International Journal of Multicultural and Multireligious Understanding

http://ijmmu.com
editor@ijmmu.com
ISSN 2364-5369
Volume 7, Issue 8
September, 2020
Pages: 124-137

The Effect of Top Management Team Characteristics to Earning Management

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http://dx.doi.org/10.18415/ijmmu.v7i8.1819

Abstract

This study aims to test and empirically analyze the impact of top management characteristics on accrual earnings management and the role of audit quality on the effect of top management characteristics on accrual earnings management. The analytical method used is Moderated Regression Analysis (MRA). The population of this study are manufacturing companies listed on the Indonesia Stock Exchange during the period 2014 to 2018. The sampling method used is positive sampling.

The results of this study contribute to the upper echelon theory and show that top management characteristics that are proxied by knowledge and years of service have a negative influence on earnings management, and on audit quality as a moderating factor that is not proven to strengthen its effect on earnings management.

Keywords: *Audit Quality; Characteristics of The Top Management Team; Earning Management; Upper Echelon Theory*

Introduction

Financial statements are a means of communicating financial information to parties outside the corporation. In Statement of Financial Accounting Concept (SFAC) Number 1, it is said that financial statements must be able to present information that is useful for investors, potential investors, creditors, and potential creditors in making investment decisions, credit, and other similar decisions, in a rational manner. The information contained in financial statements must be understood by those who have business and economic insights so that the information presented in the financial statements is quickly understood by all interested parties and can be used for decision making, then the presentation of financial statements in annual reports must be accompanied by full disclosure.

In preparing financial statements, the accrual basis was chosen because it is rational and fair in reflecting the real condition of the company. Accrual accounting has the advantage that company earnings information and measurement of components based on accrual accounting generally provide a better indication of a company's economic performance than information generated from the latest aspects of cash receipts and disbursements (FASB, 1978). However, accrual accounting also has weaknesses. The use of accrual basis can provide flexibility to the management in choosing the accounting method with certain objectives that can even be detrimental to many parties. The actions of managers who can influence earnings figures with specific goals are known as earnings management (Scott, 2015).

Earnings management practice is not a foreign term in the world of international business. Several major scandals have made earnings management practices a serious concern by various groups, such as the Houston Waste Management scandal in 1998 (Dowd, 2016), the Enron Corporation scandal in the year (Li, 2010), the WorldCom scandal in 2002 (Sidak, 2003), and many other big scandals that caught the attention of the world. Not only in the international world such cases occur, in Indonesia there are also several cases of income manipulation which are very detrimental to many parties.

On the theory of positive accounting (Positive Accounting Theory-PAT) Watts and Zimmerman (1990) explain three hypotheses about managers doing earnings management, namely: the bonus plan hypothesis, the debt covenant hypothesis, and the political cost hypothesis. Almost in line with the positive accounting theory (Watts and Zimmerman, 1990), Scott (2015) stated there are four motivations of managers to manage earnings, namely; motivation to achieve bonus goals, other contracting motivations, motivation to meet investors' earnings expectations, and stock offerings. These motivations encourage and provide large incentives for managers to practice earnings management.

Many things should be able to limit earnings management practices undertaken by managers. One of them should be the most responsible is the Top Management Team (henceforth, the top management team), because the top management team is an important component of the company that can influence the company's strategic planning process (Li, 2014) and the top management team can also solve important problems regarding the organization so that it affects the results of the organization (Huovinen and Pasanen, 2010). Therefore, the top management team seems to have a significant impact on the company's financial reporting strategy and the company's level of earnings management. This also corresponds to the Upper Echelon Theory (Hambrick and Mason, 1984).

Upper Echelon Theory Hambrick and Mason (1984) states that the decisions taken by the organization such as strategic decisions and strategy implementation are determined by large people who have an important role in the organization, namely top management. This theory can be an interesting foothold in research in the field of strategic leadership (Johan and Wibowo, 2012). Based on the Upper Echelon Theory, researchers assume that the characteristics of the top management team are important factors that will influence the company's strategic decisions, especially in the decision of preparing financial statements and earnings management. The characteristics of the top management team that are the focus of this study follow previous research by (Hsieh et al., 2018) namely the knowledge of the top management team and the average tenure of the top management team.

