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The Role of Firm Size, Leverage, and Governance in Earnings Management: A Comparative Study of IDX and BRVM

Mohamed Cisse ^{a,b,1,*}, Denies Priantinah ^{a,2}

^a Universitas Negeri Yogyakarta, Indonesia

^b Harbin Institute of Technology Shenzhen, China

¹ mcissemail@gmail.com*; ² denies_priantinah@uny.ac.id

* corresponding author

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ABSTRACT

This research aimed to comparatively analyze the influence of key corporate governance mechanisms on earnings management in the consumer goods industry across two distinct markets: the Bourse Régionale des Valeurs Mobilières (BRVM) and the Indonesia Stock Exchange (IDX) during the 2019-2022 period. The study employed simple linear regression to analyze the data. The results indicate a notable divergence in the impact of these governance variables between the two exchanges. For IDX-listed companies, a statistically significant relationship was observed exclusively between leverage and earnings management. The remaining variables, company size, independent board of commissioners, audit quality, and managerial ownership, did not exhibit a significant influence. Conversely, the analysis of BRVM-listed firms showed that company size and managerial ownership were significant predictors of earnings management, whereas leverage, the independent board of commissioners, and audit quality were not.

ABSTRAK

Penelitian ini bertujuan membandingkan dampak mekanisme tata kelola, termasuk Ukuran Perusahaan, Leverage, Dewan Komisaris Independen, Kualitas Audit, dan Kepemilikan Manajemen, terhadap Manajemen Laba di Industri Barang Konsumen yang terdaftar di BRVM dan IDX dari tahun 2019-2022. Analisis regresi linear sederhana digunakan sebagai Teknik analisis data penelitian ini. Hasil penelitian menunjukkan perbedaan yang signifikan antara BRVM dan IDX terkait pengaruh mekanisme tata kelola korporat terhadap Manajemen Laba. Di IDX, Leverage secara signifikan mempengaruhi Manajemen Laba. Selanjutnya, Ukuran Perusahaan, Dewan Komisaris Independen, Kualitas Audit, dan Kepemilikan Manajerial tidak signifikan. Selanjutnya, pada perusahaan yang terdaftar pada BRVM, Ukuran Perusahaan dan Kepemilikan Manajerial secara individual menunjukkan pengaruh signifikan terhadap Manajemen Laba. Namun, Leverage, Dewan Komisaris Independen, dan Kualitas Audit tidak menunjukkan pengaruh signifikan terhadap Manajemen Laba.

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1. Introduction

The Bourse Régionale des Valeurs Mobilières (BRVM) is the regional stock exchange of the member states of the West African Economic and Monetary Union (WAEMU). In 2015, that stock exchange was the best performing in Africa, finishing the year with a 17.7% increase on our composite index largely due to strong economic growth in Côte d'Ivoire and across (WAEMU). The Surabaya Stock Exchange (BES) and the Jakarta Stock Exchange (BEJ) combined to become the Indonesian Stock Exchange (IDX). According to Statement of Financial Accounting Concept (SFAC) No. 1, earnings data is a key consideration for evaluating the management's performance or accountability (*Overview and History of IDX*)

Earnings management is the manipulation of external reporting to achieve private benefits like improving managerial compensation (Katherine Schipper, 1989). Earnings management refers to the intentional intervention in the external financial reporting process, aimed at obtaining private benefits rather than simply ensuring the neutral operation of reporting. It can be carried out through aggressive or conservative accounting practices within the framework of Generally Accepted Accounting Principles (GAAP), and typically occurs at the end of the fiscal year.

Company size is how large or small a company is seen from the total wealth, total assets, number of sales, or book value of a company (Putro & Priantinah, 2017). Basically, small-scale companies are rarely known by the wider community compared to large-scale companies. Lending money to businesses, creditors also give accounting data for the upkeep of specific monetary ratios, including leverage (Zamri et al., 2013). The company needs significant funding to sustain business continuity. External parties like creditors and investors may provide funds. Leverage is a significant aspect of the financial component. Leverage can be viewed as a method of calculating the risk associated with conducting business. Since the total debt of the company exceeds its total assets, the high debt ratio demonstrates that it is uncreditworthy. The financial statements' earnings will fluctuate if the company has a seasonal cycle, which will affect the choices of associated parties, like investors. To maintain the stability of the profits created by the company, the management is likely to take various activities that are regarded as earnings management. A business can monitor its current assets, liabilities, and liquidity through financial reporting. A corporation can utilize this information to manage its debts, which can be very advantageous for the business. One of the reasons why businesses use financial reporting services and statutory reporting services is the way financial reporting and analysis may enhance debt management. Controlling a company's liabilities, which include credit lines, business loans, and credit granted by vendors, is as vital to controlling its debt (Hope & Vyas, 2017).

