

EARNINGS QUALITY: THE MODERATING ROLE OF CEO'S DEMOGRAPHIC BACKGROUNDS IN AGENCY RELATIONSHIPS

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ABSTRACT

The chief executive officer (CEO) as a company leader, plays an important role in influencing the relationships with its stakeholder, especially within agency relationships. This study examines the effect of bonuses, audit quality, and financial distress on earnings quality to represent potential conflicts in agency relationships and the moderating role of CEO demographic backgrounds on those effects. This study uses a sample of property and real estate companies listed on the Indonesia Stock Exchange (IDX) from 2014 to 2020. This study finds that bonuses and CEO demographic backgrounds are negatively associated with earnings quality, while audit quality and financial distress are not associated with earnings quality. Audit quality plays an important role in aligning principals and agent interest in firms led by CEOs with risky demographic backgrounds. However, CEO demographic backgrounds fail to moderate the agency conflict between manager-shareholders (bonuses) and manager-creditors (financial distress) on earnings quality. Future research should explore top management team affects demographic backgrounds in agency relationships.

Keywords: earnings quality, agency relationships, CEO demographic backgrounds

*Chief executive officer (CEO) sebagai pemimpin perusahaan berperan penting dalam memengaruhi hubungan dengan pemangku kepentingan, terutama dalam hubungan keagenan. Penelitian ini bertujuan untuk menguji pengaruh bonus, kualitas audit, dan kesulitan keuangan pada kualitas laba untuk mewakili potensi konflik dalam hubungan keagenan serta peran moderasi latar belakang demografis CEO pada pengaruh tersebut. Penelitian ini menggunakan sampel perusahaan properti dan real estate yang terdaftar di Bursa Efek Indonesia (BEI) dari 2014 hingga 2020. Penelitian ini menemukan bahwa bonus dan latar belakang demografis CEO berpengaruh negatif terhadap kualitas laba, sedangkan kualitas audit dan kesulitan keuangan tidak berpengaruh signifikan terhadap kualitas laba. Kualitas audit berperan penting dalam menyelaraskan kepentingan *principal* dan *agent* di perusahaan yang dipimpin oleh CEO yang memiliki latar belakang demografis yang berisiko. Akan tetapi, latar belakang demografis CEO gagal memoderasi konflik keagenan yang terjadi antara manajer-pemegang saham (bonus) dan manajer-kreditur (kesulitan keuangan) terhadap kualitas laba. Penelitian selanjutnya diharapkan menyelidiki pengaruh latar belakang demografis tim manajemen puncak pada hubungan keagenan.*

Kata kunci: kualitas laba, hubungan keagenan, latar belakang demografis direktur utama

INTRODUCTION

The main objective of issuing financial statements is to convey the company's annual financial information to stakeholders both externally and internally in a reliable and timely manner. One of the main elements of financial statements is accounting profit because it assists users in developing company policies (Hartoko & Astuti, 2021). In recent years, earnings quality has received serious attention from

investors, creditors, regulators, and researchers in various fields. The problem that causes this situation is called by Jensen & Meckling (1976) an agency problem. Hapsoro & Annisa (2017) describe agency problems as events when the chief executive officer (CEO), the company's top manager, only pays attention to himself and tries to find opportunities to improve his/her welfare. Unfortunately, this action is sometimes carried out at the expense of

his superiors, namely the shareholders.

In the context of agency theory, there are two types of agency relationships: management with shareholders and management representing shareholders and creditors. This agency relationship can harm the contracting party and cause agency problems (Godfrey, Hodgson, Tarca, Hamilton & Holmes, 2010; Scott, 2015). The agency problems between management and shareholders can be mitigated by providing compensation in bonuses and conducting supervision by conducting external audits. These two solutions are part of the monitoring cost that shareholders must pay due to agency problems (Godfrey et al., 2010). Financial distress plays a role in earnings management in the agency relationship between management and creditors. One method of transferring wealth from creditors to shareholders is asset substitution (Godfrey et al., 2010). Financial distress will encourage managers to act rationally by saving the company in the interests of shareholders at the expense of creditors. Actions such as earnings management will be taken to ensure the company does not violate debt agreements with creditors while hiding the company's true state (Ghazali, Shafie & Sanusi, 2015).

