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Determinants of Earnings Management in Indonesian Manufacturing Companies

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Abstract

This study aims to prove the factors that affect earnings management in manufacturing companies that go public on the IDX for the 2017-2021 period. The population of this study is 214 companies. The research sample was selected using the purposive sampling method, with certain criteria. A sample of 60 companies with a research period of 5 years was obtained, resulting in a total of 300 research samples. The analysis technique used is multiple linear regression analysis using IBM SPSS 26 Software. The results of this study conclude that the variables of accounting conservatism and profit persistence have a negative effect on profit management. While the profitability and liquidity variables have no effect on profit management. The general implication is that the issue of profit management in companies will have a negative impact on the company's reputation and investor confidence. If this practice is exposed, it could lead to a decline in stock prices, sanctions from regulators, and even lawsuits. Therefore, it is important for companies to maintain the transparency and integrity of their financial statements to ensure the trust of stakeholders. Each profit management case has a unique context and details, and it is important to conduct a more in-depth analysis to fully understand its implications and impact on the company and the market as a whole.

Keywords: earnings management, accounting conservatism, profit persistence, ROA, CR

INTRODUCTION

Manufacturing companies in Indonesia are one of the important sectors in the country's economy. This sector covers various types of industries, ranging from food and beverages, textiles, automotive, electronics, to building materials. The manufacturing sector contributes around 20% of Indonesia's Gross Domestic Product (GDP). The Indonesian government actively supports the manufacturing sector through various programs and incentives, such as ease of investment permits and industrial estate development. With great potential, the manufacturing sector in Indonesia is expected to continue to grow and contribute more to the national economy. Manufacturing companies that go public on the IDX play a vital role in the Indonesian economy and provide attractive investment opportunities for the public.

The company's profit is reported in the income statement which contains important information for investors. According to Malik *et al.*, (2012) investors assess businesses based on reported profits, with the aim of finding out the amount of added value to the financial information presented.

In addition, investors will use financial statements as a reference to invest (Habibie & Prasetya, 2022). The more investors who invest, the more it affects the sustainability of the company, because with a lot of capital, the company can easily run its business or even expand its activities to increase income and will return to investors as a return on the invested capital. The above explanation causes managers to carry out earnings management to beautify the company's financial statements.

Earnings management is the practice in which a company seeks to regulate or manipulate its financial statements to achieve a specific goal, such as improving the company's image or meeting market expectations. In the context of manufacturing companies that go public on the Indonesia Stock Exchange (IDX), issues related to earnings management can include several aspects, including to meet the expectations of investors who want stable profit growth, maintain stock price stability, and for managerial interests so that managers get high bonuses or incentives. The issue of management in manufacturing companies that go public on the IDX is an important concern for investors, regulators, and other stakeholders. This practice can affect market confidence and the company's sustainability in the long run.

According to Healy *et al.*, (1985) the occurrence of *earnings management* is caused by the actions of managers who change the figures on the company's financial statements and are still based on transactions that occur during one year, managers use profit management to mislead *stakeholders* but benefit the company. It is different according to Scott (2015) that the implementation of earnings management can have a positive impact on *stakeholders*, namely knowing the future condition of the company through signals given from the company's financial statements so as to facilitate long-term decision-making. Changes carried out in the financial statements are not only in the form of increasing or decreasing profits, but can also reduce the cost of production through mass production, reduce expenses for a year, and provide discounts to increase sales volume (Roychowdurry, 2006).

The following are some conditions that can cause managers to implement earnings management practices, namely (1) non-fulfillment of profit targets or even profits exceeding targets and (2) opportunistic behavior of managers (El Diri *et al.*, 2020 in Atharina, 2024). Earnings management in the first condition can be done by means of *income smoothing*, which means that the manager makes the company's profit from year to year without a sharp difference. *Income smoothing* is carried out by transferring future profits to current income or vice versa (Healy, 1985). The second condition is caused by the manager's opportunistic behavior related to bonuses. According to Samy Deeb *et al.*, (2020) *principals* (company owners) reward managers' performance, but are abused to gain profits or prioritize their own interests by managing profits according to desired results.

