Bima Journal – Business Management and Accounting

Available online at: http://journal.pdmbengkulu.org/index.php/bima

DOI: https://doi.org/10.37638/bima. 6.2. 1273 - 1284

Determinants of Earnings Management in Indonesian Consumer Non-Cyclical Companies

Irma Novita Sari[1)]; Muslimin[2*)]

[1,2)] ***Department of Accounting, Faculty of Economics and Business, Universitas Pembangunan Nasional "Veteran" Jawa Timur***

*__Corespondent Author: muslimin.ak@upnjatim.ac.id__

How to Cite :

Sari, I. N.; Muslimin, M. (2025). *Determinants of Earnings Management in Indonesian Consumer Non-Cyclical Companies. Bima Journal : Business, Management and Accounting Journal.* 6 (2). 1273 - 1284. DOI: https://doi.org/10.37638/bima. 6.2. 1273–1284

ARTICLE HISTORY

Received [22 July 2025]
Revised [26 July 2025]
Accepted [23 December 2025]

KEYWORDS

Financial Distress; Profitability; Audit Quality; Earnings Management.

This is an open access article under the CC–BY-SA license

ABSTRACT

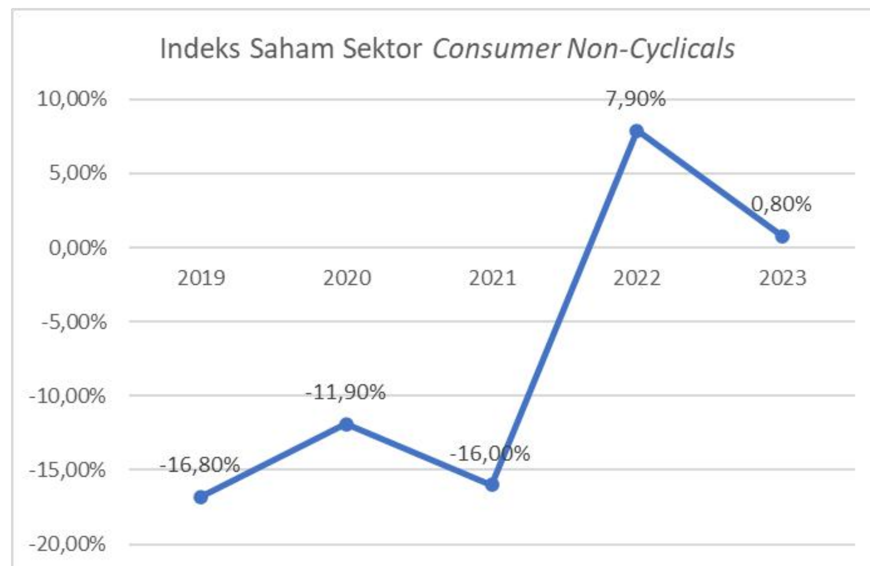
Purpose: *This study aims to examine the effect of financial distress, profitability, and audit quality on earnings management in Indonesian consumer non-cyclical sector companies during the 2021–2023 post-pandemic period.* ***Methodology:*** *This research uses a quantitative approach with panel data regression based on 198 observations from 66 sample. The Fixed Effect Model (FEM) is selected as the best estimation model after Chow and Hausman tests. Classical assumption tests are also conducted.* ***Results:*** *The results show that financial distress, profitability, and audit quality simultaneously affect earnings management (Prob. F-statistic = 0,0000 < 0,05). However, only profitability has a significant positive effect (Prob. t-Statistic = 0,0050 < 0,05), while financial distress (Prob. t-Statistic = 0,2246) and audit quality (Prob. t-Statistic 0,4346) do not show significant influence. The adjusted* R^2 *is 0,4532, indicating that 45.32% of the variance in earnings management is explained by the model.* ***Findings:*** *Profitability is the only significant factor influencing earnings management, implying that higher profitability increases the tendency for earnings manipulation. Financial distress and audit quality do not significantly affect earnings management.* ***Novelty:*** *This study uniquely focuses on the post-pandemic consumer non-cyclical sector in Indonesia, a sector assumed to have stable demand but still experiences earnings volatility.* ***Originality:*** *By integrating three key determinants in a single empirical model and focusing on a specific post-crisis sector, this research offers new insights into earnings management behavior in relatively stable industries.* ***Conclusion:*** *The findings highlight that despite assumptions of stability in the consumer non-cyclical sector, managerial discretion in financial reporting still exists, particularly when profitability is high. These insights are valuable for investors, regulators, and auditors in evaluating financial statement reliability.* ***Type of Paper:*** *Empirical Research.*

INTRODUCTION

The company was established with the primary objective of generating profits from its business activities. The company's profits may fluctuate from year to year, influenced by the conditions it faces and how management runs the company. Stable profits are not only an indicator

of healthy financial performance but also a key attraction for investors in assessing the viability of a business entity (Tulcanaza-Prieto et al., 2020) . Stable profits can indicate two things, namely the condition of the company and how well the managers are performing their leadership. A company can be said to have successfully maintained its business when it manages to generate stable income and its value exceeds the level of risk faced (Habibie & Prasetya, 2022).

