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Moderation of Managerial Ownership on the Effect of Leverage, Profitability, and Company Size on Earnings Management

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Abstract: This study aims to analyze how leverage, profitability, and company size affect earnings management and analyze the ability of managerial ownership to influence leverage, profitability, and company size on earnings management in service companies listed on the Indonesia Stock Exchange from 2018 to 2020. Techniques sampling in this study was using the purposive sampling method. The data analysis method used is Moderated Regression Analysis (MRA) to determine the relationship between the two variables that are influenced by the moderating variable. In this study, there are three independent variables, one dependent variable, and one moderating variable. The dependent variable in this study is earnings management measured by Modified Jones (1995) because this measure has the best estimation ability of earnings management activity and minimum standard error and standard deviation. The dependent variable consists of three variables, namely leverage, profitability, and company size. While the moderating variable in this study is managerial ownership where managerial ownership is one of the Good Corporate Governance mechanisms. The results showed that leverage and firm size did not affect earnings management, while profitability had a positive effect on earnings management. The managerial ownership moderating variable cannot moderate the relationship of leverage, profitability, or company size to earnings management.

Key words: Company Size, Leverage, Managerial Ownership, Earnings Management, Profitability.

INTRODUCTION

Earnings management is the determination of accounting procedures by management to achieve certain goals. Earnings management can be described as management's opportunistic actions in maximizing its utility in compensation, contracts, and political costs (Sumantri, 2017). Companies listed on the IDX are required to implement the concept of Good Corporate Governance (GCG) (Manurung, 2022). The application of this concept is required by the regulator to safeguard the interests of the company to achieve company goals (Oktaviani & Sembiring, 2021). The emergence of the GCG concept is due to improve the quality of financial reports and reducing earnings management behavior (Lestari & Murtanto, 2017).

The use of company size variables in this study is based on the consideration that the size of a company is thought to influence earnings management actions in the company concerned. Small companies are considered to practice more earnings management than large companies. This is because small companies tend to want to show the condition of companies that are always performing well so that investors invest their capital in these companies (Manan & Hasnawati, 2022). Large companies tend to get more attention from the public so companies will be more careful in conducting financial reporting. Companies will report conditions more accurately (Launa & Respati, 2014).

According to Panjaitan and Muslih (2019), managerial ownership is the number of shares held by managers compared to all outstanding share capital. Managerial ownership is one of the factors in GCG, namely shareholders for the management of the company. Managerial share ownership can align the wishes of shareholders and managers, because managers directly benefit from the results of decisions taken and if there is a loss that appears to be a consequence of making deviant decisions, and then the manager bears the risk. By increasing managerial ownership, agency conflicts can be reduced (Launa & Respati, 2014).

LITERATURE REVIEW

Previous Research

Several previous studies relevant to this research were conducted by T. R. Yanti and Setiawan (2019), which examined the Effects of Information Asymmetry, Firm Size, Leverage, and Profitability on Earnings Management with the research results from Information asymmetry not affect earnings management, Size company has a significant negative impact on earnings management and leverage & profitability has a significant positive impact on earnings management (N. R. Yanti, Komalasari, & Andi, 2022).

Furthermore, Mamu and Damayanthi (2018) researched Moderation of Auditor Quality on the Influence of Leverage, Managerial Ownership, and Institutional Ownership in Earnings Management with the results Leverage has a positive effect, institutional ownership has a negative effect, and managerial ownership does not affect earnings management. Auditor quality weakens the effect of leverage, strengthens the effect of institutional ownership, and does not moderate the effect of managerial ownership on earnings management (Hasti, Maryani, & Makshun, 2022).

In Agustia and Suryani (2018), Effect of Company Size, Company Age, Leverage, and Profitability on Earnings Management Management. The results Simultaneously firm size, firm age, leverage, and profitability have a significant effect on earnings management. Partially, firm size & profitability have no significant effect, while firm age & leverage have a significant positive effect on earnings management (Yantri, 2022).

Other researchers Lestari and Murtanto (2017), examined the Effect of the Effectiveness of the Board of Commissioners and Audit Committee, Ownership Structure, and Audit Quality on Earnings Management. The results of his research are the effectiveness of the board of commissioners, concentrated ownership, and managerial ownership have a negative effect on earnings management. Audit committee effectiveness, institutional ownership, and audit quality have no impact on earnings management. Firm size, firm performance, and leverage affect earnings management (Christiane, Indrabudiman, & Handayani, 2022).