In addition to the theoretical basis, several empirical research results also show that the top management team can influence the company's strategic decisions. However, studies that specifically investigate the characteristics of the top management team are still very limited. The direction of the influence of the characteristics of the top management team on company decisions is also still a debate among academics. There are two perspectives that develop regarding the characteristics of the top management team, namely the perspective of incentive-reduction effects and the perspective of the entrenchment-enhancing effect. The incentive-reduction effect management perspective which has higher knowledge or a longer working period will result in better company performance (Chemmanur and Paeglis, 2005). So management with a higher level of knowledge and a longer tenure will have a positive impact on the company and is expected to hamper earnings management practices.

Previous research that supports the perspective of Incentive-reduction effects including found by (Xiong, 2016) which conducted research on the effect of the characteristics of company executives on earnings management in Chinese companies in Shenzhen and the Shanghai Stock Exchange from 2005 to

2014. The results of this study found that the tenure of company officials, the age of company executives, and the education of company executives could limit the practice earnings management in Chinese companies.

Qi et al. (2018) examines the impact of the characteristics of the top management team including CEO and CFO and other team members on the choice of earnings management strategies on Chinese public companies listed from 2000 to 2015. The results of this study found that age, number of female team members, level of education, work experience in the financial sector can limit accrual-based earnings management practices.

In Indonesia, research was conducted by Annisa (2013) which examines the educational background of the board of commissioners, institutional ownership and company size on the integrity of financial statements in manufacturing companies listed on the Indonesia Stock Exchange in 2008 to 2010. The results of this study found that the educational background of the board of commissioners has a positive effect on integrity company financial statements. The higher educational background of the board of commissioners will encourage companies to prepare financial reports that can be trusted by their users.

Another perspective is the entrenchment-enhancing effect, assuming that longer knowledge and tenure can provide greater strength over the company's operating strategy, so that it will be able to encourage to be involved in earnings management (Finkelstein, 1992). This perspective is supported by Chou and Chan (2018) which examined the effect of CEO characteristics on real earnings management in the banking industry in the United States from 2004 to 2007. The results of this study found that CEO's experience could actually have an impact on improving earnings management practices in the US banking industry.

The above research findings and the existence of the two perspectives above shows that the characteristics of top management of a company have an important role in corporate decision making, but the direction of its influence is still different. Positive and negative effects are still found by previous researchers. Therefore, researchers assume that the need for an independent party that is used as an effective monitoring mechanism to oversee management behavior, because the top management team is an internal mechanism of the company. Supervision mechanism can overcome the conflicts that exist within the company (Herawaty, 2008). The Agency Theory also also states that oversight mechanisms can mitigate conflicts of interest and opportunistic behaviour (Alzoubi, 2016). One of the supervisory mechanisms proposed in the agency theory is independent audit.

This study uses the quality of an independent audit as a supervisory mechanism that is expected to strengthen the influence of the characteristics of the top management team in particular knowledge and average tenure of earnings management. Audit quality in this study was measured by the size of the Public Accounting Firm (KAP Big-4) following previous studies (DeAngelo, 1981), (Challen and Siregar, 2012), and (Khanh and Khuong, 2018). Larger KAP size has better financial and human resources, more sophisticated technology compared to smaller KAP, so it is expected to provide better monitoring of the company.

Empirically, Rusmin (2010) conducted research on the effect of audit quality on earnings management in Singaporean listed companies listed on SGX in 2003. The results of his research found that companies audited by industry specialist auditors were involved in lower earnings management than companies audited by non-auditors' specialist. In addition, this study also found that earnings management was lower in firms audited by big-4 KAP compared to companies audited by nonbig-4 KAP. In this study, researchers are interested in conducting research on the theory of upper echelon because of the lack of research on the background of top management that will affect the quality of the company's accounting reports and researchers also use audit quality as a moderating variable on the influence of top management team characteristics on accrual earnings management. It is hoped that high quality audits can further strengthen the leadership of both top management who have higher knowledge and long tenure in the company.

