to the total share capital outstanding. Therefore, managerial ownership positively influences earnings management due to the desire to obtain the maximum benefit for the management's benefit. This result contradicts the findings of (Susanto, 2017; Kristanti & Hendratno, 2017) that managerial ownership negatively affects a company's earnings management actions.

Earnings management cannot be inferred from the number of boards of directors a company employs to monitor or supervise financial reporting. A company's presence of a board of directors has no bearing on management's opportunities to manipulate earnings. According to agency theory, the board of directors acts as an agent or manager, attempting to maximize its utility, so the number of board members in a company does not influence earnings management. This study's findings support Rinta's, (2021) conclusion that the board of directors has no significant influence on earnings management. In contrast, research findings (Taco & Ilat, 2017) indicate that the board of directors has a significant and positive impact on earnings management. The number of board members improves the monitoring process or reduces earnings management activities and contributes to a higher company value, thereby increasing the effectiveness and decreasing the likelihood that a manager will engage in earnings management.

Firm Size activities are more complex than those of small businesses. Companies with a larger size will have greater investor confidence than those with a smaller size. As a result, companies with a larger size are more likely to engage in earnings management in every financial report. This is because investors and external parties are more interested in businesses with stable profits reflected in their financial statements. Consistent with prior research (Agustia & Suryani, 2018; Muiz & Ningsih, 2018; Paramitha & Idayati, 2020), this study demonstrates that firm size has a positive and statistically significant effect on earnings management. The company's size significantly impacts earnings management, as it must be able to meet the expectations of investors and shareholders the more significant the company. Similarly, smaller companies tend to engage in earnings management by reporting more considerable earnings to demonstrate satisfactory company performance. According to Astuti et al. (2017), the size of a company has no negative impact on earnings management.

Conclusions

This study employs four independent variables: leverage, managerial ownership, board membership, and firm size for food and beverage firms listed on the Indonesia Stock Exchange From 2017 to 2021. This study discovered that leverage, managerial ownership, and firm size positively and significantly impact earnings management. In contrast, the impact of the board of directors on earnings management is negative and insignificant. Based on the research findings, the study has several limitations, including the following. First, it is based on a sample of food and beverage sector companies listed on the Indonesia Stock Exchange, so it cannot be used as a comprehensive reference on the factors that can lead to management profit. Second, the earnings management calculation uses only the accrual model, making it incomparable. Thirdly, this study only uses four independent variables to explain earnings management: leverage, managerial ownership, board of directors, and firm size, whereas other factors influence earnings management.

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