Figure 1. Stock Index IDX Consumer Non-Cyclicals



Amid post-pandemic economic pressures, profit performance fluctuations continue to occur, even in the consumer non-cyclical sector, which consists of companies producing primary consumer goods with relatively stable demand and are generally unaffected by economic conditions (Fitri & Muslimin, 2024) . This reflects structural and managerial challenges in maintaining corporate profit stability. Based on the stock index data for the consumer non-cyclical sector in Figure 1, significant dynamics can be observed during the 2021–2023 period. A 16% decline in the index in 2021, the lowest decline in the 2021–2023 period, followed by a 7.9% recovery in 2022 and a 0.8% stagnation in 2023, indicates that this sector has not yet fully recovered. The decline in the consumer non-cyclical sector may be due to a decline in company performance, both in terms of revenue and net profit.

When a company's financial condition is unstable and income declines, it motivates managers to prioritize their own interests by implementing earnings management practices (Sekaranti & Juliarto, 2022). Management engages in earnings management practices with the aim of presenting a good and stable financial condition to investors. Investors evaluate businesses based on reported profits to determine the value added by the financial information presented (Purwoto, 2024). Additionally, a company can be considered high-performing if it can increase its profits. This is because profit levels reflect that the company has achieved good performance (Ngabut & Arlita, 2023).

According to Yusmulianto et al. (2023) , manager involvement in the financial statement preparation process, especially those intended for external parties with specific purposes, is known as earnings management. This practice has the potential to reduce the reliability of financial statements, given that the primary purpose of financial statements is to provide an accurate picture of the actual business conditions. Profit management can erode the credibility of the financial information presented. In the context of agency theory, this practice may arise from conflicts of interest between company owners (principals) and managers (agents) who have greater access to financial information. There are many reasons underlying management's decision to engage in

profit management, including improving well-being and seeking to obtain as much credit as possible at low interest rates, while creditors only wish to provide credit in accordance with the company's capabilities (Oktaviana et al., 2023).

The theoretical foundation of this study is grounded in agency theory Jensen & Meckling (1976) , where earnings management emerges from information asymmetry between principals (shareholders) and agents (management). The interaction between financial distress, profitability, and audit quality creates a dynamic system that influences managerial incentives to engage in earnings management. Financial distress serves as a pressure mechanism that may trigger opportunistic management behavior. When companies face financial difficulties, management experiences pressure from stakeholders, and managers may manipulate financial reporting to present favorable positions and avoid covenant violations (Aljughaiman et al., 2023) . Profitability operates as a dual-edged driver with complex relationships to earnings management. Highly profitable companies may engage in income smoothing to reduce volatility or income minimization to reduce tax burdens. Audit quality functions as an external monitoring mechanism designed to mitigate information asymmetry. High-quality auditors from Big Four firms theoretically possess superior competence and resources to detect earnings management, thereby constraining manipulative practices through increased detection risk (Makhlouf et al., 2022).

Based on the theoretical framework above, extensive empirical research has examined these three determinants with varying results. Financial distress, as the first critical determinant, serves as a fundamental pressure point that potentially triggers earnings management behavior. Financial distress is caused by difficulties in a company's cash flow because the company's income is insufficient to cover the operating expenses of the company's operations, thereby hindering the company's operations and increasing the likelihood of bankruptcy (Nadhifah & Arif, 2020). Earnings management behavior will increase as the financial difficulties experienced by the company increase (Minarti & Suwarno, 2024) . This is because when a company experiences financial difficulties, its income may not meet investor expectations, leading to a decline in stock prices and company value (Aljughaiman et al., 2023).

There are several factors that can influence profit management practices. The first factor that can influence profit management is financial distress. Financial distress is caused by difficulties in a company's cash flow because the company's income is insufficient to cover the operating expenses of the company's operations, thereby hindering the company's operations and increasing the likelihood of bankruptcy. Research conducted by Antari et al. (2022) and Aljughaiman et al. (2023) found that financial distress has a positive effect on earnings management. This means that when a company experiences financial distress, the likelihood of managers engaging in earnings management increases. Different results were found in the research conducted by Khairunnisa et al. (2020), Kristyaningsih et al. (2021), and Dewi et al. (2024) which stated that financial distress does not have a significant effect on earnings management. Companies experiencing financial distress consider that earnings management practices can be detrimental to the company in the future, so company management prefers to report actual earnings.