The demographic background of the CEO will determine the quality of financial reporting. Hambrick & Mason (1984) emphasize the importance of managerial characteristics in achieving organizational goals because these characteristics can influence how the managers will react to the situation they face, particularly within the administrative and strategic domain of the company. According to the upper echelons theory, the characteristics that affect organizational performance are age, years of service, functional background, education, socioeconomic roots, and financial position. This background will affect the organization's achievement because the executive's interpretation of a problem will determine the strategy to deal with the problem (Abatecola & Cristofaro, 2018).

The financial skills and experience that the CEO has accumulated throughout

his career will equip the CEO to understand financial and accounting issues, make sound accounting decisions and improve the financial reporting process (Aier, Comprix, Gunlock & Lee, 2005; Gounopoulos & Pham, 2018). Young CEOs have low levels of conservatism (Ali & Zhang, 2015), while CEOs nearing retirement are believed to carry out earnings management to maximize wealth before retirement (Liang, Marinovic & Varas, 2018). The CEO is also believed to want to show his reputation by showing a brilliant performance when he first took office (Francis, Huang, Rajgopal & Zang, 2008). In Indonesia, research still rarely discusses management's background and personal characteristics, so this topic is interesting for further research.

In the financial reporting process, financial reporting supply chain activities involve directors, board of commissioners, audit committees, internal auditors, and external auditors, which are complementary and interrelated (Iriyadi, 2019). CEOs with an accounting background will affect the timeliness of financial reporting (Baatwah, Salleh & Ahmad, 2015). The characteristics of the CEO also influence the company's probability of exiting from financial difficulties because the characteristics of the CEO affect the company's performance. CEO's demographic backgrounds will ultimately impact the company's overall survival (Zahra, Khan & Warraich, 2018). Besides being the tone at the top of the organization, the CEO is also responsible for the financial statements issued by the company because the CEO is the supervisor of the chief financial officer (CFO) (Hambrick & Mason, 1984; Sumunar, Jannah & Aulia, 2019). Thus, it is expected that the characteristics of the CEO can moderate the factors that can affect the company's earnings quality.

Property and real estate sector companies were chosen as the population because this sector experienced a slowdown in sales growth from late 2014 to early 2018 (Herlina & Murhadi, 2020). This pressure can motivate managers to manipulate financial reporting by reporting

too high earnings to hide the financial difficulties they are experiencing (Markelevich & Rosner, 2013). Several executives from property and real estate companies were also frequently involved in legal cases from 2014 to 2018 (Nandini, 2018), which indicates dishonesty in the financial reporting process (Davidson, Dey & Smith, 2015). This sector also has corporate governance mechanisms that are less effective in preventing earnings management actions (Pujiastuti, 2020).

This research contributes in several ways. First, this study contributes to the development of empirical earnings quality literature related to agency theory which discusses two agency relationships at once, namely between management and shareholders and management and creditors. Second, this research contributes to the development of research that uses the CEO characteristic variable as a moderating variable which is still rarely done in Indonesia. Third, in general, the demographic backgrounds of managers have been widely studied in Indonesia as independent variables. However, the existing research still separates management backgrounds and has not integrated several characteristics simultaneously. Finally, this study enriches the literature on factors that affect earnings quality, namely bonuses, audit quality, financial distress, and CEOs' demographic backgrounds in Indonesia.

This paper is presented as follows. Section 2 elaborates on relevant literature review and hypotheses development. Section 3 explains the model, data selection, and variable operationalizations. Section 4 presents the analysis, empirical evidence, and robustness test. The conclusion is made in Section 5, and lastly, Section 6 describes the limitation and suggestions of the study.

LITERATURE REVIEW AND HYPOTHESIS DEVELOPMENT

Agency Theory

According to Jensen & Meckling (1976), an agency relationship consists of one or more principals that assign another person as an agent to carry out a task and involve

delegating decision-making tasks from the principal to the agent. The parties involved in this agency relationship will have their respective economic motivations and utility maximizers. Shareholders that act as a principal delegate the task of managing the company to the manager as an agent, hopefully in the principal's best interest. However, the agent will not always act in the principal's interests, and this phenomenon is called the agency problem. This conflict of interest arises because of asymmetric information between the principal and the agent (Wahyuningrum & Rizqi, 2019).