Mangkusuryo and Jati (2017), researched the Effect of GCG Mechanisms on Earnings Management, where the results of their research showed that managerial ownership had a significant effect and institutional ownership, independent board of commissioners, and independent audit committee had no significant impact.

Research Model

There are 3 types of variables used in this study, namely independent variables, dependent variables, and moderating variables. The independent variables used are leverage, profitability, and company size. The dependent variable used is earnings management, as well as GCG with managerial ownership as a moderating variable.

The research model is described as follows:

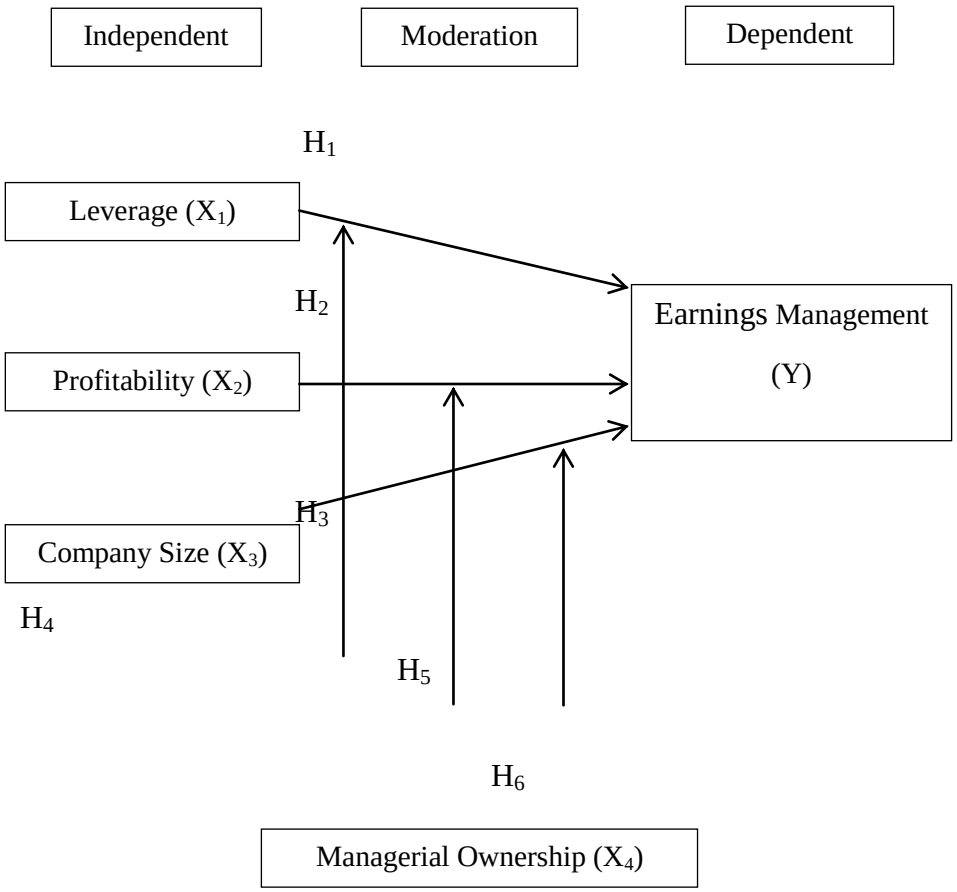


Image 1

Research Model

Hypothesis Development

The hypothesis in this study is as follows:

H1: Leverage has a positive effect on Earnings Management

H2: Profitability has a positive effect on Earnings Management

H3: Company Size has a negative effect on Earnings Management

H4: Managerial Ownership can moderate Leverage on Earnings Management

H5: Managerial Ownership can moderate Profitability on Earnings Management

H6: Managerial Ownership can moderate Firm Size to Earnings Management

METHOD

The population of this study is service companies listed on the Indonesia Stock Exchange (IDX) during the 2018-2020 period. The purpose of this study is to analyze the effect of Leverage, Profitability, and Firm Size on Earnings Management, and to find out whether Managerial Ownership can moderate the relationship between Leverage, Profitability, and Firm Size on Earnings Management. The sample selection used the purposive sampling method

The research sampling criteria are information on reports of service companies listed on the IDX consecutively during the 2018-2020 period. Companies that publish full annual reports for the period 31 December 2018-2020 consecutively. As well as companies that have the necessary data as variables in this study during the 2018-2020 period. Based on these criteria, the research samples obtained are as follows:

Table 1. Sampling Selection Results for Service Companies Listed on the Indonesia Stock Exchange (IDX) for 2018-2020

No.	Criteria	Number of Samples
1	Service companies listed on the IDX consecutively during the 2018-2020 period	145
2	Companies that did not publish full annual reports consecutively during the 2018-2020 period	(27)
3	Service companies that do not have the necessary data as variables for the 2018-2020 period	(54)
	The number of companies that are sampled	64
	Number of samples over 3 periods (64 × 3)	192
	Data is not normal in the transformation	(86)
	Number of samples	**106**

Source: www.idx.co.id processed data

Operational Definition of Research Variables

The variables used in this study are independent variables, dependent variables, and moderating variables.