Stockholders, who buy shares of a corporation and as a result possess a portion of the asset value, own the corporation. A board of directors is chosen by the stockholders to represent their interests and oversee corporate management. Corporate governance refers to the procedures by which the interests of a corporation's stakeholders are controlled by insiders and management. A corporation's equity holders, creditors, and other claimants who provide capital are among its stakeholders, along with other parties, including its employees, customers, suppliers, and the government.

Financial statements that have been audited and found to be of high quality, relevance, and reliability. The auditor oversees the offering of reliable information that can be used to make decisions. The capacity of an auditor to improve a financial report's quality for the organization is seen as an important attribute. Investors should take the quality of the auditor into account when determining if a financial report is fair (DeAngelo, 1981). This research aims to compare the impact of governance mechanisms, including Company Size, Leverage, Independent Boards of Commissioners, Audit Quality, and Managerial Ownership, on Earnings Management in the Consumer Goods Industry listed on BRVM and IDX from 2019 to 2022.

Agency Theory

The Agency theory is the basis for understanding the problems of corporate governance and revenue management. Avoiding the asymmetric relationship of Agency Theory produces between the owner (principal) and manager, a concept of appropriate corporate governance was necessary (agent). The goal of good corporate governance is to enhance the organization's wellbeing. It is possible to use the interaction between management and owners to clarify how agency theory is used

to achieve corporate governance. As the agent, management has a moral duty to maximize the advantages of the owners and will be compensated in accordance with the contract's conditions in return. The agency relationship is a contract between the management (agent) and the owner (principal) (Jensen & Meckling, 1994). Agents and principals may occasionally have issues as a result of these connections. While the agent seeks a sizable reward or incentive for its success, The manager wants to get more return on his investment in the company.

As a result, there are two distinct interests within the company, each of which wants to see it prosper. This creates an information gap between management and owners, which can allow managers to use profits to mislead owners about the company's financial performance. Agency theory is based on the following three human nature hypotheses: (1) humans are typically self-interested; (2) people have restricted reasoning about bounded rationality; and (3) people always avoid danger (risk averse). Agency theory specifically analyzes the presence of agency relationships, in which a principle assigns work to an agent who completes it. The issue is that the principal cannot confirm whether the agent acted correctly. The issue of risk sharing then emerges when the agent and principal have various perspectives on risk. Agency theory implies that there is knowledge asymmetry. When managers and investors understand internal data and prospects to varying degrees, information asymmetry results. Management could manage revenues in a way that will best serve each of their interests because of the knowledge gap.

Earnings management, according to (Healy & Wahlen, 2005), occurs when managers use judgment in financial reporting and transaction structuring to alter financial reports in order to either mislead some stakeholders about the underlying economic performance of the company or to influence contractual outcomes that rely on reported accounting numbers. Earnings management is a concern not only in wealthy countries (as in the Enron, WorldCom, and Xerox cases), but also in emerging countries such as Indonesia.

Company has a positive effect on earnings management. The results of the study support agency theory which states that the larger the company, the greater information asymmetry and agency conflict faced by the company (Nalarreason et al., 2019). The results of this study are in line with the research of Ali et al. (2015). Their study found a positive relationship between company size and earnings management, the larger the company, the more likely management to do earnings management because large companies are under big pressure to fulfill the expectations of financial analysts.

H1: Company size has a negative and significant effect on earnings management in both IDX Indonesia and BRVM stock exchange markets.

Financial leverage occurs when one uses borrowed cash (debt) to support the acquisition of assets in the belief that the income from the new asset or capital gain will exceed the cost of borrowing. Leverage can be used to estimate the company's inherent risk. When a corporation has a high leverage ratio, it shows that it is unsolvable since its total debt exceeds its whole assets (Subramanyam, 2014). Since leverage is a ratio that assesses how much money creditors supply, as well as a ratio that compares a company's entire debt to its assets. If an investor finds a company with large assets but also substantial leverage risk, he or she will reconsider investing in the company. The management decision attempts to keep the leverage ratio from increasing.