A company's effectiveness in generating profits through the operation of its assets is a measure of its performance and can also motivate profit management actions within the company. Profitability refers to the extent to which a company generates net profits through its business activities (Safitri & Sipayung, 2024) . When a company's profitability declines, management will engage in profit management practices to stabilize the company's income so that the company's image in the eyes of investors remains good. However, managers do not always like high reported profits because high profits will result in high tax burdens, so managers will minimize reported profits to avoid such tax burdens. Additionally, excessively high profitability can also prompt managers to engage in earnings management through profit smoothing, as they aim to reduce profits and maintain profit stability from fluctuating profits (Ngabut & Arlita, 2023).

Research conducted by Antari et al. (2022) on the effect of profitability on earnings management found that profitability has a positive effect on earnings management. This study

states that high profitability will determine whether a company engages in earnings management practices. Different results were found in the study conducted by Hardiyanti et al. (2022) , which found that profitability has a significant negative effect on earnings management. The study showed that companies with low profitability levels tend to engage in earnings management.

The third factor that can influence earnings management is audit quality. Audit quality is considered capable of reducing earnings management through the examination of company financial statements. A quality audit not only serves to fulfill legal obligations but also to enhance the credibility of financial statements and provide protection for stakeholders (Pramesti & Hidajat, 2024) . Public accounting firms that are part of the big four are believed to provide higher quality audit services than other accounting firms. This is supported by the big four's superiority in terms of human resources, which includes experienced auditors with high competence. In addition, the big four's excellent reputation in the eyes of clients is a guarantee that they will carry out every audit process professionally and in accordance with standards (Agustin & Triani, 2023)

Research on the effect of audit quality on earnings management conducted by Makhlouf et al. (2022) and Mollik et al. (2020) shows that there is a negative relationship between audit quality and earnings management. This means that qualified auditors are able to detect accounting manipulation or engineering carried out by managers in financial statements. Different results were found in the study conducted by Arafah et al. (2024) , which stated that there is no significant relationship between audit quality and earnings management, indicating that although audit quality is important, in this context it does not directly influence earnings management practices.

Despite the consumer non-cyclical sector being categorized as defensive due to its focus on essential goods with stable demand, the sector's stock index showed notable fluctuations during the 2021–2023 period. This contradicts the general assumption of sectoral stability and indicates underlying managerial or financial reporting challenges. Previous studies on earnings management have largely concentrated on periods prior to the Covid-19 pandemic or on more volatile sectors, resulting in limited insights into post-pandemic dynamics within defensive industries. Therefore, this study addresses that gap by analyzing the influence of financial distress, profitability, and audit quality on earnings management in Indonesian consumer non-cyclical companies during the post-pandemic recovery phase. Based on this gap, the hypotheses proposed in this study are as follows: (1) financial distress has a positive effect on earnings management, (2) profitability has a positive effect on earnings management, and (3) audit quality has a negative effect on earnings management. This study offers new empirical evidence by focusing on a sector theoretically expected to be stable yet empirically demonstrating volatility.

METHOD

Analysis Method

The type of research in this study is explanatory using a quantitative approach. The variables used in this study are financial distress (X_1), profitability (X_2), audit quality (X_3), and earnings management (Y). The measurement of each variable in this study uses several indicators that have been adjusted to previous studies and are relevant to the research context. The operational definitions and proxies for each variable are detailed in Table 1. The population in this study consists of consumer non-cyclical sector companies listed on the Indonesia Stock Exchange (IDX) during the 2021–2023 period. The sample was selected using purposive sampling with the following criteria: (1) companies classified under the consumer non-cyclical sector based on the IDX sector classification; (2) companies that consistently published audited financial reports for the years 2021 to 2023; and (3) companies whose financial statements are presented in Indonesian Rupiah (IDR) to ensure data comparability. The final sample consists of 66 companies, resulting in 198 observations over a three-year period. Secondary data were obtained from the official IDX website (www.idx.co.id) and the respective companies' financial reports.

Table 1. Operational Definition of Variables

Test	Result
Financial Distress (X_1)	Springate (S-Score) S = 1,03X1 + 3,07X2 + 0,66X3 + 0,4X4
Profitability (X_2)	Return on Assets ROA = Net Income / Total Asset
Audit Quality (X_3)	Dummy Variable 1 = Audited by Big Four accounting firm 0 = Audited by non-Big Four accounting firm
Earnings Management (Y)	Modified Jones Model by Dechow et al. (1995) $DA_{it} = \frac{TA_{it}}{A_{it-1}} - NDA_{it-1}$

Source: Processed Data, 2025

Eviews 12 is used in this study because it is well-suited for panel data analysis, which combines cross-sectional and time-series data. Given that the data in this research consist of multiple companies (cross-sections) observed over a period of three years (2021–2023), Eviews is an appropriate statistical tool for estimating regression models such as the Fixed Effect Model, which was selected in this study. Before regression is performed, classical assumptions are tested, including normality, multicollinearity, heteroscedasticity, and autocorrelation. The panel data regression model is analyzed using three estimation approaches, namely the Common Effect Model (CEM), Fixed Effect Model (FEM), and Random Effect Model (REM). The selection of the best model is done through several stages of testing, namely the Chow Test (to compare CEM and FEM), the Hausman Test (to compare FEM and REM), and the Lagrange Multiplier (LM) Test (to compare CEM and REM). Hypothesis testing was conducted using the t-test to examine the significance of each independent variable partially, the F-test to examine the significance of the model simultaneously, and the coefficient of determination (R^2) to measure the model's ability to explain the dependent variable.

