



## THE EFFECT OF TOP EXECUTIVES' EXPERTISE AND BUSYNESS ON EARNINGS MANAGEMENT OF PROPERTY, REAL ESTATE, WHOLESALE, AND RETAIL TRADE COMPANIES IN INDONESIA

### PENGARUH KEAHLIAN DAN BISNIS TOP EXECUTIVES TERHADAP LABA MANAJEMEN PERUSAHAAN PROPERTY, REAL ESTATE, GROSIR, DAN RETAIL DI INDONESIA

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#### ABSTRACT

*This study aims to empirically prove the effect of top executives' characteristics toward earnings management in the sub-sector of property, real estate, wholesale, and retail trade companies listed on the IDX from 2018 to 2019. The top executives' characteristics are proxied by their expertise and busyness measured by accounting and financial formal educational background the as well as interlocking directorship. The absolute value of discretionary accruals was used to measure the earnings management. Meanwhile, 220 observations were obtained through a purposive sampling technique. The results showed that top executive expertise is negatively related to earnings management.*

#### ABSTRAK

Penelitian ini bertujuan untuk membuktikan secara empiris pengaruh karakteristik direksi terhadap manajemen laba pada sub sektor perusahaan property dan real estate, wholesale, serta retail trade yang terdaftar pada Bursa Efek Indonesia selama periode 2018 hingga 2019. Karakteristik direksi diproksikan dengan kecakapan dan kesibukan direksi, dimana kecakapan diukur dengan keahlian akuntansi, keahlian keuangan, serta latar belakang pendidikan formal


yang dimiliki direksi. Sementara, kesibukan diukur menggunakan rasio perangkapan jabatan oleh direksi. Manajemen laba diukur melalui nilai absolut dari akrual diskresioner. Teknik purposive sampling digunakan untuk menentukan sampel dalam penelitian ini. Total sampel dalam penelitian ini adalah sebanyak 220 observasi. Hasil penelitian menunjukkan bahwa terdapat pengaruh negatif antara kecakapan direksi terhadap manajemen laba, sedangkan variabel kesibukan direksi tidak berpengaruh terhadap manajemen laba.

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## 1. Introduction

Financial statements are a structured representation of an entity's position and performance. All components of financial statements complement each other's information needed by stakeholders, and the profit generated by the company is one of the information that becomes the center of attention. Furthermore, numerical profits can reflect the financial situation to stakeholders, such as investors (Arioglu, 2020). When the figures reported are either overstated or understated and do not reflect the actual financial condition, investors will be misled in understanding the economic need, which can distort their confidence. Therefore, earnings become a target to take opportunistic actions in certain situations, such as earnings management.

Earnings management can take many forms and include various fraudulent acts due to judgment in financial reporting (Obigbemi et al., 2016). According to Roychowdhury (2006), earnings management is divided into two categories, namely real earnings management (REM) and accrual-based earnings management (AEM). Discretionary accrual-based earnings management is always conducted because it can be easily manipulated but is difficult to detect (Alqatamin et al., 2017; Huang & Liu, 2011; Tsai & Chiou, 2009; Dechow et al., 1995; Jones, 1991). Earnings management is still considered polysemous; it causes controversy and has attracted the attention of accounting practitioners in recent years. (Bouaziz et al., 2020). However, it was accepted as an activity that misleads users of financial statements because of the severe consequences. Companies that have previously managed earnings significantly have the potential to commit fraud (Perols & Lougee, 2011). This was manifested in the tragedy experienced by the limited liability company Garuda Indonesia (Persero) Tbk. A few years ago, there was an actualization of an incident where management made discretionary accruals by accelerating revenue recognition, resulting in a profit of USD 5,018,308 in the 2018 financial statements. This value can be considered material since the company is still experiencing losses without such revenue as in the previous period. The phenomenon that affected the

limited liability company Garuda Indonesia (Persero) Tbk implies ineffective and inefficient corporate governance and malpractice in accounting policies.