Leverage has a positive effect on earnings management (Nalarreason et al., 2019). The results of his study support agency theory and positive accounting theory on the debt contract hypothesis, companies that have high leverage tend to do earnings management because the company is threatened with bankruptcy, so it is unable to meet debt payments on time. The results of his study are also in line with the research of DeFond & Jiambalvo (1994), and Joo & Chamberlain (2017) which explain that companies tend to engage in earnings management when the condition of the company approaches the violation of the debt agreement.

H2: Leverage has a positive and significant effect on earnings management in both IDX Indonesia and BRVM stock exchange markets.

The Board of Commissioners (BoCs) is a corporation component tasked with supervising and advising the board of directors (Setiawan et al., 2019). The Board of Directors is an important component of a corporation since they are responsible for ensuring that the board of directors is

doing their job well and practicing good corporate governance. This board, as the supervisory board, is responsible for overseeing the board of directors. They may be able to supervise more independently because they are formally separated from the board of directors.

Drawing on evidence from Indonesia, prior research indicates that the presence of independent commissioners does not translate into superior corporate outcomes [Prabowo & Simpson \(2011\)](#) find that independent commissioners have no substantial effect on firm performance also independent commissioners have no positive effect on business value. Furthermore, independent commissioners report that no substantial effect on earnings management ([Siregar & Utama, 2008](#)). According to these studies, independent commissioners in Indonesia may not be doing their duties effectively. It could be due to a lack of institutional transformation on the part of independent commissioners ([Prabowo & Simpson, 2011](#)).

H3: Independent Board of Commissioners has a negative and significant effect on earnings management in both IDX Indonesia and BRVM stock exchange markets.

From an agency theory perspective when the interests of management conflict with the interests of stockholders, management may not act in the best interests of stockholders. Management compensation is usually tied to reported earnings therefore managers have incentives to manage reported earnings and they often could do so. ([Healy & Wahlen, 2005](#)) stated that thus, an auditor is required to provide reasonable assurance that financial statements are free of material misstatements and therefore protects the interests of stockholders.

Auditors of higher quality are less willing to accept doubtful accounting methods and are more likely to report errors and irregularities revealed during the audit work. Thus, the external auditor is considered to have an impact on the effectiveness of the firm's monitoring function, and hence the incidence of earnings management ([Johl et al., 2003](#)). [Sukirno et al., \(2017\)](#) emphasizes that audit quality is normally related to the capability of the auditor to identify material misstatement in the financial statements. It is also concerned with the auditor willingness to disclose an unbiased audit report based on the audit result.

H4: Audit quality has a negative and significant effect on earnings management in both IDX Indonesia and BRVM stock exchange markets.

Managerial ownership is the portion of shares held by management, including commissioners and directors, who actively participate in corporate decisions. According to [Sukirno et al., \(2017\)](#), management ownership gives managers control over the business and the ability to determine the company's plans and policies because the manager doubles as a shareholder in this scenario. The ownership structure in Taiwan is characterized by the predominant role of the family owner-largest shareholder. The owner-largest shareholder, by holding a significant proportion of shares of a company through family and/or related companies, effectively controls the company.

It can reduce the opportunistic conduct of managers when the management owns shares since then the manager will operate in line with the interests of shareholders. Incentives for potential opportunistic management behavior will rise with low stock ownership. The management of earnings is therefore negatively and significantly impacted by managerial ownership, it might be said ([Shleifer & Vishny, 1986](#)).

H5: Managerial ownership has a negative and significant effect on earnings management in both IDX Indonesia and BRVM stock exchange markets.

2. Research Method

This study falls within the causal research category, which includes both independent and dependent variables, based on the variables. Because this study makes extensive use of numbers throughout the data collection, analysis, and presentation phases, it falls under the category of quantitative research due to the nature of the data and analysis employed. As this study involves a comparative approach, it utilized secondary data sourced from the internet. Data collection took place on the official websites of the Indonesia Stock Exchange (IDX) and the Bourse Régionale des Valeurs Mobilières (BRVM), namely www.idx.co.id and www.brvm.org/en, respectively. The

population of this study encompasses manufacturing companies operating within the consumer goods sector and publicly listed on both the Indonesia Stock Exchange (IDX) and the Bourse Régionale des Valeurs Mobilières (BRVM) during the period from 2019 to 2022. Employing a purposive sampling approach, a total of 27 companies were selected as the research sample, with 17 drawn from the IDX and 10 from the BRVM.