Independent Variable

The independent variables in this study are Leverage (X1), Profitability (X2), and Firm Size (X3). Leverage uses the debt-to-assets ratio indicator with the following formula:

$$Debt\ to\ Assets\ Ratio = \frac{Total\ Debt}{Total\ Assets} \quad \text{.....(1)}$$

For profitability with ROA indicator formula is as follows:

$$ROA = \frac{Net\ Profit}{Total\ Assets} \times 100\% \quad \text{.....(2)}$$

Company size uses the following formula:

$$Company\ size\ = Ln\ Total\ Assets \quad \text{.....(3)}$$

Dependent Variable

In this study, the dependent variable is Earnings Management (Y). According to Delchow et al. (2011) in the research of Dewi and Wirawati (2019), "the indicator used to measure earnings management variables is discretionary accruals using the Jones model which is modified in the following steps":

$$TAC_{it} = N_{it} - CFO_{it} \quad \text{.....(4)}$$

$$TAC_{it}/A_{it-1} = \beta_1(1/A_{it-1}) + \beta_2(\Delta REV_t/A_{it-1}) + \beta_3(PPE_{it}/A_{it-1}) + e \quad \text{...(5)}$$

$$NDA_{it} = \beta_1(1/A_{it-1}) + \beta_2(\Delta REV_t/A_{it-1} - \Delta REC_t/A_{it-1}) + \beta_3(PPE_{it}/A_{it-1}) \quad (6)$$

$$DA_{it} = TAC_{it}/A_{it-1} - NDA_{it} \quad \text{.....(7)}$$

Information:

TACit : Total accruals of a company i in period t

Nit : Net profit of company i in period t

CFOit : Cash flow from operating activities of company i in period t

Ait-1 : Total assets of a company i in period t

ΔREVt : Changes in company revenue from year t-1 to year t

ΔRECt : Changes in company receivables i from year t-1 to year t

PPEit : Company's fixed assets in year t

B1-3 : Regression coefficient

NDAit : Non-Discretionary Accruals of company i in period t

DAit : *Discretionary Accruals*company i in period t

e : Error

Moderation Variable

Moderating variables are variables that affect the connection between the independent variables and the dependent variable. Managerial Ownership (X4) is a moderating variable in this study. According to research by Sari, Ayu, and Sudjarni (2015), managerial ownership can be measured using the following formula:

$$Managerial\ Ownership = \frac{Number\ of\ management\ shares}{Number\ of\ outstanding\ shares} \times 100\% \ldots\ldots\ldots\ldots (8)$$

Data Types and Sources

In this study, the type of data used is secondary data in the form of quantitative data obtained from the annual financial reports of service companies listed on the IDX for the 2018-2020 period, accessed from the official website www.idx.co.id.

Method of Collecting Data

The data collection method used is the non-participant observation method, namely by looking, and studying descriptions from books, journals, and citing notes in the form of company annual financial reports and lists of companies that have data related to this research obtained from the IDX.

Data Analysis Technique

Descriptive Statistical Analysis

Descriptive statistical analysis is used to describe the characteristics of the variables in this study, especially including the mean, minimum and maximum values, and the standard deviation of each variable.

Classic Assumption Test

Normality Test

The normality test aims to test whether, in the regression model, the dependent variable and independent variable have a normal or close-to-normal distribution. The normality test is carried out to see if data is normally distributed or not" (Naftalia & Marsono, 2013)

Multicollinearity Test

The multicollinearity test is used to determine whether the regression model finds similarities between an independent variable and other independent variables. The similarity between the independent variables can cause a very strong correlation (Jackson & Laksmiwati, 2021).

Heteroscedasticity Test

A good regression model is a model that does not have heteroscedasticity. The heteroscedasticity test itself is intended to find out whether there is an inequality of variation from the residuals of one control to another in the regression model (Utami, 2016).