Scott (2015) divides contracts in agency relationships into employment contracts between owners (shareholders) and management and loan contracts between managers representing shareholders and lenders. Godfrey et al. (2010) elaborated further on the impact of agency problems, one of which is the emergence of agency costs. Agency costs are a welfare decrease the principal feels due to differences in interests between the principal and the agent. Jensen & Meckling (1976) divides agency costs into monitoring costs, bonding costs, and residual loss. Godfrey et al. (2010) further explain monitoring costs as costs incurred by the principal to measure, monitor, and control agents' behavior. Bonding costs bind the interests of agents so that they continue to behave in the principal's interests. Finally, a residual loss is residual costs that still arise even though monitoring costs and bonding costs have been issued because there are still differences in interests between the principal and the agent.

Upper Echelons Theory

The upper echelons theory initiated by Hambrick & Mason (1984) has the following central idea: the achievements of an organization, whether in the form of strategic choices or overall performance results, can be partially predicted by identifying the characteristics of the managerial background of the organization's management. Therefore, two assumptions that will be built from the upper echelons theory are: (1) organizational executives will make

decisions according to their interpretation of the existing reality and facts; and (2) this interpretation is derived from existing cognitive processes, beliefs, personality traits, and ethical norms (Abatecola & Cristofaro, 2018; Hambrick & Mason, 1984).

Essential elements that determine the applicability of upper echelons theory are manager discretion and the socio-demographic characteristics of executives (Abatecola & Cristofaro 2018). Discretion assesses the barriers that top management groups face in making decisions (Wangrow, Schepker & Barker, 2015). For example, suppose there is much flexibility in decision-making in the organizational structure and regulations. In that case, managerial characteristics will be reflected in the form of strategy and performance chosen by the organization (Hambrick, 2007).

Regarding earnings quality, several previous studies used upper echelons theory as a theoretical framework in explaining the relationship between manager's demographic backgrounds and earnings management or earnings quality (Bouaziz, Salhi & Jarboui, 2020; Francis et al., 2008; Huang, Rose-Green & Lee, 2012; Nguyen, Duong & Narendran, 2021; Rusydi, 2021; Sutrisno, 2019). In addition, upper echelons theory can explain psychological and social processes and their relationship with upper echelons characteristics, which are then translated into financial reporting and other strategic choices (Lapointe-Antunes, Veenstra, Brown & Li, 2021).

Positive Accounting Theory

Watts & Zimmerman (1978) formulated positive accounting theory. Godfrey et al. (2010) explained that the primary purpose of positive accounting theory is to explain and predict accounting practices applied by companies. Positive accounting theory consists of the bonus plan hypothesis, the debt covenant hypothesis, and the political cost hypothesis.

The bonus scheme created by shareholders aims to minimize agency costs and align the interests of shareholders with management (Menicucci, 2020). If this bonus is successful, there will be an efficient contract that causes the

interests of shareholders and management to be in the same direction. However, if it fails, the managers will show opportunistic behavior instead. Efficient contracts mean managers try to increase firm value and shareholder wealth, while opportunistic means managers who reduce shareholder wealth and increase their wealth (Godfrey et al., 2010).

Efficient contracts between shareholders and managers do not always mean an efficient contract between managers and creditors. Godfrey et al. (2010) stated that managers' debt contracts with creditors could result in opportunistic actions. For example, managers could transfer wealth from lenders to shareholders, especially when the company experiences financial pressure. Managers also try to ensure the company does not violate debt covenants by choosing accounting methods that increase profits in the current period.

CEO's demographic backgrounds and earnings quality.

Based on upper echelons theory, the executive demographic background can influence the organization's performance and achievement (Hambrick & Mason, 1984). The socio-demographic background is one factor that determines organizational performance and achievement because leaders of an organization will make decisions according to their interpretations (Abatecola & Cristofaro, 2018). CEO age correlates with financial reporting quality because older individuals tend to be more conservative than younger individuals (Huang et al., 2012). Moreover, CEOs with longer tenures tend to be more serious about contributing to business growth and development than younger CEOs (Bouaziz et al., 2020). Older CEOs approaching retirement can also reduce the quality of financial reporting by implementing earnings management to maximize compensation before retirement, such as reducing R&D costs, which will not benefit CEOs after retirement (Ali & Zhang,

2015).