Operational Variable Definition

Earnings Management

Earnings management was measured through the utilization of the Discretionary Accruals Proxy (DAC), employing the modified Jones model as proposed by (Dechow et al., 1996). The methodology for calculating these accruals is detailed as follows:

- a. Calculate the total accruals (TAC) using the modified Jones model.

$$TAC_t = NI_{it} - CFit$$

Where:

TAC = Total Accruals

NI_{it} = Net Income from company i on t period

CFit = Operating Cash Flow from company i on t period

- b. Calculates the accruals value estimated with the OLS (Ordinary Least Squares) regression.

$$TAC_t / TA_{t-1} = (\beta)_1 (1/TA_{t-1}) + (\beta)_2 (\Delta REV_t / TA_{t-1}) + (\beta)_3 (PPE_t / TA_{t-1}) + e$$

Where:

TAC_t = Total Accruals in Period t

TA_{t-1} = Total Assets of Period t-1

(Δ) REV_t = Change of Revenue in Period t

PPE_t = Property, Plant, and Equipment Period t

(β)₁, (β)₂, (β)₃ = Change of Revenue in Period t

e = error term (Error)

- c. Calculating the nondiscretionary accruals model (NDA).

$$NDTAC_t = (\beta)_1 (1/TA_{t-1}) + (\beta)_2 [(\Delta REV_t - \Delta RECT) / TA_{t-1}] + (\beta)_3 (PPE_t / TA_{t-1}) + e$$

Where:

NDTAC_t = nonaccrual discretionary in year t

TA_{t-1} = total assets of period t-1

(Δ) REV_t = change of revenue in period t

(Δ) RECT = change of accounts receivable in period t

PPE_t = property, plan, and equipment period t

(β)₁, (β)₂, (β)₃ = fitted coefficient obtained from the regression result on the total accrual calculation

- d. Calculating Total Accrual Discretionary.

$$DTAC_t = (TAC_t / TA_{t-1}) - NDTAC_t$$

Where:

DTAC_t = Total discretionary accrual year t

TAC_t = Total accruals year t

TA_{t-1} = Total assets of period t-1

NDTAC_t = Nonaccrual discretionary in year t

1. Company Size

The formula used to measure Company Size is as follow:

$$\text{Natural Log Size} = \text{Company Size (Total Assets)}$$

2. Leverage

The following formula used to measure Leverage:

$$\text{Leverage} = \frac{TL_t}{TA_t}$$

Where:

TL: Total debt in period – t

TA: Total assets in period – t

3. Independent Board of Commissioners

The formula used to calculate the Independent Board of Commissioners is as follow:

$$IBC = \frac{\text{The number of IBC}}{\text{Total number of IBC}}$$

4. Audit Quality

In this study, the quality of audits is assessed using a binary variable, which takes a value of 1 when audited by the Big Four (indicating high quality) and 0 when audited by firms outside the Big Four (indicating low quality).

5. Managerial Ownership

In this study, managerial ownership is measured using the percentage of voting shares held by managers and directors, divided by the total number of outstanding shares of the company.

$$M.O = \frac{\text{Number of managerial ownership shares}}{\text{Number of shares outstanding}}$$

Data for this study were primarily collected from the official websites of IDX (www.idx.co.id) and BRVM (www.brvm.org/en), where their financial statements and annual reports were available. It also involved sourcing information from various written resources such as books, articles, and journals related to the research topic. This research employed a variety of data analysis techniques, including descriptive statistical analysis, classical assumption tests, simple linear regression analysis, and multiple linear regression analysis.

3. Research Results & Discussion

3.1 Descriptive Statistical Analysis

a. Earnings Management

The distribution of data reveals that within the Consumer Goods Industry listed on IDX from 2019-2022, the majority of companies, accounting for 85.3% (58 samples), falls within the medium range of earnings management (-1.66 to 2.65). Conversely, a smaller proportion, comprising 7.4% each (5 samples), shows either high or low levels of earnings management. Meanwhile, within the BRVM from 2019-2022, 45% (18 samples) are categorized under high earnings management, another 45% (18 samples) fall into the medium earnings management category, and only 10% (4 samples) are classified as low earnings management.

b. Company Size

The data reveals that large companies dominate with a 64.7% (11 companies), followed by Medium-sized companies constituting 29.4% (5 companies) of the market share, while only 1 company (5.9%) is representing smaller companies for the IDX. Meanwhile, the findings of the BRVM reveals an even distribution between large and medium-sized companies. Both categories hold a significant presence, with 4 companies (40%) each. While smaller represent, though to a lesser extent, with 2 companies (20%) falling into that category.