One of the earnings management phenomena that is in the public spotlight is a manufacturing company operating in the consumer goods sector, namely PT Tiga Pilar Sejahtera Tbk. (TPS) manipulated financial reports in 2017 where there was an overstatement of IDR 4 trillion in the accounts receivable account and sales account of IDR 662 billion, and a cash flow of IDR 1.78 trillion to parties affiliated with the old management (Christian & Jullystella, 2021). The engineering of financial reports carried out by TPS Group has caused many losses from various parties, namely providing false information to investors, trust is lost, the company's credibility is reduced, and the company's image among the public becomes bad.

Another company that is also affected by earnings management issues is PT Garudafood Putra Putri Jaya Tbk (GOOD). In 2018 there was a report regarding revenue recognition which was deemed not in accordance with accounting standards. Despite the absence of significant legal enforcement, the company has faced scrutiny from investors regarding transparency in financial reports. PT KMI Wire and Cable Tbk (KMII) in 2019 experienced problems related to financial reports which showed questionable profit recognition. OJK carried out further supervision of the company's financial reports, which raised concerns among investors. PT Paper Factory Tjiwi Kimia Tbk (TKIM) in 2020 there were indications of earnings management through delayed cost recognition and incorrect revenue recognition. This attracts the attention of analysts and shareholders who want to ensure the accuracy of financial reports. PT Kimia Farma in 2020. In the financial report, there are allegations that the company made accrual arrangements to increase reported profits, which then attracted the attention of the Financial Services Authority (OJK). PT Indofarma Tbk (INAF) in 2021. This pharmaceutical company faced allegations of earnings management after making significant adjustments to their profit and loss statements, which sparked questions about the accounting practices used.

Previous research examining earings management, among others, was carried out by (Lestari & Wulandari, 2019), (Felicia & Natalylova, 2022), (Ani & Hardiyanti, 2022), (Chandra & Claudia, 2022), (Maryati et al., 2022), (Wibisono & Fuad, 2019), (Riskiya, 2021), (Kalbuana et al., 2020), (Yulianto & Aryati, 2022) are still inconsistent, so it is necessary to re-examine the influence of independent variables, namely profitability, accounting conservatism, liquidity, and profit persistence on earnings management.

LITERATURE REVIEW AND HYPOTHESIS DEVELOPMENT

Literature Review

Agency Theory

The agency theory explains the relationship between the owner of the company (principal) and the management (agent) who manages the company. An agency relationship is a contract between an agent (manager) and a principal (investor) (Mccolgan, 2001). This theory assumes that each party is motivated by self-interest, thus giving rise to agency conflicts when the principal and agent have different goals. Principals want maximum return on investment, while agents are motivated by compensation and other personal interests. This difference in interests poses a moral risk, where the agent has the potential to act unduly for personal gain and ignore the principal's interests. Therefore, agency theory emphasizes the importance of principals supervising and controlling agent behavior through appropriate compensation contracts, policies, and supervision mechanisms in order to create alignment of goals between the two parties. Through the mitigation of agency problems, it is hoped that the company can operate efficiently to maximize the company's value.

Signaling Theory

In signaling theory, the owner of information conveys signals in the form of information that informs the state of the company that is useful for investors (Spence, 1973). These signals or signals can be used as a guideline for investors to decide whether to invest their capital in the company or not (Kusuma, 2016). Signal theory also describes how companies send signals to users of financial statements. These signals can be in the form of information about what management has done to achieve the owner's wishes, namely to maximize profits (Setiawan & Suwaidi, 2022 in Budiadnyani et al, 2023).

Stakeholders Theory

Stakeholder theory is a concept in management and business ethics that emphasizes the importance of considering the interests of all parties involved or affected by the company's activities, not just shareholders. These parties are referred to as "stakeholders," and include various groups, such as employees, customers, suppliers, creditors, the community, and governments.

Hypothesis Development

The Effect of Profitability on Earnings Management

Return on Assets (ROA) is a ratio that measures how effectively a company uses its assets to generate profits. ROA is an important indicator for assessing company performance. Low ROA can trigger management to carry out earnings management by increasing reported profits, for example through aggressive accrual arrangements or revenue recognition, to show better performance to investors.