The agency theory states that duties and obligations as an agent with authority obtained from the principal can cause a conflict of interest (Jensen & Meckling, 1976). According to Demsetz & Lehn (1985), good corporate governance is needed to improve financial performance (Puni & Anlesinya, 2020) and resolve agency problems in the form of conflicts of interest by aligning the agent's interest and principal. KNKG (National Committee for Governance Policy) in 2006 stated the essential role in implementing organs (company organs) consisting of Shareholders, Board of Commissioners, and Top Executives to implement good corporate governance effectively. The Annual Global CEO Survey conducted by PricewaterhouseCoopers in 2016 reported differing views between shareholders and members of the company's top executives on several crucial issues. This difference was caused by reporting, understanding, and perception gaps, where the top executives are more aware of the internal prospects and future of the company than the shareholders. The gap can also trigger a tendency to take inappropriate actions and provide opportunities for earnings management practices (Nastiti & Ratmono, 2015). Therefore, a mechanism that can eliminate or at least reduce the tendency of Top Executives is needed to conduct earnings management.

Zhang & Wiersema (2009) point out the importance of personal characteristics on management as a preventive mechanism. Upper echelon theory assumes that personal characteristics and specific managerial skills can influence corporate value creation, strategic planning, corporation performance, and decision levels (Hambrick & Mason, 1984). Concerning the diversity of personal characteristics, there are dimensional differences with attributes easily seen or detected (observable), such as gender, age, or ethnicity, and characteristics with cognitive attributes (unobservable), such as technical skills, experience, educational background, or functional background (Ararat et al., 2010; Milliken & Martins, 1996). This study focuses on dimensions related to cognitive attributes (unobservable) to improve the quality of contributions from insights, knowledge, ideas, and approaches. Furthermore, it improves policies expected to enhance the quality of complex decision-making processes by the Board of Top Executive. Observing cognitive attributes (unobservable) avoids short impressions that lead to bias, stereotypes, and prejudice. Characteristic variables with cognitive attributes used were top executives' expertise and busyness.

The Top Executive proficiency variable contains measurement attributes from the composition of Top Executive members with accounting and financial expertise and formal educational background (Almeida & Lemes, 2019; Chemmanur & Paeglis, 2005; Dwiharyadi, 2017). Previous literature validates the existence of accounting expertise qualifications. Financial expertise can improve management in operational activities, increase executive

understanding of reporting, and fulfill the skills required for accounting work to reduce the occurrence of earnings management actions in companies (Aier et al., 2005; Dwiharyadi, 2017; Vafeas, 2009). Furthermore, education can reflect the knowledge and skills possessed since moral growth develops with education, especially distinguishing between right and wrong (Zahra et al., 2007). A company's top management's knowledge and cognitive skills are directly proportional to the considerations and decisions (Almeida & Lemes, 2019), as indicated by the lower level of earnings management (Xiong, 2016). However, Chiang et al. (2016) found inharmonious results by conducting a study in Taiwan. It was reported that competent company management can polish its financial statements by conducting earnings management.

The top executives' busyness can negatively impact the quality of company performance and financial reporting (Fich & Shivdasani, 2006; Peni, 2012; Ferris & Liao, 2019). This is because the situation can lead them to face challenging problems to manage effectively. (Ferris et al., 2003). A global study by Ferris & Liao (2019) found that companies with busy CEOs exhibit higher earnings management practices in nearly 46 countries worldwide. In contrast, a study conducted in Asia did not provide consistent results regarding whether the top executives' busyness benefits or harms the company's financial reporting quality. Hashim & Rahman (2011) ) found that companies with busy top executives were associated with lower earnings management practices in Malaysia. Jamaludin et al. (2015) also found that top executives' busyness and earnings management had no significant effect. On the other hand, Sarkar et al. (2008) found that companies with busy top executives exhibit higher earnings management in India. Busyness with interlocking directorship conducted in more than one company can overwhelm, resulting in ineffective performance. The addition of the workload borne in the end can reduce the time, thought, and energy devoted. The effect will end in a domino effect when the interrelated directorship positions are carried out by a member in the top executive and the majority in the same entity and time.