c. Leverage

Based on the findings for IDX, the majority of companies 55.9% (58 samples) fall within the medium leverage category (0.32 to 0.63). Companies with high leverage 29.4% (20 samples) and those with low leverage 14.7% (10 samples) constitute smaller segments. While in BRVM, the majority of companies 65% (26 samples) fall within the medium leverage category (0.44 to 0.63). Companies with high leverage 25% (10 samples) and those with low leverage 10% (4 samples) constitute smaller segments from 2019-2022.

d. Independent board of Commissioner

The findings in IDX from 2019-2022 shows that over 63% of the samples fall into the category of having a low representation of independent commissioners (<0.4). Only 37% of the samples have a high proportion of independent commissioners (≥ 0.4). While in BRVM, findings show 25% of the samples fall into the category of having a low representation of independent commissioners (<0.4). Conversely, 75% of the samples have a high proportion of independent commissioners (≥ 0.4).

e. Audit Quality

The findings in IDX show that 16 samples (24%) from 4 companies were audited by Big Four, and the remaining 52 samples (76%) from 13 companies were audited by Non-Big Four from 2019-2022. While, in the BRVM data reveals that 28 samples (70%) from 7 companies were audited by Big Four, and the remaining 12 samples (30%) from 3 companies were audited by Non-Big Four.

f. Managerial Ownership

Data indicates that, on average, managers and directors held a modest 0.10 share of the shares, suggesting a modest concentration of ownership within management in IDX from 2019-2022. While the findings in BRVM shows a higher ownership within management with 0.27 of the shares hold by managers and directors across the analyzed companies from 201-2022.

3.2 Classic Assumption Test

Normality Test

The findings indicate that the significance value of Kolmogorov-Smirnov Test for IDX from 2019-2022 is 0.124. The value is greater than 0.05, so it can be concluded that the data in this research is normally distributed.

Table 1. The Result of Normality Test IDX

Variable	Exact Sig. (2-tailed)	Conclusion
Res_1	0.124	Normal

Meanwhile, the BRVM data shows that significance value of Kolmogorov-Smirnov Test from 2019-2022 is 0.095. The value is greater than 0.05, so it can be concluded that the data in this research is normally distributed.

Table 2. The Result of Normality Test BRVM

Variable	Exact Sig. (2-tailed)	Conclusion
Res_1	0.095	Normal

Multicollinearity Test

According to the multicollinearity analysis, the independent variables show tolerances exceeding 0.10, and the Variance Inflation Factor (VIF) values are below 10. Thus, it can be concluded that the regression model employed in this study is not affected by multicollinearity in both IDX and BRVM from 2019-2022 as shown below:

Table 3. The Result of Multicollinearity Test IDX

IDX		
Constant	Tolerance	VIF
SIZE (X1)	0.445	2.249
LEV (X2)	0.893	1.12
IBC (X3)	0.689	1.451
AQ (X4)	0.812	1.231
MO (X5)	0.736	1.358

Table 4. The Result of Multicollinearity Test BRVM

BRVM		
Cosntant	Tolerance	VIF
SIZE (X1)	0.322	3.103
LEV (X2)	0.752	1.33
IBC (X3)	0.651	1.536
AQ (X4)	0.486	2.056
MO (X5)	0.354	2.828

Heteroscedasticity Test

Based on heteroscedasticity test, it shows that the significance values of the coefficient parameters for all independent variables exceed 0.05. This indicates the absence of heteroscedasticity within the regression model in both IDX and BRVM from 2019-2022 as shown below:

Table 5. The result of heteroscedasticity test IDX

IDX		
	Model	Sig.
1	(Constant)	0.418
	SIZE	0.269
	LEV	0.616
	IBC	0.853
	AQ	0.464
	MO	0.138

Table 6. The result of heteroscedasticity test BRVM

BRVM		
	Model	Sig.
1	(Constant)	0.153
	SIZE	0.427
	LEV	0.434
	IBC	0.772
	AQ	0.123
	MO	0.070

Autocorrelation Test

The findings in IDX from 2019-2022, shows that with $N=68$ and $k = 5$, the value of dU is determined to be 1.7678. The criteria used to make the conclusion are $1.7678 < 2.000 < 2.232$ or $dU < d < 4-dU$. Based on these findings, it can be concluded that this regression model does not contain autocorrelation.