RESULTS AND DISCUSSION

RESULTS

Descriptive Statistical Analysis

Table 2. Descriptive Statistical Analysis Results

Variabel	Obs.	Mean	Maximum	Minimum	Std. Dev.
Financial Distress (X_1)	198	1,162134	3,704557	-0,81229	0,877367
Profitability (X_2)	198	0,056664	0,399674	-0,15772	0,094604
Audit Quality (X_3)	198	0,454545	1,000000	0,00000	0,499192
Earnings Management (Y)	198	0,024363	0,445223	-0,20267	0,100842

Source: Processed Data Eviews 12, 2025

Based on the results of descriptive statistical analysis in Table 2, the financial distress variable, measured using the Springate S-Score model, shows a mean of 1,162134. Critically, this mean value exceeds the Springate threshold of 0,862, indicating that the majority of sample companies maintain adequate financial health and are not in immediate distress. Companies like PT. Estika Tata Tiara Tbk. with negative S-Scores (-0,81229) indicate potential financial distress, while PT. Wilmar Cahaya Indonesia Tbk. demonstrates strong financial stability with positive S-Scores (3,704557). The profitability variable (X_2) shows a mean value of 0,056664, a maximum value of 0,399674, and a minimum value of -0,15772 with a standard deviation of 0,094604. PT. Sentra Food

Indonesia Tbk.'s exceptional ROA of 39.97% represents outstanding operational efficiency, while PT. Wicaksana Overseas International Tbk.'s negative ROA of -15.77% indicates operational challenges during the observed periods. The audit quality variable (X_3) shows a mean value of 0,45, a maximum value of 1, and a minimum value of 0, with a standard deviation of 0,499192. The mean value of 0,45 indicates that approximately 45% of the 198 sample companies use Big Four auditors, while the remaining 55% use non-Big Four auditors. Furthermore, the earnings management variable (Y) shows a mean value of 0,024363, a maximum value of 0,445223, and a minimum value of 0,202671 with a standard deviation of 0,100842. The highest value was held by PT. Sentra Food Indonesia Tbk., and the lowest value was held by PT. Wilmar Cahaya Indonesia Tbk.

Panel Data Regression Model Selection Test

a. Chow Test

Table 3. Chow Test Results

Effect Test	Statistic	Prob.
Cross-section F	2,463735	0,0000
Cross-section Chi-square	159,8074	0,0000

Source: Processed Data Eviews 12, 2025

Based on the Chow test results in Table 3, the Cross-section Chi-square probability value is less than 0,05, namely 0,0000 < 0,05. The interpretation of the Chow test results is that the Fixed Effect Model (FEM) is better than the Common Effect Model (CEM), so the Hausman test can be performed next.

b. Hausman Test

Table 4. Hausman Test Results

Effect Test	Chi-Sq. Statistic	Prob.
Cross-section random	13,031978	0,0046

Source: Processed Data Eviews 12, 2025

Based on the Hausman test results in Table 4.7, the probability value of Cross-section random is less than 0,05, namely 0,0046 < 0,05. The interpretation of the Hausman test results is that the Fixed Effect Model (FEM) is better than the Random Effect Model. Since the Chow test and Hausman test indicate that the selected model is the Fixed Effect Model (FEM), there is no need to perform the Lagrange Multiplier (LM) test.

Classical Assumption Test

Table 5. Classical Assumption Test Results

Test	Results
Normality	Jarque-Bera Prob. = 0,197331 > 0,05
Multicollinearity	Correlation value between variables < 0,8
Heteroscedasticity	Probability value of all variables > 0,05
Autocorrelation	Durbin-Watson stat = 1,814728

Source: Processed Data Eviews 12, 2025

Based on the results of the classical assumption test in Table 5. The results of the normality test using Jarque-Bera obtained a Jarque-Bera probability value greater than the significance value of 0,05, namely 0,197331 > 0,05, so it can be concluded that the data is normally distributed. The results of the multicollinearity test show that all correlation values between variables are below the threshold of 0,8, meaning there is no strong correlation between independent variables. The results of the Glejser heteroscedasticity test showed that the probability value of each variable was greater

than 0,05 (> 0,05), so it can be concluded that there are no signs of heteroscedasticity in this regression model. The autocorrelation test results obtained a Durbin-Watson (DW) value of 1,814728. This value is between the upper limit (dU = 1,7982) and 4 - dU (2,2018), dU < DW < 4 - dU, so it can be concluded that the regression model does not experience autocorrelation.