Knowledge of Top Management and Profit Management

Chemmanur and Paeglis (2005) in his research shows that the characteristics of top management teams that are of good quality and more reputable are able to convey the intrinsic value of their company more credibly to outsiders, thereby reducing the information asymmetry faced by their companies in the equity market. So this increases company performance and reduces managers' incentives to manipulate profits Demerjian et al. (2013) in his research shows that good managers are able to report high-quality earnings. Managers who have greater knowledge about their company's business, show that they can estimate earnings more accurately. As a result, they tend not to do opportunistic earnings management. Similar arguments, like Ali and Zhang (2015) shows that managers are very concerned with market perceptions about their abilities, because they are associated with several long-term benefits such as higher future compensation, reappointment, and managerial autonomy. Given that the market will consider reported profits and the reputation of the top management team when assessing the ability of managers, the top management team that is reputable is expected to face less pressure to increase revenue to influence market perception because the market has recognized their reputation. Thus, the top management team with more knowledge is expected to have more reputation, which reduces managers' incentives to manage earnings. Furthermore, managers with more expertise are expected to understand more about financial reporting standards. Therefore, they are more aware of the potential legal costs of earnings management and are therefore less likely to manipulate earnings. Given that the financial reporting strategy is jointly determined by the entire management team, companies with top management teams who have greater knowledge may be less likely to get joint agreement to carry out opportunistic earnings management.

Based on previous studies, the research hypothesis is stated as follows;

H1: Top Management Knowledge has a negative effect towards accrual earnings management.

Average Tenure of Top Management and Profit Management

The top management team that has a long tenure can easily share their experiences and reduce transaction costs and internal information asymmetries among team members. Thus, the top management team with a longer service life has higher operating performance (Haleblian and Finkelstein, 1993) (Hambrick and D'Aveni, 1992) (Michel and Hambrick, 1992). Other than that,(Chemmanur et al., 2009) shows that the top management team with longer average service lives has better financial and investment policies and leads to better performance. Companies with better performance have lower levels of earnings management (Aier et al., 2005) (Matsunaga and Yeung, 2008). Other than that, Ali and Zhang (2015)shows that newly hired managers have more incentive to manage earnings than report good performance with the aim of forming a reputation. Aggressive earnings reporting makes shareholders doubt the credibility of the manager's previously reported performance and damage their reputation. This shows that managers who have long tenure have less incentive to report earnings aggressively. In addition, managers with longer tenure are expected to be more aware of the potential legal costs of earnings management and therefore tend not to be involved in them.

Based on previous studies, the research hypothesis is stated as follows;

H2: The average tenure of top management has a negative effect on Accrual earnings management.

The Role of Audit Quality Moderation on the Effect of Top Management Knowledge on Earnings Management

In overcoming agency conflicts between stakeholders and agency theory management explains that auditors can be an effective oversight mechanism. The financial statements audited by auditors have high credibility so that they can be used as a means of decision making. The quality of the auditor influences the quality of audit services produced, the higher the quality of the auditor, the better the audit produced DeAngelo (1981) and Francis and Yu (2009) researching the size of the KAP on audit quality, in the results of his research it was found that a larger KAP results in a higher quality audit. So in this study the big-4 KAP is used as a measure of audit quality.

According to Hambrick and Mason (1984) in his research on the characteristics of quality leaders, leaders who have high levels of education will increasingly complex knowledge and skills and experience they have. But on the other hand leaders who have higher levels of education will tend to be slow in decision making, because their cognitive abilities are better tends to encourage to consider many factors including risk. Whereas opportunistic earnings management can have a very bad impact on both the company and their reputation. This will be more risky if faced with an auditor who has a big reputation like KAP big-4.

In this study audit quality is used as a variable that moderates the influence of top management knowledge on earnings management. The presence of qualified auditors is expected to be able to strengthen the knowledge of top management and suppress earnings management behavior that can mislead stakeholders' information. Then the research hypothesis is stated as follows;

H3: Audit quality strengthens the influence of top management knowledge which negatively affects accrual earnings management.

The Role of Audit Quality Moderation on the Effect of Average Management Tenure on Profit Management

According to Chemmanur et al. (2009) the average length of a top management's position has a better company management policy and leads to optimal performance. Companies with better performance have lower levels of earnings management (Aier et al., 2005). Managers who have long tenure will tend to maintain their position by maintaining their reputation, the role of qualified auditors as a supervisory mechanism is considered capable of resolving corporate agency conflicts. Having a qualified auditor is expected to be able to pressure managers to reduce their behavior towards profit management optimally because it can threaten their long-standing reputation.

This study uses audit quality as a moderating variable on the influence of the average tenure of top management on earnings management, so the research hypothesis is stated as follows;

H4: Audit quality strengthens the influence of the average tenure of top management which negatively affects accrual earnings management.