Table 7. The result of Autocorrelation test IDX

Model	DW	Conclusion
1	2.000	No Autocorrelation

While the findings in BRVM from 2019-2022 presents that with $N=40$ and $k = 5$, the value of dU is determined to be 1.7859. The criteria used to make the conclusion $1.7859 < 1.821 < 2.214$ or $dU < d < 4-dU$. Based on these findings, it can be concluded that this regression model does not contain autocorrelation.

Table 8. The result of Autocorrelation test BRVM

Model	DW	Conclusion
1	1.821	No Autocorrelation

3.3 Hypothesis Test

First Hypothesis Test IDX and BRVM

The findings of the first hypothesis assessment are detailed in the table below:

Table 9. The result of first hypothesis test IDX

IDX	
EM = 2.078 - 0.067 SIZE	
R-square = 0.008	
Tcount < Ttable = -0.728 < 1.996	
Sig. = 0.469	
H1: is rejected	

The regression of the equation from table 9 shows that the dependent variable which is Earnings Management (EM) value is 2.078. Meanwhile, the regression coefficient is negative, that is equal to -0.067, with R^2 equals to 0.008. The T_{count} is smaller than T_{table} ($-0.728 < 1.996$). The significance value is 0.469, which is more than 0.05. Therefore, it can be concluded that there is no significant

effect between Company Size and Earnings Management in IDX from 2019-2022. The findings are in line with previous research conducted by (Se & Mak, 2020).

Table 10. The result of first hypothesis test BRVM

BRVM
EM = 8.775 - 0.370 SIZE
R-square = 0.270
Tcount < Ttable = -3.754 < 2.024
Sig. = 0.001
H1: is accepted

The regression of the equation from table 10 shows that the dependent variable which is Earnings Management (EM) value is 8.775. Meanwhile, the regression coefficient is negative, that is equal to -0.370, with R^2 equals to 0.270. The T_{count} is smaller than T_{table} (-3.754 < 2.024). The significance value is 0.001, which is less than 0.05. Therefore, it can be concluded that there is a significant effect between Company Size and Earnings Management in BRVM from 2019-2022. The findings are in line with previous research conducted by (Patrick et al., 2015).

According to competitive theory, larger companies may manipulate earnings to maintain advantages in competitive markets, while smaller companies may do so more freely in less competitive markets. In IDX's highly competitive environment, factors like industry dynamics or regulatory oversight may reduce the impact of company size on earnings management. Conversely, in BRVM's less competitive market, larger firms may have more control over earnings management practices.

Second Hypothesis Test IDX and BRVM

The findings of second hypothesis are detailed as follow:

Table 11. The result of second hypothesis test IDX

IDX
EM = -1.029 + 2.399 LEV
R-square = 0.067
Tcount > Ttable = 2.170 > 1.996
Sig. = 0.034
H2: is accepted

The regression of the equation from table 11 shows that the dependent variable which is Earnings Management (EM) value is -1.029. Meanwhile, the regression coefficient is positive, that is equal to 2.399, with R^2 equals to 0.067. The T_{count} is more than T_{table} (2.170 > 1.996). The significance value is 0.034, which is less than 0.05. Therefore, it can be concluded that there is indeed a significant effect between Leverage and Earnings Management in IDX from 2019-2022. The findings are in line with previous research conducted by (Wiyadi et al., 2015).

Table 12. The result of second hypothesis test BRVM

BRVM
EM = -0.367 - 0.083 LEV
R-square = 0.000
Tcount < Ttable = -0.080 < 2.024
Sig. = 0.937
H2: is rejected

The regression of the equation from table 12 shows that the dependent variable which is Earnings Management (EM) value is -0.367. Meanwhile, the regression coefficient is negative, that is equal to -0.083, with R^2 equals to 0.000. The T_{count} is smaller than T_{table} (-0.080 < 2.024). The significance value is 0.937, which is more than 0.05. Therefore, it can be concluded that there is no significant effect between Leverage and Earnings Management in BRVM from 2019-2022. The findings are in line with previous research conducted by (Veronica, 2015).

This difference can be explained by competitive theory as well. In IDX, with more competition, companies may use various strategies such as leverage to improve their financial performance or

appear stronger. However, BRVM's different competitive landscape might limit leverage use for earnings management due to factors like access to capital, regulations, or cultural norms.