Panel Data Regression Test

Table 6. Panel Data Regression Test Results

Variable	Coefficient
C	-0,068598
Financial Distress (X_1)	0,031718
Profitability (X_2)	0,583850
Audit Quality (X_3)	0,050638

Source: Processed Data Eviews 12, 2025

The panel data regression equation in Table 6, which was formed using the Fixed Effect Model (FEM) approach, can be explained as follows:

$$Y = -0,0686 + 0,0317*X1 + 0,5839*X2 + 0,0506*X3$$

The constant value of -0,0686 represents the value of earnings management (Y) when all independent variables are zero. The coefficient of the financial distress variable (X_1) of 0,0317 indicates that every 1-unit increase in financial distress will increase earnings management by 0,0317, assuming that other variables remain constant. The coefficient of the profitability variable (X_2) of 0,5839 indicates that every 1-unit increase in profitability will increase profit management by 0,5839, assuming other variables remain constant. The coefficient of the audit quality variable (X_3) of 0,0506 indicates that every 1-unit increase in audit quality will increase profit management by 0,0506, assuming other variables remain constant.

Hypothesis Test

Table 7. Partial Test Results (t-test)

Variable	t-Statistic	Prob.
Financial Distress (X_1)	1,220192	0,2246
Profitability (X_2)	2,857738	0,0050
Audit Quality (X_3)	0,783742	0,4346

Source: Processed Data Eviews 12, 2025

Based on the t-test results in Table 7, the financial distress variable (X_1) shows a significance value (Prob.) of 0,2246, which is greater than the significance level of 0,05 (0,2246 > 0,05). This indicates that financial distress does not have a significant effect on profit management. The t-test results for the profitability variable (X_2) have a significance value (Prob.) of 0,0050, which is less than the significance level of 0,05 (0,0050 < 0,05). This means that profitability has a significant positive effect on profit management. The t-test results for the audit quality variable (X_3) have a significance level (Prob.) of 0,4346, which is greater than 0,05 (0,4346 > 0,05). Therefore, it can be concluded that audit quality does not have a significant effect on profit management.

Table 8. Simultaneous Test Results (F-Test)

Statistic	Value
F-statistic	3,401275
Prob (F-statistic)	0,000000

Source: Processed Data Eviews 12, 2025

Based on the simultaneous test results shown in Table 8, an F-statistic value of 3,401275 was obtained with a significance value (Prob.) of 0,0000, which is smaller than the significance level of 0,05 (0,0000 < 0,05). This indicates that simultaneously, the three independent variables have a significant effect on earnings management.

Table 9. Coefficient of Determination Results

Statistic	Value
Adjusted R-Squared	0,453213

Source: Processed Data Eviews 12, 2025

Based on Table 9, the adjusted R^2 value of 0,4532 indicates that 45,32% of the variation in earnings management can be explained by financial distress, profitability, and audit quality. Although this level does not represent strong explanatory power, it is considered acceptable. According to Ozili (2022), an R^2 value ranging from 0,10 to 0,50 is commonly observed and still valid in empirical modeling, particularly when one or more variables show statistical significance, as seen in this study. Moreover, Chen & Qi (2023) emphasize that adjusted R^2 may still overstate explanatory ability due to overfitting and it only measures in-sample fit—meaning its usefulness is confined to the data used for model estimation. In addition, the defensive nature of the consumer non-cyclical sector may inherently reduce variability in earnings management practices due to relatively stable demand and lower external pressure, which also contributes to the model's moderate explanatory power. The fact that 54,68% of the variance remains unexplained highlights the complexity of earnings management decisions and suggests that future research should consider additional variables such as corporate governance, board characteristics, or institutional ownership that may influence managerial discretion in financial reporting.

DISCUSSION

The Effect of Financial Distress on Earnings Management

The finding that financial distress does not significantly affect earnings management in Indonesian consumer non-cyclical companies contradicts the first hypothesis. This result indicates that financial difficulties experienced by companies in this sector during 2021–2023 do not drive management to engage in earnings management practices, suggesting that managers do not automatically resort to profit manipulation to conceal deteriorating performance. From an agency theory perspective, agents (management) typically have incentives to hide poor company conditions from principals (owners). According to this theory, agents facing pressure from financial distress should be motivated to engage in opportunistic actions, including earnings management, to maintain their position and reputation. However, our findings demonstrate that these basic assumptions of agency theory do not hold in the Indonesian consumer non-cyclical sector context.