Autocorrelation Test

The autocorrelation test was carried out with the aim of measuring whether the regression model found a correlation between the confounding errors in period t and the errors in the previous t-1 period and if this occurs it is called an autocorrelation problem. To find out whether there is an autocorrelation problem, the Durbin-Watson test (DW test) is used, with the following conditions:

< 1.10 : there is autocorrelation

1.10 – 1.54 : no conclusions

1.55 – 2.46 : no autocorrelation

2.46 – 2.90 : no conclusions

>2.91 : there is autocorrelation

Moderated Regression Analysis (MRA) Analysis

MRA is used to determine the relationship between two variables that are affected by the moderating variable. The regression equation formula is as follows:

$Y = \propto + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + \beta_4 X_1 X_4 + \beta_5 X_2 X_4 + \beta_6 X_3 X_4 + \varepsilon$............... (9)

Information:

Y : Earnings Management

α : Constant

X1 : leverage

X2 : Profitability

X3 : Company Size

X4 : Managerial ownership

X1 X4 : Interaction between *leverage* and Managerial Ownership

X2 X4 : Interaction between Profitability and Managerial Ownership

X3]X4: The Interaction between Firm Size and Managerial Ownership

β1-β6 : Regression coefficient

ε : Confounding variable

Hypothesis testing

Determination Coefficient Test (R2)

Calculating the coefficient of determination using the formula:

$KD = R^2 \times 100\%$.. (10)

Statistical Test F

According to Masni (2017), "The f test aims to determine the magnitude of the influence of all the dependent variables contained in the model simultaneously (simultaneously) on the dependent variable. Basically, this test shows whether all the independent variables included in the regression model have a significant effect simultaneously on the dependent variable. The provisions for examining this hypothesis are by proving a significant level using an alpha of 5% (0.05):

1. If the probability is significant > 0.05 then $H0$ received and $H1$ rejected.
2. If the probability is significant <0.05 then $H0$ rejected and $H1$ accepted.

Statistical Test T

The t-statistical test serves to determine the score of each dependent variable partially in the distribution. In general, this test serves to see how far the influence of the independent variables is partially in explaining the dependent variable, namely earnings management (Masni, 2017).

RESULTS

Results of Descriptive Statistical Analysis

Descriptive statistics analysis is used to describe the characteristics of the variables in this study, especially including the mean, minimum and maximum values, and the standard deviation of each variable. In this study, the independent variables used are Leverage, Profitability, and Firm Size. The dependent variables are earnings management and managerial ownership as moderating variables.

Table 2.Results of Descriptive Statistical Analysis

Descriptive Statistics					
	N	Minimum	Maximum	Means	std. Deviation
Leverage	192	.01985	8.65854	.5422609	.75710327
Profitability	192	-.72847	.30995	.0047787	.12226678
Company Size	192	14.35227	31.01295	23.3326098	5.12325830
Managerial ownership	192	.00000	.88694	.1715405	.22652471
Earnings Management (transformed)	106	-12.42672	-3.80534	-7.1577880	1.61068678
Valid N (listwise)	106				

Source: Processed Secondary Data, 2021

The results of the descriptive analysis in table 2 show that the leverage variable has a minimum value of 0.01985 which is found in PT Sanurhasta Mitra Tbk and the maximum value is found in PT Onix Capital Tbk with a value of 8.65854. The mean value and standard deviation values of the Leverage variable are 0.5422609 and 0.75710327, which means that the standard deviation value is greater than the mean value.

The minimum value for the profitability variable is found in PT Onix Capital Tbk, namely -0.72847, and the maximum value of 0.30995 is found in PT Mitra Pinasthika Mustika Tbk. The mean value of the Profitability variable is 0.0047787 and the standard deviation value is greater than the mean value, namely 0.12226678.

The company size variable has a minimum value in PT MAP Boga Adiperkasa Tbk, namely 14.35227, and a maximum value of 31.01295 in PT MNC Land Tbk. The mean value obtained from the Company Size variable is 23.3326098 and the standard deviation value is smaller than the mean value, namely 5.12325830.

Managerial Ownership has a minimum value of 0.00000 which is found in PT Intermedia Capital Tbk and the maximum value is found in PT Arthavest Tbk with a value of 0.88694. The mean and standard deviation values of the managerial ownership variables are 0.1715405 and 0.22652471, which means that the standard deviation values are greater than the mean values.

Earnings Management has a minimum value of -12.42672 in PT Supra Boga Lestari Tbk and a maximum value of -3.80534 in PT Distribution Voucher Nusantara Tbk. While the mean value is -7.1577880 and the standard deviation with a value greater than the mean value of 1.61068678.