According to agency theory, managers (agents) may manage profits to achieve certain ROA targets in order to get bonuses or awards, even though these actions do not reflect the company's actual performance. According to signalling theory, ROA can function as a signal to the market about a company's financial health. Managers may engage in earnings management to create positive perceptions about company performance, thereby attracting investors or increasing stock prices.

Companies with a high level of profitability will be considered to have good performance, so investors tend to choose these companies. Therefore, management will try to maintain a high level of profitability so that the company remains attractive to investors.

Research conducted by Felicia & Natalylova, 2022 and Saniamisha (2019) concluded that there is a significant influence of ROA on earnings management. Therefore, profitability is an important factor that must be considered. Based on this discription, the following hypotheses can be formulated:

H1: Profitability has a positive effect on earnings management.

The Effect of Accounting Conservatism on Earnings Management

Accounting conservatism is a principle that encourages companies to be more cautious in recognizing income and assets, as well as faster in recognizing costs and liabilities (Smith & Skousen, 2007). This principle aims to provide a more realistic and less optimistic picture of the company's financial position.

Conservatism requires companies to only recognize revenue when there is sufficient certainty that the revenue will be received. This can limit the possibility of earnings management through overly aggressive revenue recognition. Given this principle, management may be more inclined to avoid earnings management practices that can increase income unreasonably, because they have to wait until the income can actually be recognized. So accounting conservatism can serve as a barrier to earnings management practices by encouraging companies to be more careful in revenue and expense recognition.

According to signaling theory, conservatism can serve as a positive signal to stakeholders that management is careful and not trying to deceive the market. This can reduce uncertainty and increase investor confidence. According to stakeholder theory, accounting conservatism can be seen as an effort to meet the expectations of various stakeholders. By avoiding overstatement of profits, companies can maintain good relationships with creditors and investors, who prefer transparent and accurate financial reports.

Research conducted by (Maryati et al., 2022); (Wibisono & Fuad, 2019) concluded that accounting conservatism has a negative effect on earnings management. Based on this discription, the following hypotheses can be formulated:

H2: Accounting conservatism has a negative effect on earnings management.

The Effect of Liquidity on Earnings Management

Current ratio is a ratio to measure a company's ability to meet its short-term obligations with current assets. If the current ratio is too low, management may feel pressured to increase the company's liquidity. This can encourage management to carry out earnings management, such as speeding up revenue recognition or delaying expenses, in order to appear more liquid and financially healthy. On the other hand, a high current ratio may give management room to focus more on long-term strategies without feeling the need to carry out earnings management to meet short-term expectations.

According to signaling theory, a high current ratio can function as a positive signal to investors and creditors that the company has good liquidity and is able to meet its short-term obligations. Managers may engage in earnings management to increase the current ratio, in the hope that this will improve the market's perception of the company's financial health.

The results of research conducted by (Ani & Hardiyanti, 2022) concluded that liquidity has a positive effect on earnings management. Based on this discription, the following hypotheses can be formulated:

H3: Liquidity has a positive effect on earnings management.

The Effect of Profit Persistence on Earnings Management

Profit persistence refers to the ability of profits generated by a company to continue from period to period. High and persistent earnings indicate that the company has stable performance, while non-persistent earnings may reflect larger fluctuations and be less reliable. Companies with stable profits tend to be better able to avoid manipulative practices and focus on long-term value creation, while companies with non-persistent profits may feel the need to "package" their performance to match stakeholder expectations.

According to signaling theory, profit persistence can function as a signal to the market about the reliability of company performance. If managers seek to maintain high earnings, they may be more inclined to avoid risky earnings management practices, as this can damage their reputation and investor confidence.

Research conducted by (Yulianto & Aryati, 2022), (Kalbuana et al., 2020) concluded that earnings persistence has a negative effect on earnings management. Based on this discription, the following hypotheses can be formulated:
H4: Profit persistence has a negative effect on earnings management.

METHODS

Sample

This research uses a population of 214 manufacturing companies that went public on the IDX for the 2017-2021 period (Eddyelly.com.,2021). The sample was selected using the Purposive Sampling method according to the criteria, namely manufacturing companies that were consecutively registered on the IDX during the research period, published financial reports, used the Rupiah currency, and did not experience losses. Based on these criteria, 60 companies were selected with a research period of 5 years, resulting in a total research sample of 300.