The results actually show that during distress conditions, management does not significantly engage in earnings management practices. This indicates that managers do not view earnings management as an appropriate solution for short-term financial problems. Companies experiencing financial difficulties consider that manipulative practices could actually worsen the company's long-term condition and exacerbate information asymmetry. If a company is found to engage in profit management practices, it will experience a decline in trust from stakeholders, including shareholders. Investors tend to trust companies with good reputations more, which are assessed not only from profit perspective but also from clean track records and absence of financial statement fraud indicators.

These findings are consistent with the research of Dewi et al. (2024), Khairunnisa et al. (2020), and Kristyaningsih et al. (2021) , which conclude that financial distress does not affect earnings management practices. These studies suggest that companies in financial difficulties realize that earnings management would actually harm them in the future, leading management to prefer

reporting accurate rather than manipulated profits. Companies experiencing financial difficulties consider that manipulative practices can be detrimental to the company in the future, so company management prefers to report actual earnings rather than engage in manipulation. However, this finding contrasts with studies by Antari et al. (2022) and Aljughaiman et al. (2023) , which found positive effects of financial distress on earnings management. Research by Aljughaiman et al. (2023) conducted in China found that when companies experience financial distress, they are driven to engage in earnings management, especially accrual-based earnings management.

The Effect of Profitability on Earnings Management

The significant positive relationship between profitability and earnings management strongly supports the research hypothesis and provides compelling evidence for agency theory's core predictions. This finding indicates that higher levels of company profitability increase the likelihood of management engaging in earnings management practices. This result is highly relevant to the basic concepts of agency theory that explain conflicts of interest between agents (management) and principals (company owners). Management as agents have various incentives to manipulate profit figures related to their personal interests. When companies achieve high profitability levels, management faces pressure from various directions that encourage them to engage in earnings management.

According to agency theory, the separation between ownership and company management creates information asymmetry, allowing management to engage in opportunistic actions such as earnings management. When companies record high profitability levels, management has more room to make accounting arrangements to achieve certain objectives. Earnings management practices in the context of high profitability can be carried out through income smoothing and income minimization in accordance with the earnings management patterns proposed by Scott (2015) . One commonly practiced form is income smoothing, which involves leveling profits from period to period to create an impression of financial performance stability. High profitability can also trigger income minimization, where management deliberately reduces reported profits for strategic purposes, such as avoiding high taxes or reducing regulatory scrutiny. This finding reinforces that earnings management motivation does not always arise from poor performance pressure, but also from the desire to manage public perception of company financial performance.

The research findings are consistent with studies by Antari et al. (2022) and Ngabut & Arlita (2023), who found positive effects of profitability on earnings management. Ngabut & Arlita (2023) explain that profitability levels relate to earnings management actions aimed at reporting profitability levels that are at safe stages. This confirms that management engages in profit manipulation not only when performance is poor, but also when performance is too good. However, these results differ from findings by of Hardiyanti et al. (2022) and Arafah et al. (2024) who found negative effects of profitability on earnings management.

The Effect of Audit Quality on Earnings Management

The finding that audit quality does not significantly affect earnings management in consumer non-cyclical companies listed on the Indonesia Stock Exchange during 2021-2023 leads to the rejection of the third hypothesis. This finding indicates that differences in audit quality, whether conducted by Big Four or non-Big Four accounting firms, do not significantly influence the level of earnings management practices in this sector. From an agency theory perspective, external audits should function as an effective monitoring mechanism to reduce agency problems between management (agent) and company owners (principal). In this theory, external auditors are positioned as independent parties who can detect and prevent opportunistic management behavior, including earnings management practices. High audit quality is expected to reduce information asymmetry and provide assurance to principals that financial statements presented by agents are accurate and reliable.

However, the absence of audit quality influence on earnings management can be attributed to limitations in detecting earnings management practices, even by high-quality auditors. Earnings management is often conducted through very subtle manipulations within the boundaries permitted by accounting standards, making it difficult to detect even by experienced auditors. Earnings management does not always constitute direct legal violations, but is often conducted legally through arrangements such as revenue recognition timing. Although Big Four auditors have superior reputation and resources, they can only assess financial statements based on data provided by companies, remaining dependent on available evidence that is retrospective in nature. Moreover, in some cases, auditors objectivity may be influenced by long-term relationships with clients.

This finding aligns with research by Arafah et al. (2024), who state that audit quality does not provide significant impact on earnings management. Arafah et al. (2024) explain that society generally believes that Big Four accounting firms can always provide excellent audit quality. However, in reality, not all companies audited by Big Four firms are able to avoid earnings management practices. This means that the reputation of renowned accounting firms does not necessarily guarantee that company financial statements are free from management manipulation. These results differ from findings by Mollik et al. (2020) and Makhlouf et al. (2022) who found negative effects of audit quality on earnings management. Mollik et al. (2020) found that audit quality can limit earnings management, while Makhlouf et al. (2022) showed that high-quality audits can reduce information asymmetry levels and mitigate earnings management.