The experience and financial expertise of a CEO will assist him in understanding financial and accounting issues so that he can make the right accounting decisions and improve the financial reporting process. Although not directly involved in the financial reporting process, the CEO's financial expertise is vital because the CEO and the CFO are the parties responsible for preparing and presenting the company's financial statements (Gounopoulos & Pham 2018; Nguyen et al., 2021). CEOs with low financial experience are also expected to frequently restate financial reports, lowering the quality of financial reporting (Aier et al., 2005). Furthermore, a CEO's reputation affects earnings quality because reputable CEOs risk their compensation and future careers if they engage in illegal activities such as aggressive earnings management (Nguyen et al., 2021). New CEOs, especially in the first three years, also have an incentive to carry out earnings management to demonstrate their capabilities and reputation because the market perception of the new CEO is still uncertain (Ali & Zhang, 2015). CEOs with great internal power, one of which is seen from concurrent or affiliation with the board of commissioners and is one of the company's founders, can dominate the board of directors and CFO. CFOs can eventually be pressured by the CEO or even cooperate in earnings management (Nguyen et al., 2021). For this reason, the proposed hypothesis is as follows.

H1: The CEO's demographic backgrounds have a negative effect on earnings quality.

Bonus, CEO's demographic backgrounds, and earnings quality.

Agency theory states that in overcoming agency problems, shareholders incur monitoring costs in the form of a bonus plan. The bonus plan hypothesis predicts management behavior that chooses accounting methods that shift earnings in future periods to current ones to maximize bonus receipts (Godfrey et al., 2010; Healy, 1985). Managers ultimately only have

incentives to maximize short-term bonuses by performing earnings management through discretionary accruals (Saksessia & Firmansyah 2020). Managers' opportunistic behavior is shown in the choice to perform upward earnings management when the minimum limit (bogey) has not been reached or to perform upward earnings management when the upper limit (cap) when the maximum bonus limit has been reached (Menicucci, 2020). Based on this explanation, the hypothesis proposed in this study is as follows.

H2a: Bonus has a negative effect on earnings quality.

Another factor that plays a role in agency relationships is the agent's managerial background as the company's manager. Based on upper echelons theory, the background of managers is an indicator carried by managers in administrative situations and affects organizational performance (Hambrick & Mason, 1984). Agency theory suggests that remuneration contracts are established to reduce misalignment between shareholders and managers (Jensen & Meckling, 1976). While managers may choose opportunistic actions to maximize their present-day bonuses, reputable CEOs are expected to make more informed business decisions without risking the reputation that CEOs have built throughout their careers (Healy, 1985). Reputable CEOs still have the opportunity to get high remuneration when the CEO can maximize the company's value (Nguyen et al., 2021; Bouaziz et al., 2020). For this reason, the hypothesis proposed in this study is as follows.

H2b: CEO's demographic backgrounds strengthen the negative effect of bonuses on earnings quality.

Audit quality, CEO's demographic backgrounds and earnings quality.

To overcome the disadvantages of agency contracts that experience information asymmetry problems, shareholders hire auditors to verify the quality of information presented by managers as monitoring costs (Godfrey et al., 2010). With intense competition and continuously growing business, the company is trying to

achieve a stable financial position by conducting earnings management through discretionary accruals. The audit is needed to reduce discretionary accruals, reduce information risk, and improve the quality of the decision-making process (Rudyanto, Daniswari & Oktaviani, 2017). The company's financial statements audited by a high-quality auditor will produce high-quality accounting information. In addition, a more qualified auditor is expected to prevent earnings management actions (Hapsoro & Annisa, 2017). High-quality auditors are believed to have high technological capabilities, specific audit procedures, sampling techniques, and other factors that can improve earnings quality (DeAngelo, 1981). Based on the explanation, the proposed hypothesis is as follows.

H3a: Audit quality has a positive effect on earnings quality.