Table 1. Sample

No	Information	Quantity
1.	Manufacturing company listed on the Indonesian Stock Exchange	214
2.	Manufacturing companies that are not listed in a row from 2017-2021	(61)
3.	Manufacturing companies that do not routinely report financial reports during the 2017 to 2021 period	(17)
4.	Manufacturing companies that do not use the Rupiah currency in presenting financial reports	(31)
5.	Companies that issued financial reports were at a loss during the 2017-2021 research period	(45)
	Total companies selected as samples	**60**
	Total research sample (60 companies x 5 years)	**300**
	Data Outlier	**(3)**
	Total sample	**297**

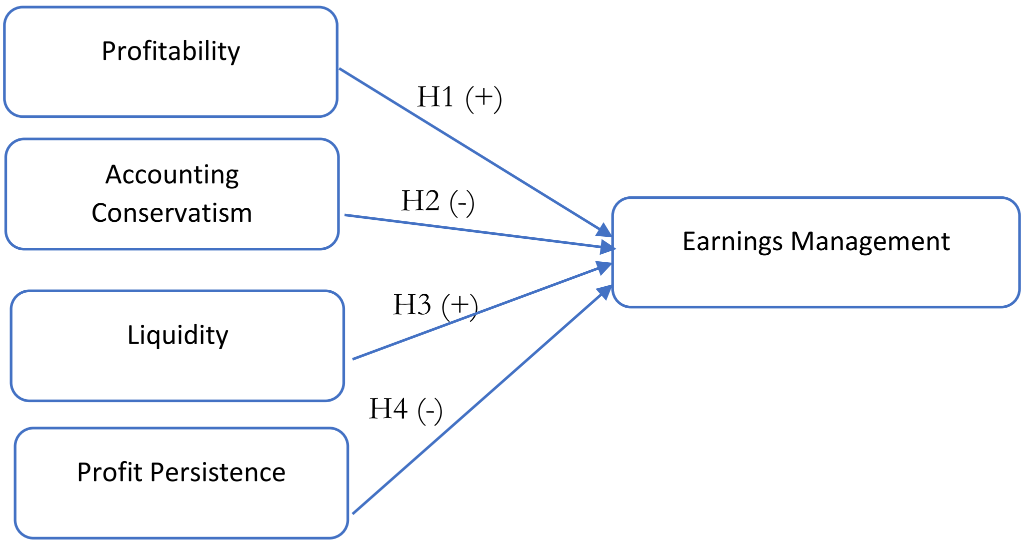

Figure 1. Research Model

Regression Model

This research used multiple regression analysis techniques with following model:

$$Y = \propto + \beta_1 \text{ROA} + \beta_2 \text{AC} + \beta_3 \text{CR} + \beta_4 \text{PP} + \varepsilon$$

Where:
Y is earnings management, α is constanta, β is regression coefesien, CR is current ratio, AC is accounting conservatism, CR is current ratio, PP is profit persistence.

Operational Definition of Variables

Earnings Management

Earnings management is the process of carrying out deliberate actions but still within the framework of generally accepted accounting principles to achieve the desired level of reported profits. (Davidson et al., 1987).
Measuring earnings management using the discretionary accruals method uses the **Modified Jones Model** with the following stages.

First Stage, Determining the Total Accrual value:

$$TAC_{it} = N_{it} - CFO_{it}$$

Second stage, Total Accruals are estimated using the OLS regression equation (Ordinary Least Square):

$$\frac{TA_{it}}{A_{it-1}} = \beta_1\left(\frac{1}{A_{it-1}}\right) + \beta_2\left(\frac{\Delta Rev\ it}{A_{it-1}}\right) + \beta_3\left(\frac{PPE\ it}{A_{it-1}}\right) + \varepsilon$$

Third Stage, Calculating Non-Discretionary Accruals (NDA):

$$NDAit = \beta 1\left(\frac{1}{A_{it-1}}\right) + \beta 2\left(\frac{\Delta Rev\ it}{A_{it-1}} - \frac{\Delta Rec\ it}{A_{it-1}}\right) + \beta 3\left(\frac{PPE\ it}{A_{it-1}}\right)$$