CONCLUSION

This study examines the determinants of earnings management in Indonesian consumer non-cyclical companies during 2021-2023, revealing that financial distress does not significantly influence earnings management, managers choose transparency during difficult periods to maintain stakeholder trust rather than engage in manipulative practices that could damage long-term relationships. Conversely, profitability shows a significant positive relationship with earnings management, supporting agency theory's premise about information asymmetry where profitable companies engage in income smoothing and income minimization for strategic purposes. Audit quality does not have a significant influence on earnings management, indicating that the presence of auditors from the Big Four accounting firms does not guarantee prevention of manipulative practices, due to the limitations of auditors in detecting actions that remain within the scope of accounting standards. These findings provide practical implications for investors to exercise caution when analyzing highly profitable companies as they may be more prone to earnings management than financially distressed ones, for auditors to adjust risk assessment procedures recognizing that high profitability increases manipulation risk in defensive sectors, and for regulators to develop sector-specific monitoring approaches. The study acknowledges limitations including single-sector focus, three-year post-pandemic period, and 45.32% explanatory power suggesting additional variables needed. Future research should examine cross-sectoral patterns, incorporate governance variables, board characteristics, or institutional ownership. This study contributes by demonstrating that sector characteristics significantly influence earnings management determinants, providing guidance for more effective monitoring strategies in the Indonesian capital market.

REFERENCES

Agustin, J. V., & Triani, N. N. A. (2023). Pengaruh Audit Firm Size Audit Fee Audit Tenure dan Kompetensi Auditor Terhadap Manajemen Laba. *Jurnal Ilmiah Manajemen, Ekonomi, & Akuntansi (MEA)*, *7*(2), 428–446. https://doi.org/10.31955/mea.v7i2.3017

Aljughaiman, A. A., Nguyen, T. H., Trinh, V. Q., & Du, A. (2023). The Covid-19 outbreak, corporate financial distress and earnings management. *International Review of Financial Analysis*, *88*, 102675. https://doi.org/10.1016/j.irfa.2023.102675

Antari, N. P. D., Novitasari, N. L. G., & Dewi, N. L. P. S. (2022). Pengaruh Profitabilitas, Leverage, Financial Distress Dan Asimetri Informasi Terhadap Manajemen Laba Perusahaan Perbankan Di Bursa Efek Indonesia Tahun 2017 – 2020. *Jurnal Kharisma*, *4*(1), 243–253.

Arafah, M. D., Fakhruddin, I., Pramono, H., & Santoso, S. E. B. (2024). Pengaruh Karakteristik Dewan Pengawas Syariah, Profitabilitas, Ukuran Perusahaan Dan Kualitas Audit Terhadap Manajemen Laba. *Scientific Journal Of Reflection: Economic, Accounting, Management and Business*, *7*(2), 464–479. https://doi.org/10.37481/sjr.v7i2.842

Chen, Q., & Qi, J. (2023). How Much Should We Trust R2 and Adjusted R2: Evidence From Regressions in Top Economics Journals and Monte Carlo Simulations. *Journal of Applied Economics*, *26*(1). https://doi.org/10.1080/15140326.2023.2207326

Dechow, P. M., Sloan, R. G., & Sweeney, A. P. (1995). Detecting Earnings Management. *The Accounting Review*, *70*(2), 193–225.

Dewi, F. G., Komalasari, A., & Alvia, L. (2024). Komite Audit, Financial Distress, Dan Manajemen Laba: Studi Empiris Pada Badan Usaha Milik Negara Di Indonesia. *Jurnal Akuntansi Dan Keuangan*, *29*(1), 49–59. https://doi.org/10.23960/jak.v29i1.2549

Fitri, R. A., & Muslimin. (2024). Pengaruh Likuiditas, Leverage, Dan Sales Growth Terhadap Financial Distress. *COSTING: Journal of Economic, Business and Accounting*, *7*(5).

Habibie, S. Y., & Prasetya, M. T. (2022). Pengaruh Profitabilitas, Leverage, Likuiditas, dan Ukuran Perusahaan Terhadap Manajemen Laba (Studi Empiris pada Perusahaan Manufaktur yang Terdaftar di BEI Tahun 2016-2020). *Diponegoro Journal of Accounting*, *11*(1).

Hardiyanti, W., Kartika, A., & Sudarsi, S. (2022). Analisis Profitabilitas, Ukuran Perusahaan, Leverage dan Pengaruhnya Terhadap Manajemen Laba Perusahaan Manufaktur. *Owner*, *6*(4), 4071–4082. https://doi.org/10.33395/owner.v6i4.1035

Jensen, M. C., & Meckling, W. H. (1976). Theory of the firm: Managerial behavior, agency costs and ownership structure. *Journal of Financial Economics*, *3*(4), 305–360. https://doi.org/10.1016/0304-405X(76)90026-X

Khairunnisa, J. M., Majidah, & Kurnia. (2020). Pengaruh Financial Distress, Perencanaan Pajak, Ukuran Perusahaan, Komite Audit Dan Kualitas Audit Terhadap Manajemen Laba. *Jurnal Ilmiah Manajemen, Ekonomi, & Akuntansi (MEA)*, *4*(3), 1114–1131.