CEOs with long tenure and accounting expertise are believed to be more active in improving strategic decisions and the quality of the company's overall financial reporting (Baatwah et al., 2015). The CEO occupies a position as the top leader of the company's management and is important for the organization because, in addition to being tone at the top for the organization as a whole, the CEO is also responsible for the financial statements issued by the company due to his position as the CFO's superior (Hambrick & Mason, 1984; Sumunar et al., 2019). Reputable CEOs will try to report company information transparently as they fear their reputation to decline if their manipulation or fraud practices are acknowledged by external parties (Liang et al., 2018). For this reason, the hypothesis proposed in this study is as follows.

H3b: CEO's demographic backgrounds weaken the positive effect of audit quality on earnings quality.

Financial distress, CEO's demographic backgrounds and earnings quality.

The party who has the potential to experience the most significant loss when the company experiences financial difficulties is the creditor. Creditors do not

get much profit if the company performs well but gets the most significant loss if the company experiences financial difficulties. Financial distress can encourage managers to transfer creditor wealth to shareholders (Godfrey et al., 2010; Subramanyam, 2014). Earnings management carried out by companies in countries with weak shareholder protection is generally intended to hide the actual condition of a company (Persakis & Iatridis, 2015). Distorted information ultimately makes it difficult for investors to predict future company performance (Habib. Uddin & Islam, 2013). Based on this description, the hypothesis proposed by this research is as follows.

H4a: Financial distress has a negative effect on earnings quality.

Financial difficulties motivate managers to carry out earnings management to mask the harmful effects of financial distress experienced by companies, such as low profitability and poor financial performance (Menicucci, 2020). In financial distress conditions, distressed companies can engage in earnings management practices, either increasing or decreasing revenue (Ghazali et al., 2015; Habib et al., 2013). CEOs with a good reputation and long tenure are more serious about improving the company's situation and contributing to business growth and development than younger CEOs. CEOs with long tenures can also increase the company's probability of surviving in financial distress conditions (Bouaziz et al., 2020; Zahra et al., 2018). To maintain this good relationship, the CEO will try to present the financial position per the actual reality. With this explanation, the proposed hypothesis is as follows.

H4b: CEO's demographic backgrounds strengthen the negative effect of financial distress on earnings quality.

RESEARCH METHODS

This study uses secondary data from financial reports, annual reports, Bloomberg profiles, LinkedIn social networks, and official public information on property and real estate companies listed on the Indonesia Stock Exchange

(IDX) from 2014–2020. Property and real estate sector companies were chosen as the population because this sector experienced a slowdown in sales growth from late 2014 to early 2018 (Herlina & Murhadi, 2020). This pressure can motivate managers to manipulate financial reporting by reporting too high earnings to hide the financial difficulties they are experiencing (Markelevich & Rosner 2013). Executives from property and real estate companies are also frequently involved in legal cases (Nandini, 2018), indicating dishonesty in financial reporting (Davidson et al., 2015). This sector also has corporate governance mechanisms that are less effective in preventing earnings management actions (Pujiastuti, 2020).

The data used in this study were obtained in the following way. Accounting figures, current year auditor information, and the name of the CEOs are obtained from the company's financial statements or annual reports downloaded from the IDN Financials website, the Indonesia Stock Exchange, or the company's website. In compiling the profile of the CEO, the priority data source is the profile of the CEO disclosed in the company's annual report. Suppose the information in the annual report is incomplete or the company does not issue an annual report. Then, the profile preparation is based on the information contained on the company website. If the required information is unavailable, a search is carried out on the Bloomberg database, LinkedIn profile, and other official information. If the CEO's information is still insufficient, the company will be eliminated from the sample.