Classical Assumption Test Results

Normality Test Results

To see whether the data distribution has a significant difference or not with the standard value, the normality test is used. If there is a significant difference (significance <0.05), then the distribution of the data is different from the standard or otherwise abnormal. Meanwhile, if there is a significant difference (significance > 0.05), then the data distribution is not different from the

standard or normally distributed. Below are the results of normality testing with the Kolmogorov-Smirnov nonparametric statistical test.

Table 3. Normality Test Results

One-Sample Kolmogorov-Smirnov Test		
		Unstandardized Residuals
N		106
Normal Parameters, b	Means	.0000000
	std. Deviation	1.60765780
Most Extreme Differences	absolute	.067
	Positive	040
	Negative	-.067
Test Statistics		.067
asymp. Sig. (2-tailed)		.200c,d

Source: Processed Secondary Data, 2021

From table 3 the results of the normality test in this study indicate that the Asymp. Sig. of 0.2. The results of the Kolmogorov-Smirnov nonparametric statistical test show a significance greater than 0.05, this means that the residual data is normally distributed.

a. Multicollinearity Test Results

The multicollinearity test can be carried out by looking at the resulting Variance Inflation Factor (VIF) value of 1-10 and the Tolerance value is more than 0.1, so multicollinearity will not occur.

Table 4. Multicollinearity Test Results

Coefficients			
Model		Collinearity Statistics	
		tolerance	VIF
1	leverage	.618	1618
	Profitability	.614	1629
	Company Size	.952	1,051
	Managerial ownership	.910	1,099
a. Dependent Variable: Earnings Management			

Source: Processed Secondary Data, 2021

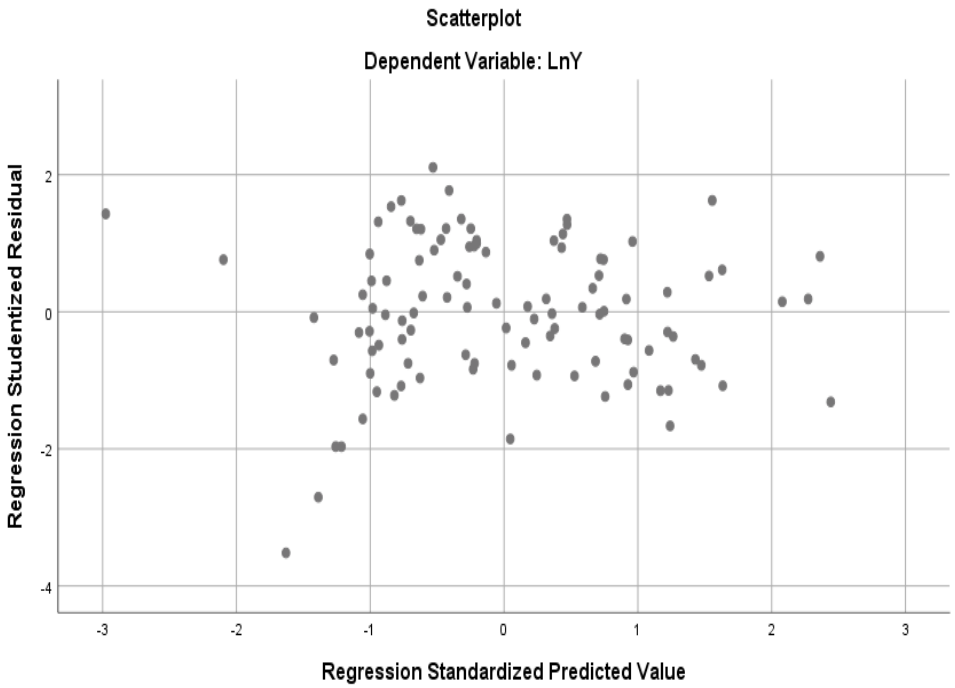
Based on the results of the multicollinearity test in table 4, it can be seen that the VIF value of the Leverage variable is 1.618, the Profitability variable is 1.629, the Company Size variable is 1.051, and the Managerial Ownership variable is 1.099, so the four variables show a VIF value of less than 10. Meanwhile, the tolerance value from the Leverage variable of 0.618, the Profitability variable of 0.614, the Company Size variable of 0.952, and the Managerial Ownership variable of 0.910, the four variables show a tolerance value of more than 0.10. So it can be concluded that there is no multicollinearity between variables in the regression model.

b. Heteroscedasticity Test Results

This test can be seen through the scatterplot graph, if the points spread above and below the number 0 on the "Y" axis, it means that there is no heteroscedasticity problem.