The main difference lies in the object of the independent variable being studied. The previous study discussed the competence of company organs in terms of the company's supervisory/ monitoring function (Dwiharyadi, 2017; Badolato et al., 2014) and management functions but only from one member of the Top Executive (CEO/CFO) (Jiang et al., 2013; Xiong, 2016; Almeida & Lemes, 2019; Harymawan et al., 2019). Therefore, a broader observation was conducted by examining all members of the top executive. It is because, in Indonesia, those who run and are responsible for public companies based on their intent and purpose are the directors, not just the president director/CEO as mentioned in The Financial Services Authority Regulation Number 33/POJK.04/2014. By expanding the study observations, a more substantial explanation is hoped to be produced than an assessment that only focuses on one member. Furthermore, all assessments of cognition, capability, and interaction in managing the company

should be run in a collegial collective manner (KNKG, 2006). A team consists of various individuals with diverse expertise; the skills are expected to support each other to maximally conduct assignments (Carpenter et al., 2004; Hambrick & Mason, 1984; Homberg & Bui, 2013; Wageman et al., 2008; Harymawan et al., 2020).

## **2. LITERATURE REVIEW**

### *2.1 Upper Echelon Theory*

Hambrick & Mason (1984) stated the idea that top management views every situation through their personal "lens." This condition arises because of differences between executives in experience, values, personality, and other human factors. Based on this theory, managerial characteristics affect company performance, either directly or mediated by strategic decisions (strategic choices/organizational outcomes).

Hambrick (2007) updated the theoretical concepts that have been studied previously by adding moderating variables of the relationship between managerial characteristics and strategic decisions, namely managerial discretion and job demands. Managerial discretion describes the freedom/wisdom that top management possesses to make strategic decisions. Meanwhile, job demands refer to the pressure and challenges faced by top management. Quality strategic decisions are made when top management characteristics accompany managerial discretion. However, job demands are another factor that intimidates company officials. In certain situations, management chooses to take shortcuts where the risks faced are not appropriately considered and rationally. This impacts the administration, which can carry out earnings management; hence, company profits can be achieved according to the target. This study refers to the upper echelon theory, which states that the characteristics related to top executives' educational background and expertise can lead them to make rational decisions even in complicated situations, such as avoiding earnings management activities.

### *2.2 Earning Management*

Top executives use their judgment in preparing financial statements and restructuring transactions to obtain a result in line with their goals. However, this causes some stakeholders to become confused in understanding the company's economic performance or can affect contractual results dependent on numbers in the financial statements. The explanation above is known as earnings management (Healy & Wahlen, 1999). Gakhar (2014) described the term as terminology in accounting practice that may follow the rules of applicable standards but deviate from the intention. It is an action intentionally conducted by the company's management to change the values in the financial statements and achieve a specific goal, resulting in irrelevant data.

Roychowdhury (2006) categorized earnings management activities into real earnings management (REM) and accrual earnings management (AEM). Management can use both types simultaneously (complementary) or substitute. Accrual is the basic principle currently used in preparing financial statements. It is widely used, and it allows a greater tendency to conduct earnings management (Alqatamin et al., 2017; Bouaziz et al., 2020; Chatterjee, 2019; Healy, 1985; Orazalin, 2019; Tham et al., 2019; Triki Damak, 2018; Wan Mohammad & Wasiuzzaman, 2019). The concept consists of two components, namely discretionary and non-discretionary accruals (Healy, 1985). Discretionary accrual can be adjusted according to the discretion of management in terms of accounting methods and estimates. In contrast, non-discretionary accruals cannot be regulated according to the management's discretion. The accrual component, determined based on economic conditions, is a reasonable recognition of profit, subject to a generally accepted accounting standard or principle. Therefore, earnings management can be proxied by using discretionary accruals. The ability of discretionary accruals to conduct earnings management arises from the freedom to make judgments in financial statements, making it difficult for external parties to distinguish the discretionary portion of the total accruals used for manipulation. Previous studies proposed various models separating accruals into discretionary and non-discretionary models to estimate the discretionary component (Obigbemi et al., 2016).

### *2.3 Top Executive Expertise and Earnings Management*

According to educational background and experience, skill was previously known as expertise. In this study, the top executive expertise contains several attributes in accounting expertise, financial expertise, and formal educational background. KNKG (2006) stated that one of the basic principles in carrying out the top executives' duties and responsibilities in managing the company effectively is professionalism, which is implemented with integrity, experience, and skills.

In preparing financial statements, there is a need for expertise in reading, analyzing, and evaluating individuals who understand a country's literacy-related accounting standards. Dwiharyadi (2017) explained that accounting expertise focuses on the financial reporting process to produce statements that describe the company's condition. The financial expertise can focus more on managing finances in the company's operational activities. Therefore, the top executives' financial and accounting expertise should support them in carrying out their roles and avoiding earnings management practices.