Third Hypothesis Test IDX and BRVM

The results of the third hypothesis assessment are detailed in the table below:

Table 13. The result of third hypothesis test IDX

IDX
EM = $-0.237 + 1.221 \text{ IBC}$
R-square = 0.003
Tcount < Ttable = $0.458 < 1.996$
Sig. = 0.649
H3: is rejected

The regression of the equation from table 13 shows that the dependent variable which is Earnings Management (EM) value is -0.237. Meanwhile, the regression coefficient is positive, that is equal to 1.221, with R^2 equals to 0.003. The T_{count} is less than T_{table} ($0.458 < 1.996$). The significance value is 0.649, which is more than 0.05. Therefore, it can be concluded that there is no significant effect between Independent Board of Commissioners and Earnings Management in IDX from 2019-2022. The findings are in line with previous research conducted by ([Kristilestari & Andesto, 2023](#)).

Table 14. The result of third hypothesis test BRVM

BRVM
EM = $-0.027 - 0.894 \text{ IBC}$
R-square = 0.008
Tcount < Ttable = $-0.563 < 2.024$
Sig. = 0.576
H3: is rejected

The regression of the equation from table 14 shows that the dependent variable which is Earnings Management (EM) value is -0.027. Meanwhile, the regression coefficient is negative, that is equal to -0.894, with R^2 equals to 0.008. The T_{count} is less than T_{table} ($-0.563 < 2.024$). The significance value is 0.576, which is more than 0.05. Therefore, it can be concluded that there is no significant effect between Independent Board of Commissioners and Earnings Management in BRVM from 2019-2022. The findings are in line with previous research conducted by ([Djojo & Astuti, 2023](#)).

The results show that factors other than independent boards of commissioners may be more influential in both IDX and BRVM.

Fourth Hypothesis Test IDX and BRVM

The results of the fourth hypothesis assessment are detailed in the table below:

Table 15. The result of fourth hypothesis test IDX

IDX
EM = $0.160 + 0.206 \text{ AQ}$
R-square = 0.002
Tcount < Ttable = $0.369 < 1.996$
Sig. = 0.713
H4: is rejected

The regression of the equation from table 15 shows that the dependent variable which is Earnings Management (EM) value is 0.160. Meanwhile, the regression coefficient is positive, that is equal to 0.206, with R^2 equals to 0.002. The T_{count} is less than T_{table} ($0.369 < 1.996$). The significance value is 0.713, which is more than 0.05. Therefore, it can be concluded that there is no significant effect between Audit Quality and Earnings Management in IDX from 2019-2022. The findings are in line with previous research conducted by ([Dunakhir, 2016](#)).

The regression of the equation from table 16 shows that the dependent variable which is Earnings Management (EM) value is -0.354. Meanwhile, the regression coefficient is negative, that is equal to -0.085, with R^2 equals to 0.002. The T_{count} is less than T_{table} ($-0.289 < 2.024$). The significance value is 0.774, which is more than 0.05. Therefore, it can be concluded that there is no significant

effect between Audit Quality and Earnings Management in BRVM from 2019-2022. The findings are in line with previous research conducted by (M. DeFond & Zhang, 2014).

Table 16. The result of fourth hypothesis test BRVM

BRVM
EM = -0.354 - 0.085 AQ
R-square = 0.002
Tcount < Ttable = -0.289 < 2.024
Sig. = 0.774
H4: is rejected

Fifth Hypothesis Test IDX and BRVM

The results of the fourth hypothesis assessment are detailed in the table below:

Table 17. The result of fifth hypothesis test IDX

IDX
EM = 0.299 - 0.889 MO
R-square = 0.005
Tcount < Ttable = -0.565 < 1.996
Sig. = 0.574
H5: is rejected

The regression of the equation from table 17 shows that the dependent variable which is Earnings Management (EM) value is 0.299. Meanwhile, the regression coefficient is negative, that is equal to -0.889, with R^2 equals to 0.005. The T_{count} is less than T_{table} (-0.565 < 1.996). The significance value is 0.574, which is more than 0.05. Therefore, it can be concluded that there is no significant effect between Managerial ownership and Earnings Management in IDX from 2019-2022. The findings are in line with previous research conducted by (Prasetyo & Suhendah, 2023).

Table 18. The result of fifth hypothesis test BRVM

BRVM
EM = 0.082 - 1.809 MO
R-square = 0.190
Tcount < Ttable = -2.981 < 2.024
Sig. = 0.005
H5: is accepted

The regression of the equation from table 18 shows that the dependent variable which is Earnings Management (EM) value is 0.082. Meanwhile, the regression coefficient is negative, that is equal to -1.809, with R^2 equals to 0.190. The T_{count} is less than T_{table} (-2.981 < 2.024). The significance value is 0.005, which is less than 0.05. Therefore, it can be concluded that there is indeed a significant effect between Managerial ownership and Earnings Management in BRVM from 2019-2022. The findings are in line with previous research conducted by (Monika, 2017).