Based on the results of the heteroscedasticity test using the scatterplot in Figure 1 shows that the data is spread above and below the number 0 on the "Y" axis and there is no clear pattern in the distribution of the data. So, it can be concluded that the results of this test did not occur heteroscedasticity.

Image 1. Heteroscedasticity Test Results



Source: Processed Secondary Data, 2021

In addition, the results of this heteroscedasticity test can also be seen with the Glejser test. For decision-making on the Glejser test, that is, if the significance value is > α = 0.05, then there is no heteroscedasticity disorder, but if the significance value is <α = 0.05 then there is heteroscedasticity disorder.

Table 5. Heteroscedasticity Test Results (Glejser)

Coefficients						
Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	std. Error	Betas		
1	(Constant)	.395	.512		.771	.442
	leverage	.262	.293	.110	.896	.372
	Profitability	.869	1,361	079	.639	.525
	Company Size	.035	.019	.187	1,883	063
	Managerial ownership	-.482	.409	-.120	-1,178	.242
a. Dependent Variable: APRESID						

Source: Processed Secondary Data, 2021

It can be seen from table 5 above that the significant value of the Leverage variable is 0.372 > 0.05, the Profitability variable is 0.525 > 0.05, the Firm Size variable is 0.063 > 0.05 and the Managerial Ownership variable is 0.242 > 0.005. So it can be concluded from the results of this test that there is no heteroscedasticity.

c. Autocorrelation Test Results

The following are the results of the autocorrelation test shown in table 6.

Table 6. Autocorrelation Test Results

Summary model b					
Model	R	R Square	Adjusted R Square	std. Error of the Estimate	Durbin-Watson
1	.316a	.100	081	.00317	1,796
a. Predictors: (Constant), GCG, Leverage, Company Size, Profitability					
b. Dependent Variable: Earnings Management					

Source: Processed Secondary Data, 2021

In the results of table 6, it appears that the DW value is 1.796, which means that according to the provisions, the DW value is between 1.55 – 2.46. Then the conclusion is that there is no autocorrelation.

Results of Moderated Regression Analysis (MRA)

Table 7. Moderated Regression Analysis Results

Coefficients				
Model		Unstandardized Coefficients		Sig.
		B	std. Error	
1	(Constant)	.000	001	.739
	leverage	.000	001	.788
	Profitability	008	003	.021
	Company Size	4,035	.000	.396
	MODERATION1	-.003	003	.296
	MODERATION2	-.013	011	.251
	MODERATION3	1,384	.000	.820
a. Dependent Variable: Earnings Management				

Source: Processed Secondary Data, 2021

Based on the results of the MRA test in table 7 above, the following equation is obtained:

Y = 0.000 + 0.000.X1 + 0.008.X2 + 4.035.X3 + (-0.003)X1.X4 + (-0.013)X2.X4 + 1.384.X3.X4 + e

Information:,

Y : Earnings Management

α : Constant

X1 : leverage

X2 : Profitability

X3 : Company Size

X4 : Managerial ownership

X1 X4 : Interaction between*leverage*and Managerial Ownership

X2 X4 : Interaction between Profitability and Managerial Ownership

X3 X4 : Interaction between Firm Size andManagerial ownership

β1-β6 : Regression coefficient

e : Confounding variable

Based on the results of the MRA listed in table 7 and the regression equation obtained, it can be concluded that the first, namely the coefficient of the equation obtained reflects that the regression coefficient is a constant value of 0.000 explaining that if the independent variables namely Leverage, Profitability, and Firm Size are constant, then it results in the value of Earnings Management is 0.000.

Second, the coefficient value on the Leverage variable is 0.000. So that if Leverage increases by one unit, Earnings Management will get an increase of 0.000 assuming that the other independent variables are constant.

Third, the coefficient value on the Profitability variable is 0.008. This means that if Profitability increases by one unit, then the Earnings Management value will increase by 0.008 assuming that the other independent variables are constant.

Fourth, the coefficient value on the Firm Size variable is 4.035. This means that if the company size increases by one unit, the Earnings Management value will increase by 4.035 assuming that the other independent variables are constant.

Fifth, the MODERATION1 variable or the Managerial Ownership variable that moderates the influence of Leverage on Earnings Management has a coefficient value of -0.003. If the MODERATION1 variable increases by one unit, then Earnings Management will decrease by 0.003 assuming that the other independent variables are constant.