Bamber et al. (2010a) found that the top executives with master's degrees develop more accurate reporting disclosures because they greatly avoid the possibility of adverse consequences when accurate estimates are provided. Also, they are trained to make decisions

based on conservatism and analytical skills oriented to fraud avoidance, resulting in less aggressive accounting practices. In this case, top executives with a high formal education background will strongly avoid activities such as earnings management due to severe consequences.

Previous studies examined the effect of personal characteristics such as expertise on operating and reporting decisions made by the top executives (Bamber et al., 2010a, 2010b; Dyreng et al., 2010; Chyz, 2013; Call et al., 2017). Jiang et al. (2013) confirmed that capable top executives present more precise earnings information and higher quality financial statements by avoiding earnings management practices. Matsunaga & Yeung (2008) found that the ability of the company's management negatively affected the discretionary accruals. Kouaib et al. (2018) affirmed that companies with capable CEOs avoid engaging in earnings management practices because they apply more conservative accounting guidelines. It believes that there is a negative relationship between top management expertise and earnings management. This is because an individual with a high formal educational background and good expertise and experience will generate decisions with careful and rational considerations to avoid bad consequences. According to the theory above, the characteristics of company executives can influence the decisions taken, including the level of earnings management because earnings management is included in the company's strategic decisions. Therefore, the proposed hypothesis is as follows:

H1: The top executives' expertise negatively affects earnings management.

#### *2.4 Top Executive Busyness and Earnings Management*

Busyness is an interlocking directorship by the Director that is part of the top executives in a company. Interlocking directorship occurs when someone already has a working relationship with a company and holds a position in another company (Mizruchi, 1996). Pandey et al. (2015) stated that the guidelines for corporate governance practices, regulations, and written rules had given special attention to the polemics arising from the interlocking directorship in most countries. Still, it does not explicitly specify the maximum number of interlocking directorships someone can have in some countries. For example, Indonesia has limited the number of interlocking directorships that corporate organs from public companies can hold. The Financial Services Authority Regulation Number 33/POJK.04/2014 concerning the Top Executives and Board of Commissioners of Issuers or Public Companies regulates specifically in Chapter II Part one concerning the rules relating to the membership of the Top Executives. This regulation does not prohibit the interlocking directorship carried out by members of the Top Executives if it does not conflict with other laws and regulations. It is stated in Article 6 Paragraph 1 that directors can hold a maximum of 1 member of the Board of Directors in

another public company, a maximum of 3 Board of Commissioners member in another public company, and/or a member of a committee of up to 5 committees in a public company where the person concerned also serves as a member of the Board of Directors or a member of the Board of Commissioners.

Top Executives' reputation, quality, knowledge, and expertise in several positions outside the company are recognized by the external labor market (Fama and Jensen, 1983). Top executives with multiple positions in different companies or industries have several experience values (Hambrick & D'Aveni, 1992; Hambrick & Mason, 1984; Michel & Hambricks, 1992). Furthermore, interlocking directorship of corporate organs in more than one company can result in being overwhelmed, which causes ineffective performance. The addition of the workload can reduce the time, thought, and energy devoted. This assumption ultimately brings the busy top executives variable to disrupt the company's activities and reduce the performance. Several studies have found that the busyness of top executives interferes with their effectiveness in managing the company (Cashman et al., 2012; Falato et al., 2014). Other studies also show that the high busyness level of the leading top executive affects the low financial performance ratio (Fich & Shivdasani, 2006; Harymawan et al., 2019) and the high level of earnings management (Ferris & Liao, 2019). Following the upper echelon theory, the top executives' busyness positively correlates with earnings management, and the proposed hypothesis is as follows:

H2: The top executives' busyness positively affects earnings management.

### **3. METHODS**

#### *3.1 Data Collection Methods, Population, and Sample*

The secondary data sources are in the form of financial and non-financial data obtained by tracing the profiles of each top executive, annual reports, and financial statements of each company. The information is accessed through the official website of the Indonesia Stock Exchange, the company's official website, and Bloomberg.