Operational Definition and Measurement of Variable

Earnings Quality

In this study, earnings quality is proxied by the discretionary accruals Modified Jones Model by Kasznik (1999). Although there is no absolute measure for earnings quality, estimating discretionary accruals is one of the quantitative approaches agreed by scholars to explain earnings quality, in addition to the qualitative approach

(Nguyen et al., 2021; Hartoko & Astuti, 2021). This model was chosen because it has the highest adjusted R² average value compared to the Modified Jones model (Dechow, Sloan & Amy, 1995), performance matched model (Kothari, Leone & Wasley, 2005), and performance-adjusted current discretionary accruals (Jaggi, Leung & Gul, 2009) for property and real estate sector companies in Indonesia. Modified Jones discretionary accruals (Kasznik, 1999) are estimated by equation (1):

$$TAC_{it}/A_{it-1} = \alpha_0 + \beta_1 (\Delta REV_{it} - \Delta REC_{it})/A_{it-1} + \beta_2 (PPE_{it}/A_{it-1}) + \beta_3 (\Delta CFO_{it}/A_{it-1}) + \varepsilon_{it} \quad (1)$$

TAC is total accruals calculated by subtracting net income before extraordinary items with the net operating cash flow (OCF) of the company *i* year *t*. *A_{it-1}* is the total assets of the company *i* in the previous year. ΔREV_{it} is the difference between the net income of company *i* in year *t* and year *t-1*, and ΔREC_{it} is the difference between the trade receivables of the company *i* in year *t* and year *t-1*. *PPE_{it}* is the net fixed assets of the company *i* year *t*. ΔCFO_{it} is the difference between the net OCF of company *i* in year *t* and year *t-1*. α_0 , β_1 , β_2 , and β_3 are parameter coefficients estimated cross-sectionally per year to control for the effects of changes in economic conditions and industrial policies in each year. This estimation method can show the development of earnings quality from year to year (Kasznik, 1999; Saksesssia & Firmansyah, 2020).

The regression parameter coefficient obtained from equation (1) is inputted into equation (2) to obtain non-discretionary accruals. The equation calculates non-discretionary accruals:

$$NDA_{it} = \alpha_0 + \beta_1 (\Delta REV_{it} - \Delta REC_{it})/A_{it-1} + \beta_2 (PPE_{it}/A_{it-1}) + \beta_3 (\Delta CFO_{it}/A_{it-1}) \quad (2)$$

Absolute value of discretionary accruals (EQ) are the absolute value of total accruals divided by total company assets in the previous year minus non-discretionary accruals, as shown in equation (3):

$$EQ_{it} = |TAC_{it}/A_{it-1} - NDA_{it}| \quad (3)$$

This study uses EQ because earnings manipulation can lead to positive or

negative accruals (Nguyen et al., 2021). Whether it is increasing or decreasing profits, earnings management will reduce the information quality of the earnings announced by the company (Menicucci, 2020). The EQ further away from zero or more positive indicates the lower earnings quality.

CEO Characteristics

The CEO characteristics are positioned as independent variables as well as moderating variables. The characteristics of the CEO in this study were proxied using an index based on the research of Nguyen *et al.*, (2021). Four perspectives of measuring a CEO's characteristics as measured by dummy variables consist of financial expertise, reputation, internal power, and age. The CEO's financial expertise is represented by the pROLE, pCFO, and pCERT. CEO reputation is represented by the pROA, pEARLY, and pPRESS. The CEO's internal power is represented by pCHAIRMAN and pFOUNDER, while the CEO's age is represented by pAGE. A high PSCORE index indicates low earnings quality. The measurement of the characteristics of the CEO used in this study is as follows. The meaning and definition of each PSCORE score are described in Table 4. The cumulative CEO characteristics are measured by the equation (4):

$$\text{CEO} = \text{pAGE} + \text{pROA} + \text{pCERT} + \text{pCFO} + \text{pFOUNDER} + \text{pEARLY} + \text{pCHAIRMAN} + \text{pROLE} \dots\dots\dots (4)$$

Bonus

The bonus proxy used in this study adopts the net income trend index proxy used by Saksessia & Firmansyah (2020). The company's annual reports do not disclose the data relating to bonuses given to managers; thus, the net income trend index approach is used (Saksessia & Firmansyah, 2020). The net income trend index is acquired by calculating the net income trend using equation (5):

$$\text{NITREND}_{it} = [(\text{Net Income})_{it} - (\text{Net Income})_{it-1}] / (\text{Net Income})_{it-1} \dots\dots\dots (5)$$