Fourth stage, using the regression coefficient above the Discretionary Accruals (DA) value can be calculated using the formula:

$$DA_{it} = \left[\frac{TAC}{A_{it-1}}\right] - NDA_{it}$$

Where
DA_{it} : *Discretionary Accruals* company i in the period year t
$NDAit$: *Nondiscretionary Accruals* company i in the period year t
TA_{it} : Total accruals of company i in year period t
CFO_{it} : Cash flow from operating activities of company i in year period t
A_{it-1} : Total assets of company I in the period year t
$\Delta Rev\ it$: Company i's income in year t is reduced by company i's income in year t-1
$PPE\ it$: Property, plant and equipment of company I in the period year t
$\Delta Rec\ it$: Company i's trade receivables in year t minus company I's income in year t-1
ε : Error

Profitability

Profitability is a company benchmark for assessing the effectiveness of company management and the company's ability to earn profits (Dewi & Abundanti, 2019). This research measures profitability with Return on Assets (ROA).

$$Return\ on\ Asset = \frac{Net\ Income}{Total\ Asset}\ x\ 100\%$$

Accounting Conservatism

Accounting conservatism is a principle that encourages companies to be more careful in recognizing income and assets, and more quickly in recognizing costs and liabilities. This principle aims to provide a more realistic and less optimistic picture of the company's financial position (Ashma & Rahmawati, 2019). In this research, accounting conservatism is measured using the following formula (Givoly & Hayn, 2002):

$$ConACC = \frac{Net\ Income + Depreciation\ Expense - CFO}{Total\ Asset} x - 1$$

Where ConAcc is accounting conservatism, CFO is *Cash Flow from operating activities.*

Liquidity

Liquidity is a company's ability to pay off short-term debt, such as business debt, dividend payable, tax payable, and so on (Ani & Hardiyanti, 2022). This research measures liquidity with the current ratio. Current ratio is a ratio that measures a company's ability to meet its short-term obligations with current assets.

$$Current\ Ratio = \frac{Current\ Assets}{Current\ Liabilities}$$

Profit Persistence

Profit persistence refers to the ability of profits generated by a company to continue from period to period. High and persistent profits indicate that the company has stable performance, while profits that are not persistent may reflect larger fluctuations and are less reliable (Yulianto & Aryati, 2022). Profit persistence is measured using the following formula:

$$PRST = \frac{EBT_{t-1} - EBT_1}{Total\ Asset}$$

RESULT AND DISCUSSION

Descriptive Analysis

Table 2. Descriptive Statistical Analysis

	N	Minimum	Maximum	Mean	Std. Deviation
Earnings Management	300	-0.2546	1.1638	0.0126	0.1081
ROA	300	0.0004	0.9210	0.0940	0.1009
Acc Conservatism	300	-0.3083	1.0428	0.3776	0.2583
Current Ratio	300	0.6141	208.4446	3.9105	12.2254
Profit Persistence	300	-1.0493	0.5306	-0.0117	0.0887

Classic Assumption Test

Table 3. Normality Test Results

	Unstandardized Residual	Result
Asymp. Sig. (2-tailed)	.200	Normally distributed

In this study, normality testing was carried out using the One-Sample Kolmogorov-Smirnov with a significance result of 0.200. Based on the results of the test, the data used was normally distributed. According to normal distribution criteria, if the significance value is > 0.05 or (0.200 > 0.05), the data from the research variables is normally distributed.

Table 4. Multicollinearity Test Results

Variables	Tolerance	VIF	Results
ROA	0.710	1.407	No multicollinearity
Acc Conservatism	0.856	1.169	No multicollinearity
Current Ratio	0.997	1.003	No multicollinearity
Pofit Persistence	0.777	1.287	No multicollinearity

The results of the tests showed that each independent variable's tolerance value and VIF value met the criteria for good test results, with the tolerance value of > 0.10 and the VIF value of < 10. Overall, the independent variables in this study did not occur in multicollinearity.

Table 5. Heterokedastisitas Test Result

Variables	**Sign**	**Results**
Ln ROA	0.629	No heterokedastisitas
Ln Acc Conservatism	0.083	No heterokedastisitas
Ln Current Ratio	0.341	No heterokedastisitas
Ln Profit Persistence	0.504	No heterokedastisitas

Based on the results in Table 5, each variable has a significance value > 0.05, which means the data is free from symptoms of heteroscedasticity.