The population is the sub-sector of property and real estate, wholesale, and retail trade companies listed on the Indonesia Stock Exchange from 2018 to 2019. The year of observation is based on the phenomenon of earnings management that occurred in Indonesia in 2018, besides that this research also focuses on earnings management practices in the pre-pandemic period. The industry selection is based on Wasiuzzaman's (2018) study on industrial characteristics and earnings management on the Malaysian stock market, classifying sample companies into several sectors. The results show that earnings management activities vary across sectors; some consistently obtain a high score for their aggregate earnings management, and others show no particular trend. Based on the ranking, the real estate and



general retail sectors make the most significant changes in accounting accruals and changes in operating cash flows for each period.

The real estate sector is included in sectors with high competitiveness (Wasiuzzaman, 2018). High competition results in companies providing limited information disclosure (Verrecchia, 1983; Gertner et al., 1988) to produce financial statements biased towards earnings management (Datta et al., 2013). It can also mislead users to speculate that the company has good prospects and does not report actual costs (Bagnoli & Watts, 2010). Meanwhile, the general retail sector is included in industries with relatively high volatility (Wasiuzzaman, 2018). Sudden and unexpected increases in demand can lead to labor shortages, production capacity, and materials. Meanwhile, a decline in demand can lead to layoffs and shocks to company profits and earnings (Bishop et al., 1984). Companies operating in sectors that are sensitive to changing trends and economic turmoil often have unstable sales and revenues (Dichev & Tang, 2009). As a result, they experience a decreased ability to predict earnings (Graham et al., 2005) and create opportunities for accelerating future earnings, especially in times of low income (DeFond & Park, 1997).

Implementing these two sectors on the Indonesia Stock Exchange market divides the classification into three sub-sectors, such as property and real estate, wholesale, and retail trade. The sample uses nonprobability sampling with the purposive technique to obtain representative with the criteria listed in Table 3.1. The total observations obtained during this period are 220 companies.

**Table 3.1.**  
**Sample Criteria**

<b>Sample Criteria</b>	<b>Number</b>	<b>%</b>
Property, real estate, wholesale, and retail trade sub-sector companies in 2018-2019	257	100%
Companies that do not consistently publish annual and financial reports	(22)	8.56%
Companies that experience special notations or conditions	(15)	5.84%
<b>Total Sample</b>	<b>220</b>	<b>85.60%</b>

Source : data processed by the author

### *3.2 Operationalization and Measurement of Variables and Testing Models*

The dependent variable used in this study is earnings management. It was detected with the Accrual-Based Earnings Management (AEM) approach to identify discretionary accruals following the estimated residual value measured by Kasznik's discretionary accruals model (Kasznik, 1999). This is a development of the Jones model (1991) and the Jones model

modified by Dechow et al. (1995), which was again modified and refined by adding the attribute of changes in cash flow from operating activities as an independent variable in the equation. Furthermore, Suprianto & Setiawan (2020) conducted a study and evaluated the estimation of discretionary accruals in detecting earnings management using the Jones model (Jones, 1991), the modified Jones model (Dechow et al., 1995), and the Kasznik model (Kasznik, 1999). The Kasznik Model (1999) proved to be more robust and suitable for study in Indonesia to detect earnings management. Consistent with the existing literature, the absolute value of discretionary accruals was used to capture earnings management by increasing or decreasing earnings techniques.

The independent variable is top executives' expertise and busyness. Top executives' expertise refers to the knowledge/insight and experience that can affect company performance (Li et al., 2016). Meanwhile, top executives' busyness represents the existence of interlocking directorship by someone with a working relationship and holds a position in another company (Mizuchi, 1996). In this study, the top executives' expertise represents accounting and financial experts and a formal educational background with masters and doctoral degrees. The busyness is defined as the interlocking directorship of the Director/Board of Commissioners/Committee in another public company by a director who is part of the top executives in the company under study.

This study adds firm size, audit quality, and family ownership as control variables. The firm size variable represents the size of a company as measured by the natural log of total assets. Audit quality represents the presence of an auditor from a Public Accounting Firm (KAP) included in the big 4 KAP category. This variable is measured by a dummy variable, where one is for companies that use the services of big 4 KAPs and 0 is for non-big 4 KAPs. Finally, family ownership is a direct representation of share ownership by specific names or groups in the company. This variable is indicated by the percentage of concentrated shares owned by at least 10% in the company's annual report composition. It is measured by a dummy variable with a value of 1 when sharing ownership by the family or 0 for the opposite.