Method

This type of research is hypothesis testing, because the hypothesis in this study has been determined from the beginning of the research and intends to predict about a phenomenon (Hartono, 2008). The population used in this study are all manufacturing companies listed on the Indonesia Stock Exchange (IDX) in the period from 2014 to 2018. This study uses manufacturing companies as populations. Furthermore, in this study the research sample will be selected using a purposive sampling technique based on several criteria that must be met (judgment). The company criteria used as samples in this study are as follows.

1. Manufacturing companies listed on the Indonesia Stock Exchange from 2014 to 2018 without delisting.

2. The company revealed complete data needed in this study such as information needed to assess audit quality.

3. The company did not experience a loss during the period 2014 to 2018, because this study measures the accrual level of earnings presented. Therefore, if you use a company that suffers a loss it becomes less precise.

No	Criteria	Number of Companies
1	Manufacturing companies listed on the Indonesia Stock Exchange 2014-2018	123
2	Data presented is incomplete	36
3	The company suffered a loss	45
	Total	**42**
	Observation for 5 years (2014-2018)	**210**

The data in this study came from secondary data (secondary data), namely the company's annual financial report. Secondary data is data that already exists and does not need to be collected by researchers (Sekaran and Bogie, 2017). The source of financial data in this study came from the official website of the Indonesia Stock Exchange (www.idx.co.id) and company website. Market data obtained from the Yahoo Finance site (http://finance.yahoo.com).

This study uses panel data consisting of cross section 42 companies and time series 5 years of the study period so there are 210 observations. Therefore, there are several methods for analyzing panel data based on three types of models, namely Pooled Ordinary Least Square, Fixed effects, and Random effects in which the selection will be conducted by chow test, human test, and Lagrange multiplier test to determine the best model.

Operational Definition and Variable Measurement

The variables used in this study include independent variables namely top management knowledge and the average tenure of top management, the dependent variable is earnings management, and the moderating variable is audit quality. The operational definition of each variable is as follows.

Dependent Variable

The dependent variable in this research is accrual-based earnings management. The operational definition of each independent variable is explained as follows;

Accrual Profit Management

Accrual earnings management is the manager's actions in engineering the financial statements that are presented by utilizing various choices of existing accounting methods with specific objectives so as to mislead the stakeholders. Proxies used to measure the management of accrual earnings are discretionary accruals. This study uses a Modified ModelJones Dechow et al. (1995) to determine discretionary accruals because this model is the most commonly used model in research.

The steps to calculate accrual earnings management with the Jones modification model are as follows.

1. Calculate total accruals

Total accruals are measured by the following equation.

TACCi, t = NIi, t - CFOi, t.. (1)

The total accrual value is then estimated using the OLS regression equation as follows.

$$\frac{TACC_{i,t}}{A_{i,t-1}} = \beta_1\left[\frac{1}{A_{i,t-1}}\right] + \beta_2\left[\frac{\Delta REV_{i,t} - \Delta REC_{i,t}}{A_{i,t-1}}\right] + \beta_3\left[\frac{PPE_{i,t}}{A_{i,t-1}}\right] + \varepsilon_{i,t} \quad \ldots\ldots\ldots \text{(2)}$$

The coefficient obtained from the regression equation above is used to obtain the non-discretionary accrual value, it can be calculated by the following formula.

$$\frac{NDACC_{i,t}}{A_{i,t-1}} = \beta_1\left[\frac{1}{A_{i,t-1}}\right] + \beta_2\left[\frac{\Delta REV_{i,t} - \Delta REC_{i,t}}{A_{i,t-1}}\right] + \beta_3\left[\frac{PPE_{i,t}}{A_{i,t-1}}\right] \quad \ldots\ldots\ldots \text{(3)}$$

2. Discretionary accruals represent the difference between total accruals and non-discretionary accruals. Discretionary accruals can be calculated by the following formula.

$$DACC_{i,t} = \left[\frac{TACC_{i,t}}{A_{i,t-1}}\right] - \left[\frac{NDACC_{i,t}}{A_{i,t-1}}\right] \ldots\ldots\ldots \text{(4)}$$

Information:
TACCi.t : Total company accrual i in year t.
NDACCi, t : Total non-discretionary accruals of company i in year t.
DACCi, t : Total company discretionary accrual i in year t.
Ni, t : Net income before heading outside company i expense in year t.
CFOi, t : Cash flow of operating activities of the company i in year t.
ΔREVi, t : Changes in company income i in year t.
ΔREC : Changes in company receivables i in t.
PPEi, t : Fixed assets (*Property, plant and equipment*) company i year t.
Ai, t-1 : Total assets of company i in year t-1
εi, t : *Error*