Sixth, the MODERATION2 variable or the Managerial Ownership variable which moderates the influence of Profitability on Earnings Management has a coefficient value of -0.013. If the MODERATION2 variable increases by one unit, then Earnings Management will decrease by 0.013 assuming that the other independent variables are constant.

Seventh, the MODERATION3 variable or the Managerial Ownership variable which moderates the influence of Company Size on Earnings Management has a coefficient value of 1.384. If the MODERATION3 variable increases by one unit, then Earnings Management will get an increase of 1.384 assuming that the other independent variables are constant.

Hypothesis Test Results

a. ResultsDetermination Coefficient Test (R2)

Table 8 below shows the results of the R2 test.

Table 8. Test Results for the Coefficient of Determination

Summary models				
Model	R	R Square	Adjusted R Square	std. Error of the Estimate
1	.329a	.108	079	.00317
a. Predictors: (Constant), Leverage, Profitability, Firm Size, MODERATION1, MODERATION2, MODERATION3				

Source: Processed Secondary Data, 2021

From the table, it can be seen that the Adjusted R-Square value is 0.079 meaning that 7.9% of the variance of the dependent variable, namely Earnings Management can be explained by the variance of the independent variables, namely Leverage, Profitability, Firm Size, and the interaction between Leverage, Profitability, and Firm Size with Managerial Ownership. While the remaining 92.1% is explained by other factors or has an influence outside of other variables that are not included in this study.

b. Statistical Test Results F

Table 9. Statistical Test Results F

ANOVA						
Model		Sum of Squares	df	MeanSquare	F	Sig.
1	Regression	.000	6	.000	3,749	.002b
	residual	002	185	.000		
	Total	002	191			
a. Dependent Variable: Earnings Management						
b. Predictors: (Constant), Leverage, Profitability, Firm Size, MODERATION1, MODERATION2, MODERATION3						

Source: Processed Secondary Data, 2021

Table 9 above shows the results of the statistical test f with a calculated f value of 3.749 showing a significance level of 0.002 which is less than 0.05. It can be concluded that the hypothesis is accepted, or in other words, Leverage, Profitability, Firm Size, and the interaction between Leverage, Profitability, and Firm Size with Managerial Ownership simultaneously affect earnings management. This is because the significance value is 0.002 <0.05.

c. Resultsstatistical Test T

Table 10. Statistical Test Results T

Coefficients						
Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	std. Error	Betas		
1	(Constant)	.000	001		-.334	.739
	leverage	.000	001	072	.270	.788
	Profitability	008	003	.296	2,329	.021
	Company Size	4,035	.000	063	.851	.396
	MODERATION1	-.003	003	-.292	-1,049	.296
	MODERATION2	-.013	011	-.157	-1,151	.251
	MODERATION3	1,384	.000	024	.228	.820
a. Dependent Variable: Earnings Management						

Source: Processed Secondary Data, 2021

Based on the results of the t-statistical test in table 10 above, it can be seen that first, the Leverage variable has a regression coefficient value of 0.000 with a positive direction and a significance value of 0.788 > 0.05, meaning that the Leverage variable has no effect on increasing Earnings Management. This is not in accordance with the first hypothesis (H1) which says that leverage has an effect on earnings management. Then it can be concluded that H1 is rejected.

Second, the Profitability variable has a regression coefficient value of 0.008 with a positive direction and a significance value of 0.021 <0.05, meaning that the Profitability variable has an effect on increasing Earnings Management. This is consistent with hypothesis 2 (H2) which says that profitability affects earnings management. Then it can be concluded that H2 is accepted.

Third, the variable firm size has a regression coefficient of 4.035 with a positive direction and a significance value of 0.396 > 0.05, meaning that the variable firm size has no effect on increasing earnings management. This is not in accordance with hypothesis 3 (H3) which says that firm size has an effect on earnings management. So it can be concluded that H3 is rejected.

Fourth, the MODERATION1 variable (the interaction of Managerial Ownership in moderating the influence of Leverage on Earnings Management) has a regression coefficient of -0.003 with a significance value of 0.296 > 0.05, which means that the MODERATION1 variable is unable to moderate the leverage relationship with earnings management. Then the conclusion is hypothesis 4 (H4) is rejected.

Fifth, the MODERATION2 variable (the interaction of Managerial Ownership in moderating the influence of Profitability on Earnings Management) has a regression coefficient of -0.013 with a significance value of 0.251 > 0.05, which means that the MODERATION2 variable is unable to moderate the relationship between Profitability and earnings management. Then the conclusion is hypothesis 5 (H5) is rejected.