Multiple linear regression analysis and statistical data processing software E-Views 10 are used to test the proposed hypothesis. This study uses panel data to combine time series and cross-section data. Various types of tests are conducted, such as descriptive statistical analysis, regression model estimation, classical assumption, and hypothesis tests. By using multiple linear regression, it is expected to know the magnitude of the effect given by the independent variable on the dependent. The study model proposed is as follows:

$$DAC_{it} = \beta_0 + \beta_1 SKD_{it} + \beta_2 BusD_{it} + \beta_3 FSize_{it} + \beta_4 BFA_{it} + \beta_5 Fam_{it} + \varepsilon$$

Description:

$DAC_{it}$  = Absolute value of discretionary accruals (the author's focus is the magnitude of earnings management, not positive or negative direction) in company  $i$  period  $t$

$SKD_{it}$  = Top executives' expertise in company  $i$  period  $t$

$BusD_{it}$  = Top executives' busyness in company  $i$  period  $t$

$FSize_{it}$  = Firm Size in company  $i$  period  $t$

$BFA_{it}$  = existence of auditors included in big 4 KAP in company  $i$  period  $t$

$Fam_{it}$  = existence of family ownership in company  $i$  period  $t$

$\varepsilon$  = error

## 4. RESULTS AND DISCUSSION

### 4.1 Descriptive Statistical Analysis

Descriptive statistical analysis is conducted to determine the description of the variables used. Furthermore, this analysis can inform the characteristics of the existing data through the appearing values. For example, descriptive statistical data processing results on the dependent variable of earnings management proxied by discretionary accruals, independent variables of top executives' expertise and busyness, and control variables of firm size, audit quality, and family ownership shown in Table 4.1.

**Table 4.1**  
**Descriptive Statistics of Variables**

Variable	n	Min	Max	Mean	Standard Deviation
<b>Dependent</b>					
Discretionary Accruals (DAC)	220	0.00011	2.82661	0.10996	0.24636
<b>Independent</b>					
Top Executives Expertise (SKD)	220	0.33330	1.00000	0.74295	0.19103
Top Executives Busyness (BusD)	220	0.00000	1.00000	0.15601	0.22375
<b>Control</b>					
Firm Size (FSize)	220	22.3766	32.3870	28.2835	0.18914
Audit Quality (BFA)	220	0.00000	1.00000	0.28636	0.45309
Family Ownership (Fam)	220	0.00000	1.00000	0.28182	0.45091

Source: data processed by the author

Table 4.1 shows the descriptive statistical test results of the dependent variable in the form of discretionary accruals (DAC) with a mean of 0.10996. This represents that, on average, the indications of earnings management with discretionary accruals are around 10% of their total assets. The lowest and highest value for DAC is 0.00011 and 2,82661 at PT. Bumi Citra Permai in 2019 and PT. Himalaya Energi Perkasa in 2019 with a standard deviation of the DAC is 0.24636.

The mean of the first independent variable in top executives' expertise (SKD) is 0.74295. This means that more than half of the top executives in the companies sampled in this study have expertise in accounting, finance and have a formal educational background with a master's or Doctoral degree. Subsequently, the minimum score for SKD is 0.33330, which is found in several companies such as PT. Bintang Oto Global, PT. Duta Intidaya, PT. Zebra Nusantara, and others. The maximum value obtained by several companies such as PT. Sumber Alfaria Trijaya, PT. Binakarya Jaya Abadi, PT. Ciputra Development and others have a standard deviation of 0.19103 for SKD.

The second independent variable of top executives' busyness (BusD) obtained a mean value of 0.15601, meaning that in general, the interlocking directorship by top executives in other public companies was only around 15.6% since most of them only served in one public company. The minimum BusD value is 0, meaning that the top executives only have positions in one public company, such as the PT. Ace Hardware Indonesia, PT. Akbar Indomakmur Stimec and many other companies. The maximum value of 1 was obtained at PT. Dwi Guna Laksana in 2019 and PT. Matahari Putra Prima in 2019 with a standard deviation of 0.22375 for BusD.