Independent Variable

This study raised two independent variables to be studied. The independent variables include knowledge of top management and the average tenure of top management. The operational definitions of each independent variable are explained as follows;

Top Management Knowledge

Following previous research Hsieh et al. (2018) and Chemmanur et al. (2009) Top management knowledge in this study was proxied by using a percentage of the number of top management members from the level of education they had. With criteria owned by members of top management, namely the level of master's education or having a Certified Public Accountant (CPA) degree. Furthermore, to get the value of the percentage of knowledge of members of top management in this variable using a dummy, because it is used to quantify variables that are qualitative (for example: gender, occupation, race, education level, religion and others). The dummy in this study only has two values, namely a value of 1 for members of top management who have a master's degree or CPA and a value of 0 for members of top management who do not have a master's degree or CPA.

Average Tenure of Top Management

In calculating this variable also follows previous research (Hsieh et al., 2018) and (Chemmanur et al., 2009), the average tenure of top management is calculated from the average length of service of members of top management which can be formulated as follows:

$$\overline{X}TNR = \frac{\Sigma\, TNR}{\Sigma\, MTM} \quad \text{...(5)}$$

Information:
$\bar{\mathbf{X}}$ *TNR* : Average tenure of top management.
Σ TNR : Total number of terms of office (tenure) top management member.
Σ MTM: Total members of the top management team (*top management member*.

Moderation Variable

The moderating variable used in this study is audit quality. Audit quality is the ability of auditors to maintain the quality of financial statements in order to present useful and credible information to its users. Audit quality is measured using a dummy variable of KAP quality, a value of 1 if the company is audited by Big-4 KAP, and 0 if the company is audited by a nonbig-4 KAP.

Control Variable

A control variable is a variable that complements or controls its causal relationship so that it is better to obtain a more complete and better empirical model. In this study using age and gender as control variables.

This study uses a moderated regression analysis (MRA). The use of the MRA method because this analysis can provide a more detailed explanation of the influence of the independent variables, moderating variables, and interaction variables on the dependent variable. Testing is done using eviews10 software.

This method is a panel data regression analysis in stages. The stages of panel data regression with MRA in this study are as follows:

1. Determine the regression analysis of NDA modeling to formulate the value of earnings management

2. Select Pooled Ordinary Least Square models, Fixed effects, and Random effects. Tests Tests that can be done include Chow test to compare Pooled Ordinary Least Square models with Fixed effects, Lagrange-Multiplier test to compare Pooled Ordinary Least Square with random effects and Hausman test to compare Fixed effects with random effects.

3. Analyze the regression model 1 of the study by including the dependent variable and the independent variable. Regression model 1 was used to test Hypothesis 1 and Hypothesis 2.

4. Analyze the regression model 2 of the study by including the dependent variable, the independent variable, the moderating variable, and the interaction between the independent variable and the moderating variable. Regression model 2 was used to test Hypothesis 3 and Hypothesis 4.

Based on the four stages of MRA, two regression models are built in this study as follows.

$ACCit = \alpha i + \beta 1KNWit + \beta 2TNRit + \varepsilon it$ ....(6)

$ACCit = \alpha i + \beta 1KNWit + \beta 2TNRit + \beta 3AUDit + \beta 4KNWit * AUDit + \beta 5TNRit * AUDit + \varepsilon t$ (7)

Information:

ACC : Company discretionary accrual i in t.

KNW : Company knowledge i in t.

TNR : Average tenure of company i in year t.

AUD : Quality audit (KAP big-4) company i in year t.

Results

Hypothesis testing in this study was conducted using a panel data regression analysis model with interactions on each variable of Knowledge, Length of office, gender, age, audit quality, Knowledge through audit quality and Length of office through audit quality on accrual earnings management. Panel data model selection test results indicate that the common effect model is the chosen method because it is considered the most effective based on the chow test, the hausman test, and the Lagrange multiplier test. Hypothesis testing is done through testing the Godness of Fit, namely the coefficient of determination test, the F statistical test and the t statistical test.