Table 6. Autocorrelation Test Result

Durbin-Watson	Result
2.174	No autocorrelation

According to the Table 6, the Durbin-Watson value in this study was 2.174. The result of this test was achieved by considering a sample size of 297, independent variables of 4, and a confidence level of 5%. Based on the values of the lower limit (dL = 1.5029) and the upper limit (dU = 1.7366), the Durbin-Watson value for this study was 1.895, which was between the upper limit (dU) and (4-dU = 2.2634). This indicates that there was no autocorrelation in this study

Regression Analysis

Table 7. F Test Result

Model		**Sum of Squares**	**df**	**Mean Square**	**F**	**Sig.**
1	Regression	0.363	4	0.091	17.021	0.000[b]

As shown in Table 7, the calculated F value was 17.021 an was significant at 0.000. These result that 0.000 < probability 0.05; therefore, the research model was suitable for use.

Table 8. Multiple Regression

	Unstandardized Coefficients	
	B	Std. Error
Constant	0.047	0.008
ROA	0.061	0.056
Acc Conservatism	-0.128	0.018
Current Ratio	-8.433	0.000
Profit Persistence	-0.251	0.054

Based on the results of the linear regression analysis, the regression equation model developed in this research can be expressed as follows:

$$EM = 0.047 + 0.061\ ROA - 0.128\ Acc\ Cons - 8.433\ CR - 0.251PP$$

Table 9. Coefficient of Determination

Model	R	R Square	Adjusted R Square
1	0.435[a]	0.189	0.178

The results of the coefficient of determination test (R^2) in Table 9 showed that a coefficient of determination value of 0.178 or 17.8% was obtained. This indicates that the research regression model with independent variables could explain the dependent variables, which in this case was 17.8%. The remaining 82.2% could be explained by other factors not tested in this research.

Table 10. Results of Hypothesis Testing

		Coefficient	**Probability**	**Result**
H1	ROA	0.061	0.280	Hypothesis not supported
H2	Acc Conservatism	-0.128	0.000	Hypothesis supported
H3	Current Ratio	-8.433	0.808	Hypothesis not supported
H4	Profit Persistence	-0.277	0.000	Hypothesis supported

As shown in Table 10, the regression coefficient, which described accounting conservatism on earnings management, showed a negative relationship with a value of -0,128. At the alpha level of 0.05, the significance obtained was 0.000 which means 0.000< 0.05. This means that the second hypothesis is supported by the data.

Likewise, profit persistence has been proven to have a negative effect on earnings management, with a coefficient of -0.277 and a significance level of 0.000. This means that the fourth hypothesis is supported by the data.

Meanwhile, the first and third hypotheses are not supported by the data, because the significance value is > 0.05.

Discussion

The Effect of Profitability on Earnings Management

The profitability regression coefficient value shows a figure of 0.061 and a significance value of 0.280. It can be concluded that the profitability variable and earnings management variable have no effect, so the first hypothesis is not supported, because the significance value exceeds the significance value that has been set at 0.05.

This shows that high or low profitability has no effect on earnings management practices. This is possibly because earnings management is more related to accounting strategy and financial report management, while ROA reflects a more comprehensive performance related to asset use. Because of these differences in focus and context, ROA cannot influence earnings management directly. ROA describes the performance of asset use efficiency over the long term. Meanwhile, profit management tends to focus on short-term manipulation to achieve specific targets within a certain period. As a result, ROA may not always be the main factor that drives management to manipulate profits.

The results of this research are in accordance with research conducted by (Agustia & Suryani, 2018), (Prajitno & Vionita, 2020), (Chandra & Claudia, 2022), and (Ani & Hardiyanti, 2022) stating that there is no influence between profitability variables on earnings management. However, this is contrary to research conducted by (Felicia & Natalylova, 2022), (Lestari & Wulandari, 2019), where they stated that the profitability variable has an effect on earnings management.

The Effect of Accounting Conservatism on Earnings Management

The regression coefficient value for accounting conservatism shows a figure of -0.128 and a significance value of 0.000. It can be concluded that the accounting conservatism variable has a negative effect on earnings management, so the second hypothesis is supported, because the significance value is smaller than the predetermined significance value of 0.05.