Kristyaningsih, P., Hariyani, D. S., & Sudrajat, M. A. (2021). Financial Distress Terhadap Manajemen Laba. *Business Innovation and Entrepreneurship Journal*, *3*(3), 151–156. https://doi.org/10.35899/biej.v3i3.297

Makhlouf, M. H. S., Soda, M. Z., & Oroud, Y. (2022). The moderating effect of audit quality on the relationship between information asymmetry and earnings management: Evidence from Jordan. *Afro-Asian J. of Finance and Accounting*, *12*(2), 164–177. https://doi.org/10.1504/AAJFA.2021.10042896

Minarti, S. E., & Suwarno, S. (2024). Pengaruh Financial Distress dan Good Corporate Governance terhadap Manajemen Laba. *Akuntansi Dan Ekonomi Pajak: Perspektif Global*, *1*(3), 357–384. https://doi.org/10.61132/aeppg.v1i3.440

Mollik, A. T., Mir, M., McIver, R., & Bepari, M. K. (2020). Effects of audit quality and audit committee characteristics on earnings management during the global financial crisis – evidence from Australia. *Australasian Accounting, Business and Finance Journal*, *14*(4), 85–115. https://doi.org/10.14453/aabfj.v14i4.6

Nadhifah, M., & Arif, A. (2020). Transfer Pricing, Thin Capitalization, Financial Distress, Earning Management, dan Capital Intensity Terhadap Tax Avoidance Dimoderasi oleh Sales Growth. *Jurnal Magister Akuntansi Trisakti*, *7*(2), 145–170. https://doi.org/10.25105/jmat.v7i2.7731

Ngabut, M. F. A., & Arlita, I. G. A. D. (2023). Pengaruh Profitabilitas, Beban Pajak Tangguhan Dan Perencanaan Pajak Terhadap Manajemen Laba. *JURNAL RISET AKUNTANSI DAN KEUANGAN*, *11*(2), 369–382. https://doi.org/10.57178/paradoks.v5i3.414

Oktaviana, A., Ayu Nyoman Yuliastuti, I., & Komang Merawati, L. (2023). Pengaruh Company Size, Managerial Ownership, Financial Leverage, Nilai Perusahaan dan Profitabilitas terhadap Income Smoothing. *Kumpulan Hasil Riset Mahasiswa Akuntansi (KHARISMA)*, *5*(1), 24–33.

Ozili, P. K. (2022). The Acceptable R-Square in Empirical Modelling for Social Science Research. *SSRN Electronic Journal*. https://doi.org/10.2139/ssrn.4128165

Pramesti, A. M., & Hidajat, S. (2024). Pengaruh Kualitas Audit dan Auditor Switching Terhadap Manajemen Laba Pada Perusahaan Perbankan yang Tercatat BEI Tahun 2018-2022 dengan Audit Fee Sebagai Variabel Mediasi. *COSTING: Journal of Economic, Business and AccountingJournal of Economic, Business and Accounting*, *7*(5), 4734–4742.

Safitri, R. D. A., & Sipayung, E. S. N. (2024). Pengaruh Proporsi Dewan Komisaris, Kualitas Audit Dan Profitabilitas Terhadap Manajemen Laba Pada Perusahaan Consumer Non-Cyclicals Yang Terdaftar Di Bursa Efek Indonesia Periode 2020-2022. *Jurnal Ekonomi Trisakti*, *4*(2), 1027–1038. https://doi.org/10.25105/gm5es480

Scott, W. R. (2015). *Financial Accounting Theory* (7th ed.). Pearson.

Sekaranti, N. A., & Juliarto, A. (2022). Analisis Manajemen Laba Dan Relevansi Nilai Laba Sebelum Dan Selama Pandemi Covid-19. *Diponegoro Journal Of Accounting*, *11*(4), 1–15.

Tulcanaza-Prieto, A. B., Lee, Y., & Koo, J.-H. (2020). Leverage, Corporate Governance and Real Earnings Management: Evidence from Korean Market. *Global Business Finance Review*, *25*(4), 515–572. https://doi.org/10.17549/gbfr.2020.25.4.51

Yusmulianto, Erlina, & Aulia, A. (2023). The Influence of Good Corporate Governance on a Company's Financial Performance with Earning Management as a Moderating Variable in Construction and Building Sub-Sector Companies Listed on the Indonesia Stock Exchange Period 2013-2021. *International Journal of Research and Review*, *10*(2), 156–167. https://doi.org/10.52403/ijrr.20230221