Panel Data Test Comparison Results

No.	Method	Testing	Results	
			Accr.	
1	Chow Test	Common Effect vs Fixed Effect	0.6384	Common Effect
2	Hausman Test	Fixed Effect vs Random Effect	0.6553	Random Effect
3	Langrange Multiplier Test	Common Effect vs Random Effect	0.4000	Common Effect

The results of the panel data regression test model for the three panel data models, the aim is to strengthen the conclusions of paired testing, which recommend the use of the Common Effect model which will be further analyzed in this study.

Accrual Profit Management Regression Testing Results

	Model 1			Model 2		
	Coef.	**t**	**Sig.**	**Coef.**	**t**	**Sig.**
(Constant)	.972	5,424	0,000	1,046	5,499	0,000
Knowledge	-0,140	-2,573	0.005	0.082	.953	.171
Long Served	-0,021	-9,083	0,000	-0,023	-8,300	0,000
Gender Proportion	-0.390	-3,351	.001	-0,496	-3,936	0,000
Average Age	-0.008	-2,687	0.004	-0,010	-3,109	.001
Audit Quality				0.061	.806	0.261
Knowledge_AUD				-0,349	-3,086	0.002
Long Served_AUD				0.003	0.552	.291
F-value	28,066		0,000	18,198		0,000
Adjusted R2	.341			.365		

Based on the results of regression testing, the regression model is obtained as follows;

Model 1:
Accrual earnings management = 0,972 - 0,0140 Knowledge - 0,021 Long time in office - 0,3908 gender - 0,008 humans + μ

Model 2:
Accrual earnings management = 1.046 + 0.082 Knowledge - 0.023 Long service time - 0.496 gender - 0.010 years old + 0.061 audit quality - 0.349 Knowledge * audit quality + 0.003 Long service time * audit quality + μ

Hypothesis 1 test results of model 1 Knowledge variable obtained nnegative coefficient value of -0.140 and has a t count of -2.573 with a significance level of 0.005 (<0.05). This means that if the Knowledge variable increases while the other independent variables are assumed to be fixed then the accrual earnings management variable will decrease by 0.140. Hypothesis 1 in this research is "top management knowledge has a negative effect on earnings management". Thus Ha is accepted, so it can be said that Knowledge has a significant negative effect on accrual earnings management.

Test results on hypothesis 2 Regression coefficient value of the Old Office variable obtained a negative value of -0.021 which means that if the Old Office variable has increased while other independent variables are assumed to be fixed then the accrual earnings management variable will decrease by 0.021. And at hthe results of the t test for the Old variable has a t count of -9.083 with a significance level of 0.000 (<0.05). Hypothesis 2 in this research is "Long time in top management has a negative effect on earnings management". Thus Ha is accepted, so it can be said that Lama has a negative and significant effect on accrual earnings management.

Whereas in model 2, by entering the moderating variable which is the interaction between the variable Knowledge and audit quality has negative coefficient value of -0,349 t count of -3.086 with a significance level of 0.002 (<0.05), which means that if the Knowledge variable increases while the other independent variables are assumed to be fixed then the accrual earnings management variable will decrease by 0.349. Hypothesis 3 in this research is "Audit quality strengthens the influence of top management knowledge which negatively affects earnings management". Thus Ha is accepted, so it can be said that Knowledge has a negative and significant effect on accrual earnings management by being moderated by audit quality variables.

Hypothesis 4 test results of model 2 obtained values regression coefficient variable Long service * audit quality obtained a positive value of 0.003 with t value of 0.552 with a significance level of 0.291 (> 0.05), which means that if the Old variable has increased while the other independent variables are assumed to be constant then the accrual earnings management variable will increase by 0.003. And on the test results t show. Hypothesis 4 in this study is "Audit quality strengthens the influence of Lama in charge of top management which negatively affects earnings management". Thus Ha is rejected, so it can be said that Lama has a positive and not significant effect on accrual earnings management by being moderated by audit quality variables.

Classic assumption tests include tests of normality, autocorrelation, multicollinearity, and heteroscedasticity. From the statistical test the residual data obtained in this study were normally distributed. The regression model also showed that there was no autocorrelation, multicollinearity between independent variables in the regression model where the VIF value <10. In addition, statistically the regression model in this study did not contain any heteroscedasticity.