Accounting conservatism can serve as a barrier to earnings management practices by encouraging companies to be more careful in revenue and expense recognition. Although it does not completely eliminate the possibility of earnings management, applying this principle can help maintain the integrity of financial reports and increase investor confidence. Thus, accounting conservatism can contribute to more ethical and transparent accounting practices

The results of this research are in line with research conducted by (Maryati et al., 2022) and (Chandra & Claudia, 2022) which stated that accounting conservatism has a negative effect on earnings management. However, this is different from other research from (Wibisono & Fuad, 2019) which states that conservatism has no influence on earnings management. In this research, it was stated that companies that have greater accounting conservatism will experience lower earnings management.

The Effect of Liquidity on Earnings Management

The liquidity regression coefficient value shows a figure of -8.433 and a significance value of 0.808. It can be concluded that the liquidity variable has no effect on earnings management, so that the third hypothesis is not supported by the data. This is because the significance value exceeds the significance value that has been set at 0.05.

This shows that the level of liquidity of a company has no effect on earnings management practices. This is probably because overall, the current ratio and earnings management are in different contexts. Current ratios relate to liquidity and short-term financial stability, while earnings management focuses on manipulating earnings reports. Because of these differences in objectives and context, the current ratio cannot directly influence earnings management. Earnings management practices are often influenced by pressure to meet profit targets, maintain reputation or attract investors, and other factors that are more related to profit indicators, than liquidity.

The results of this research are in line with research conducted by (Felicia & Natalylova, 2022) with the conclusion that liquidity has no effect on earnings management. However, research (Ani & Hardiyanti, 2022) shows that liquidity has an effect on earnings management.

The Effect of Profit Persistence on Earnings Management

The earnings persistence regression coefficient value is -0.251 and the significance value is 0.000. It can be concluded that earnings persistence has a negative effect on earnings management, so the fourth hypothesis which states that earnings persistence has a negative effect on earnings management is supported. The reason is that the significance value is smaller than the predetermined significance value of 0.05.

Earnings persistence has a significant impact on earnings management. Companies with stable profits tend to be better able to avoid manipulative practices and focus on long-term value creation, while companies with less persistent profits may feel the need to “package” their performance to match stakeholder expectations.

The results of this research are in accordance with research by (Yulianto & Aryati, 2022) and (Kalbuana et al., 2020) which states that earnings persistence has a negative effect on earnings management. The reason underlying this statement is that in companies with persistent profits, managers tend not to make changes to their profits because the company's financial performance is considered good and management has received the trust of investors. So it can be concluded that earnings persistence has a negative influence on earnings management.

CONCLUSION

Conclusion

This research aims to prove the influence of profitability, accounting conservatism, liquidity, and profit persistence on earnings management in manufacturing companies listed on the IDX for the 2017-2021 period. The results of the hypothesis test can be concluded that

- accounting conservatism and profit persistence have a negative influence on earnings management. These findings show that companies that apply accounting conservatism and have profit persistence tend to have better profit quality because there is less possibility of manipulation
- Meanwhile, profitability and liquidity variables have no effect on earnings management. The absence of ROA and CR on earnings management shows that this ratio is not a direct indicator of profit manipulation practices

Suggestions

For future researchers:

- Researchers can use these findings as a basis for developing further research, for example by expanding the sample to other sectors or examining other variables that moderate the relationship.
- Researchers can use these findings to explore the reasons behind the absence of ROA and CR effects on earnings management. This can include research into how industry context, market structure, or corporate governance moderate these relationships

For Regulators (OJK and BEI):

- The Need to Push for Conservative Policies
  Regulators may consider encouraging the implementation of more conservative accounting policies through financial reporting standards. This can help reduce the overall risk of earnings management in the capital market.
- Monitoring of Profit persistence
  Low profit persistence has the potential to be a signal of profit manipulation risk. Regulators can develop risk indicators to identify companies with inconsistent earnings and increase oversight of their financial statements.

Implication

For Investors and Shareholders:

- Investors can use the principles of conservatism and profit persistence as indicators to assess the quality of financial statements. Conservative corporate financial information is more reliable.
- Investors who frequently use ROA and CR as indicators of a company's performance may need to be cautious in treating these two ratios as risk-free signals of profit manipulation.

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