The control variable of firm size (FSize) obtained a variable mean and standard deviation of 28.2835 and 0.1892. The minimum value obtained from the FSize variable of 22.3766 is found in the PT. Zebra Nusantara in 2018 and a maximum value of 32.3870 contained in the PT. United Tractors in 2019.

**Table 4.2**  
**Descriptive Dichotomous Variables**

<b>Variable</b>	<b>n</b>	<b>Min</b>	<b>Max</b>	<b>Freq</b>	<b>%</b>
<b>Control</b>					
Auditor (BFA)	220	0	1	63	28.64
Family Ownership (Fam)	220	0	1	62	28.18

Source: E-Views 10 Results, 2021

Other control variables, namely audit quality (BFA) and family ownership (Fam), which are dummy variables, have mean values of 0.28636 and 0.28182. These results represent that most sample companies do not use audit services from the big four KAPs, and families do not widely own their share ownership. For example, table 3 shows that from 2018 to 2019, 63 observations with a percentage of 28.64% used audit services from the big four KAPs. On the other hand, family ownership shows only 62 of 220 observations, with 28.18% of the company's shares being owned by families.

#### 4.2 Hypothesis Test

The results of hypothesis testing are based on the selected estimation approach, namely the fixed effect model (FEM) as the best model with data shown in Table 4. Based on the

results of the fixed effect model (FEM) estimation approach, simultaneous, partial, and coefficient of determination tests will be conducted on the variables used. Simultaneous significance testing used the F test, while the partial test was performed using the t-test. The coefficient of determination test will be used to understand how much the independent variable contributes to the dependent variable.

**Table 4.3**  
**Fixed Effect Model Test Results**

<b>Variable</b>	<b>Coefficient</b>	<b>t-Stat</b>	<b>Prob</b>	<b>Description</b>
Constant	14.3375	4.9386	0.000	
Top Executives Expertise (SKD)	-0.6362	-3.1078	0.0024	Supported
Top Executives Busyness(BusD)	0.0656	0.3502	0.7269	Not Supported
Firm Size (FSize)	-0.4816	-4.7123	0.0000	Significant
Audit Quality (BFA)	-0.1363	-0.8097	0.4199	Insignificant
Family Ownership (Fam)	-0.3713	-3.1303	0.0023	Significant
R-Squared	0.6680			
Adj R-Squared	0.3076			
F-Statistic	1.8533			
Prob F-Statistic	0.0007			

Source : data processed by the author

Based on the partial effect test in Table 4.3 for the independent variable top executive expertise (SKD), the t-statistics value is -3.1078 with a probability value of 0.0024. The value of t-statistics is  $-3.1078 < -t$  table of -1.9711 with  $df = 214$ , and the probability is 0.0024, which is smaller than the error rate of 0.05. Therefore, the results of statistical testing support hypothesis 1, where there is a significant adverse effect between top executive expertise on discretionary accruals in property and real estate, wholesale, and retail trade sub-sector companies listed on the Indonesia Stock Exchange from 2018 to 2019. The partial effect test on the independent variable of top executive busyness (BusD) obtained a t-statistics value of 0.3502 with a probability value of 0.7269. BusD variable with the t-statistics value of 0.3502  $< t$  table of 1.9711 with  $df = 214$  and probability of 0.7269 more significant than the error rate of 0.05. The results of the statistical test show that hypothesis 2. Hence, it can be concluded that there is a positive but not significant effect between the top executive busyness on discretionary accruals in property and real estate, wholesale, and retail trade sub-sector companies listed on the Indonesia Stock Exchange in 2018 until 2019.

The partial effect test in Table 4 for the control variable shows that the firm size variable (FSize) has a probability value of 0.0000, the audit quality variable (BFA) of 0.4199, and the family ownership variable (Fam) of 0.0023. Therefore, the three control variables used had a negative effect direction. Based on these results, it can be assumed that firm size (FSize) and family ownership (Fam) have a negative and significant effect on discretionary accruals. On the other hand, the audit quality variable (BFA) had a negative effect that is insignificant to discretionary accruals in property and real estate, wholesale, and retail trade sub-sector companies listed on the Indonesia Stock Exchange from 2018 to 2019.