Sixth, the MODERATION3 variable (the interaction of Managerial Ownership in moderating the effect of Firm Size on Earnings Management) has a regression coefficient of 1.384 with a significance value of 0.820 > 0.05, which means that the MODERATION3 variable is unable to moderate the relationship between Firm Size and earnings management. Then the conclusion is hypothesis 6 (H6) is rejected.

DISCUSSION

Effect of Leverage on Earnings Management

The test results on the first hypothesis test the effect of Leverage on Earnings Management. Based on the resulting test in table 10, the leverage variable has a regression coefficient value of 0.000 with a positive direction and a significance value of 0.788 > 0.05, meaning that the leverage variable is proven to have no significant effect on earnings management. Based on the results of

the t-test it can be concluded that H1 which reveals th*e leverage* positive effect on earnings management is rejected.

Influence Profitability against Earnings Management

The test results on the second hypothesis test the influence of Profitability on Earnings Management. Based on the resulting test in table 10, variable profitability has a regression coefficient value of 0.008 with a positive direction and a significance value of 0.021 <0.05, meaning that the profitability proved to have a significant effect on earnings management. Based on the results of the t-test it can be concluded that H2 which reveals that profitability positive effect on earnings management can be accepted.

Influence Company Size against Earnings Management

The test results on the third hypothesis test the effect of Firm Size on Earnings Management. Based on the results test in table 10, variable company size has a regression coefficient value of 4.035 with a positive direction and a significance value of 0.396 > 0.05, meaning that the firm size variable has no significant effect on earnings management. Based on the results of the t-test it can be concluded that for H3 which reveals that company size has a negative effect on earnings management is rejected. This shows that the size of a company is not necessarily capable of being a company benchmark in carrying out earnings management actions.

Managerial Ownership Ability Moderates the Effect of Leverage on Earnings Management

The test results on the third hypothesis test the ability of Managerial Ownership to moderate the influence of Leverage on Earnings Management. T-test results in table 10 the MODERATION1 variable has a regression coefficient of -0.003 with a significance value of 0.296 > 0.05, which means that the MODERATION1 variable is unable to moderate the leverage relationship with earnings management. The value of the regression coefficient of the MODERATION1 variable is lower than the regression coefficient of the leverage variable (-0.003 <0.000), meaning that the managerial ownership variable weakens the influence of leverage on earnings management. The results of the t-test stated that managerial ownership is not able to weaken the relationship of leverage to earnings management, then it can be concluded that for H4 which reveals that managerial ownership moderate leverage against earnings management is denied.

Managerial Ownership Ability to Moderate InfluenceProfitability Against Earnings Management

The test results on the third hypothesis test the ability of Managerial Ownership to moderate the influence of Profitability on Earnings Management. T-test results in table 10the MODERATION2 variable has a regression coefficient of -0.013 with a significance value of 0.251 > 0.05, which means that the MODERATION2 variable is unable to moderate the relationship profitability with earnings management. The value of the MODERATION2 variable regression coefficient is lower than the variable regression coefficientprofitability (-0.013 <0.008), meaning that the managerial ownership variable weakens the effectprofitabilityon earnings management. The results of the t-test stated that managerial ownership is not able to weaken the relationship between profitability to earnings management, then it can be concluded that H5 which reveals that managerial ownership can moderate profitability against earnings management is rejected.

Managerial Ownership Ability to Moderate InfluenceCompany Size Against Earnings Management

The test results on the third hypothesis test the ability of Managerial Ownership to moderate the effect of Firm Size on Earnings Management. T-test results in table 10the MODERATION 3 variable has a regression coefficient of 1.384 with a significance value of 0.820 > 0.05, which means that the MODERATION 3 variable is unable to moderate the relationship of company size with earnings management. The value of the MODERATION3 variable regression coefficient is lower than the variable regression coefficient company size (1.384 <4.035), meaning that the managerial ownership variable weakens the effect of company size on earnings management. The

results of the t-test stated that managerial ownership is not able to weaken the relationship between company sizes to earnings management, then it can be concluded that H6 which reveals that managerial ownership can moderate company size against earnings management is rejected.

CONCLUSION

From the discussion that has been described, the conclusions that can be drawn in this study are as follows: (1) *leverage* has no effect on Earnings Management. (2) Profitability has a positive effect on Earnings Management. (3) Company size has no effect on Earnings Management. (4) Managerial Ownership cannot moderate the relationship between Leverage and Earnings Management. (5) Managerial Ownership cannot moderate the relationship between Profitability and Earnings Management. (6) Managerial Ownership cannot moderate the relationship between Firm Size and Earnings Management.

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