According to competitive theory, firms in competitive environments may use earnings management to enhance performance or signal financial strength. In BRVM, managerial ownership significantly affects earnings management due to its developing market status and potentially weaker corporate governance. In contrast, the competitive pressure in IDX likely drives companies to prioritize transparency and accurate financial reporting, regardless of managerial ownership.

4. Conclusion and Suggestion

Based on the results and discussion of the research, it can be concluded as follows:

1. Company size does not have a significant effect on earnings management in IDX. This suggests that investors in the Indonesia Stock Exchange might consider a wider range of factors beyond just company size when making investment decisions. Conversely, in BRVM the company size has a significant effect on earnings management in BRVM. This implies that larger companies listed on the Bourse Régionale des Valeurs Mobilières might be more likely to engage in earnings management practices compared to their smaller counterparts.

The reason of this difference is because IDX is a more competitive market, so company size has less impact on manipulating earnings management, compared to a less competitive market like BRVM where bigger firms can manipulate earnings more easily.

2. Leverage has a significant effect on earnings management in IDX. This indicates that companies on the Indonesia Stock Exchange with higher debt levels might be more prone to manipulating earnings.

Conversely, leverage has no significant effect on earnings management in BRVM. This suggests that debt levels might not be a major driver of earnings management practices for companies listed on the BRVM.

This is because in IDX, with more competition, companies may use various strategies such as leverage to improve their financial performance or appear stronger. However, BRVM's different competitive landscape might limit leverage use for earnings management due to factors like access to capital, regulations, or cultural norms.

3. Independent Board of Commissioners has no significant effect on Earnings Management in both IDX and BRVM from 2019-2022.

This outcome shows that independent boards of commissioners does not significantly impact earnings management practices in either IDX or BRVM. Despite expectations of governance mechanisms mitigating earnings management, the lack of significance in both markets implies that other factors may play a more substantial role in influencing earnings management behaviors.

4. Audit Quality has no significant effect on Earnings Management in both IDX and BRVM.

This result indicates that the quality of audits conducted does not significantly influence earnings management practices in either IDX or BRVM. Despite the importance of high-quality audits in ensuring accurate financial reporting, the absence of significance in both markets suggests that other governance mechanisms or external factors may drive earnings management practices.

5. Managerial Ownership has a significant effect on Earnings Management in BRVM but not in IDX. The findings highlight the divergent impact of managerial ownership on earnings management practices between BRVM and IDX.

Competitive theory suggests that more competition leads to earnings manipulation. However, in BRVM, a developing market, strong managerial ownership mitigates this due to weaker corporate governance. In contrast, in a highly competitive market like IDX, competition drives companies toward transparency.

Despite employing a methodical and scientific methodology, this research acknowledges inherent limitations in its generalizability. The analysis is confined by a condensed examination period of only three years, spanning from 2019 to 2022. Furthermore, the study exclusively targets companies within the consumer goods sector that are listed on two exchanges with distinct currencies: the Indonesia Stock Exchange (IDX) denominated in Indonesian Rupiah (IDR) and the Bourse Régionale des Valeurs Mobilières (BRVM) denominated in West African CFA Franc (XOF). This focused approach might limit the applicability of the findings to other industries or business environments where currency fluctuations and financial reporting standards may differ.

Based on the research findings and the study's limitations, the researcher suggests the following.

1. For Further Research

Despite employing a rigorous methodology, this study's findings are limited by the four-year timeframe (2019-2022) and focus on the consumer goods sector. Future research could extend the analysis period, explore additional industries, or examine the impact of currency fluctuations and financial reporting standards across different market contexts.

2. For Companies

Implement strong corporate governance is essential to prevent earnings management. This involves having an independent board, effective internal controls, and promoting ethical behavior and transparency throughout the organization.

3. For Investors and Potential Investors

Investors should also be aware that regulatory frameworks and corporate governance can differ greatly between markets. They can modify their risk assessments and investment plans by being aware of these variances. Additionally, by pushing independent boards of commissioners to

aggressively carry out their oversight responsibilities and hold management accountable for accurate financial reporting, investors can contribute to the advancement of sound corporate governance.

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