#### 4.3 Discussion

The partial test results show that the H1 is supported empirically, which means that top executive expertise has a negative effect on earnings management. The result supports the upper echelon theory. These results suggest that the probability of earnings management practice is lower when the company has competent top executives. They should have accounting expertise, financial expertise, and a formal educational background with a Master's or Doctoral degree. These results support the regulation of good corporate governance by KNKG (2006), which states that one of the basic principles is to conduct their duties and responsibilities in managing the company effectively by having expertise as a form of professionalism. This finding is consistent with Kouaib et al. (2018), Jiang et al. (2013), and Matsunaga & Yeung (2008), where top executive's expertise negatively affected the company's discretionary accruals.

In this study, hypothesis H2 showed that the top executives' busyness positively affects earnings management. However, the variable test results show that the top executives' busyness does not affect earnings management since hypothesis H2 is not supported. The results obtained from the sample data did not find a significant effect. Therefore, this study aligns with Jamaludin et al. (2015) and Roode (2015), where the top executives' busyness does not affect earnings management. The lack of impact occurs because the average number of top executives that concurrently hold positions in different public companies is relatively small, only 16%. Subsequently, the members held multiple positions in the sample companies, where most of them had numerous working relationships with subsidiaries and non-public companies.

The test results of the control variables on earnings management indicate that the three variables tested showed a negative and significant effect on earnings management. Observational data do not support the results of the audit quality variable (BFA). The partial test results show that FSize negatively affected earnings management. This represents the possibility that a company carrying out activities will be low when the company is significant. This study is consistent with Bouaziz et al. (2020), Chandra & Wimelda (2018), and Alqatamin

et al. (2017), where firm size had a negative effect on earnings management activities. Large companies have better internal control mechanisms, more competent internal auditors, and great attention to the reputation lost when detected compared to small companies. The internal control systems of large companies are generally more sophisticated, therefore reducing the likelihood of earnings management practices taking place (Zouari et al., 2015).

Partial testing of the Fam variable shows that family ownership has a negative effect on earnings management. This explains that the higher the family ownership, the lower the earnings management activity. These results are consistent with Wan Mohammad & Wasiuzzaman (2019), Reyna (2018), and Achleitner et al. (2014), which confirm that family ownership has better financial reporting practices and lower earnings management. It allows the authority to discipline and control managers without making adverse decisions (Anderson & Reeb, 2003). Family Business Survey Findings for Indonesia conducted by PwC in 2014 showed that family businesses place more importance on reputation and control within the company than any other objective. The regression test results failed to prove that audit quality (BFA), which was proxied by the presence of auditors from KAP, negatively affected earnings management proxied by discretionary accruals (DAC). These results are consistent with Orazalin & Akhmetzhanov (2019) and Tsipouridou & Spathis (2012). This finding indicates no difference in audit quality produced by auditors from big 4 KAPs with auditors not from big 4 KAPs in reducing or avoiding management. There is another perspective that management decides to use the services of auditors from big 4 KAPs to increase the credibility of financial statements by reducing existing constraints to create more reliable financial reports (Christiani & Nugrahanti, 2014).

## 5. CONCLUSIONS

This study examines the effect of top executive characteristics on earnings management in companies belonging to the property, real estate, wholesale, and retail trade sub-sectors on the Indonesia Stock Exchange from 2018 to 2019. Based on the results of panel data regression statistical tests and data processing software E-Views 10, it can be concluded that the top executives' expertise has a negative and significant effect on earnings management. Therefore, the more proficient the top executives in a company, the lower the level of earnings management. On the other hand, the top executive busyness has a positive but not significant effect on earnings management. This is due to the relatively small number of top executives holding concurrent positions in different public companies, namely 16%. Also, most of the dual management practices by directors from property and real estate, wholesale, and retail trade sub-sector companies listed on the Indonesia Stock Exchange from 2018 to 2019 were carried out in subsidiaries and non-public companies. Subsequently, firm size and family ownership

have a significant and adverse effects, while audit quality was concluded to have a negative but not significant effect.

The variable of top executive activity showed that the majority of top executives from public companies were held in interlocking directorship in non-public companies and subsidiaries. Non-public companies and subsidiaries are separate and distinct business entities. The rights and obligations of the stakeholders should be considered to create good corporate governance. Based on these limitations, it is hoped that further studies will add several indicators to measure the top executive busyness. This includes interlocking directorship by members of top executives in subsidiaries and non-public companies since it is not only limited to POJK 33/POJK.04/2014 rules.

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