The coefficient of determination (R2) test is carried out to measure the ability of the independent variable in explaining the variation of the dependent variable andshows the results that the adjusted R2 value in the 1 regression model of accruals earnings management is 0.341. This indicates that the variable variationKnowledge, length of service, gender and age can explain 34.1% of the variation in accrual earnings management variables. While the remaining 65.9% is explained by other variables outside this study.While in the regression model 2 accrual earnings management is 0.365 This indicates that the variable variation Knowledge, length of service, gender, age, audit quality, Knowledge * audit quality and length of service * audit quality can explain 36.5% of the variation in accrual earnings management variables. While the remaining 63.5% is explained by other variables outside this study.

The research model must be tested whether the research regression model is feasible to use or not in the research conducted, so it is necessary to do an F test. Regression model 1 accrual earnings management shows the F-Value of 28.066 with the significance of the F test results of 0.000 less than 0.05 so that it can be concluded that the variable Knowledge, length of office, gender and age simultaneously influenceThe dependent variable is accrual earnings management.

Discussion

Education can develop one's potential, so as to realize the personality, intelligence and skills needed. The higher the education, the more complex the knowledge they have. With the high knowledge possessed by top management, top management should be able to be wiser in making corporate financial policies. Extreme earnings management actions have a high risk in the sustainability of the company's health. Therefore, knowledge can minimize management's actions in carrying out earnings management by the company.

The test results show that knowledge proxied by the level of education has a negative effect on accrual earnings management and the results of this study support Hypothesis 1. Thus this provides evidence that the characteristics of top management who have a high level of education can reduce accrual earnings management actions. The results of this study are in line with the research findings Annisa (2013), Xiong (2016) and Qi et al. (2018) who found that education level had a negative effect on earnings management. On the other hand the results of this study are different from the findings Finkelstein (1992) who found that education level had a positive effect on earnings management. These results support the upper echelon theory that top management who has high knowledge will work better and have many policies to consider many factors that can affect the health of the company. Policies that are felt to threaten the sustainability of the company will be minimized in order to avoid a large risk.

Top management who has long served will tend to maintain their position in the position. Because by having a high position and having long served they have a big influence in the policies to be taken by the company. Regression test results show that top management who has a high tenure can reduce earnings management practices. So with this hypothesis 2 is proven that a high tenure has a negative influence on earnings management. These results are in line with research conducted by Xiong (2016) who found that a high tenure could reduce earnings management practices. These results support the upper echelon theory which states that the term of office which shows the length of time a person occupies his position as leader of an organization will tend to maintain his position.

The audit quality of the company in this study is proxied by companies that use the services of KAP BIG-4, the quality of auditors owned by KAP BIG-4 has a very good ability in accounting. Quality auditors are considered capable of carrying out control mechanisms for the parties concerned in an organization. Therefore, qualified auditors are expected to be able to limit earnings management practices to company policies. Audit quality testing results that strengthen the effect of knowledge on earnings management have two different results. In the influence of knowledge on accruals earnings management audit quality can strengthen its influence, this is in line in research Rusmin (2010) and Alzoubi (2016) which found that companies audited by KAP BIG-4 could reduce earnings management.

The results of audit quality regression tests that strengthen the influence of the top tenure in reducing earnings management are not proven. In its effect on accrual earnings management audit quality has not been proven to strengthen the effect of tenure on top management actions in carrying out earnings management practices. The results of this test prove that self interest in the agency theory stated by Eisenhardt (1989) that the actions taken by management are of personal importance. Because of this assumption, top management will prioritize its utilities first, so top management tends to act optimally. The results of this study also support research conducted by Challen and Siregar (2012). Assuming top management who have a high tenure, they tend to act in defence of their position, because accrual earnings management actions that are more easily detected by auditors in real earnings management actions are one of the choices they make in order to maintain the positions they hold.

Conclusion

In model 1, knowledge and length of service of top management has a negative influence on accrual earnings management. This is in line with the upper echelon theory which states that top management who has high knowledge and has a long tenure will work better and have many policies to consider many factors that can affect the health of the company. Policies that are felt to threaten the sustainability of the company will be minimized in order to avoid a large risk. Whereas in model 2 knowledge which is moderated by audit quality has a negative effect on accrual earnings management. And in the past tenure has no influence on accrual earnings management.

Limitations in this study Researchers only take samples from manufacturing companies. Suggestions for further research to include real earnings management in order to be able to explore company data more specifically by searching directly to the sample companies and conducting more extensive research that does not only take samples from manufacturing companies or can add service companies as research samples.

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