The net income trend obtained from equation (4) is converted into an index that

has a value between zero (0) and one (1). A value of zero (0) is given to companies that have a net income trend $\leq 20\%$, and a value of one (1) is given to companies that have a net income trend of 105%. A net income trend that is in the range of 20% to 105% will be given value using the interpolation method in equation (6):

$$\text{BONUS}_{it} = [\text{NITREND}_{it} - 20\%] / 85\% \times 100 \dots\dots (6)$$

Audit Quality

Audit quality (AQ) is measured by a dummy variable. A score of 1 (one) is given for companies audited by auditors affiliated with the Big Four audit firms and zero otherwise. International accounting organizations included in the Big Four are Ernst & Young, PricewaterhouseCoopers, Klynveld Peat Marwick Goerdeler, and Deloitte Touche Tohmatsu (Ahmad, Suhara & Ilyas, 2016).

Financial Distress

Financial distress (FD) is measured using the Z-score developed by Herlina & Murhadi (2020) and then converted into a dummy variable. The Z-score is calculated by equation (7):

$$\text{Z-score} = -3,569 + 6,910 \times \text{DTA} - 1,107 \times \text{DTE} + 7,515 \times \text{ROE} + 3,573 \times \text{OPM} \dots\dots\dots (7)$$

DTA is the debt-to-asset ratio obtained by dividing the total debt by the company's total assets. DTE is the debt-to-equity ratio obtained by dividing the total debt by the company's net equity. ROE is the return on equity ratio obtained by dividing net income before extraordinary items by the company's total net equity. Finally, OPM is the operating profit margin ratio obtained by dividing net profit before extraordinary items by operating profit by the company's total net sales. A value of one (1) is given to companies with a Z-score less than -3.521, indicating financially distressed firms, and zero (0) otherwise.

The first regression model explains the effect of independent variables on the dependent variable, measured by equation (8) as follows:

$$\text{EQ}_{it} = \beta_0 + \beta_1 \text{BONUS}_{it} + \beta_2 \text{AQ}_{it} + \beta_3 \text{FD}_{it} + \beta_4 \text{CEO}_{it} + \beta_5 \text{SIZE}_{it} + \beta_6 \text{LEV}_{it} + \beta_7 \text{OCF}_{it} + \beta_8 \text{AGE}_{it} + \beta_9 \text{COV}_{it} + \varepsilon_{it} \dots\dots\dots (8)$$

The second regression model is used to analyze the moderating effect of CEO characteristics, measured by equation (9) as follows:

$$EQ_{it} = \beta_0 + \beta_1 BONUS_{it} + \beta_2 AQ_{it} + \beta_3 FD_{it} + \beta_4 CEO_{it} + \beta_5 (CEO_{it} * BONUS_{it}) + \beta_6 (CEO_{it} * AQ_{it}) + \beta_7 (CEO_{it} * FD_{it}) + \beta_8 SIZE_{it} + \beta_9 LEV_{it} + \beta_{10} OCF_{it} + \beta_{11} AGE_{it} + \beta_{12} COV_{it} + \varepsilon_{it} \dots \dots \dots (9)$$

Control Variables

Control variables are used to control for differences in company characteristics that significantly affect earnings quality and the selection of the board of directors (Francis et al., 2008). SIZE is the company's size calculated by the natural logarithm of total assets. Large companies have high earnings quality because they have better internal control and a high-quality audit committee. Large companies also experience tighter stakeholder supervision, preventing managers from carrying out earnings management (Bassiouny, 2016).

LEV is leverage measured by dividing the total debt by the company's total assets. Companies that have a considerable level of leverage have the potential to carry out earnings management because it means the company has a high nominal corporate debt and increases the risk of default. The threat of violating debt covenants can motivate managers to move future earnings to the present and reduce the quality of company earnings (Agustia & Suryani, 2018).

OCF is measured by dividing net OCF by the company's total assets. Low OCF will encourage managers to carry out earnings management because the company's actual activities cannot generate sufficient cash. As a result, earnings management is carried out to cover the deficit, resulting in a lower earnings quality (Christiani & Nugrahanti, 2014).

AGE is the company's age as measured by subtracting the year the sample was measured minus the year the company was founded. Companies with long life will show their reputation because they have long been known to the public and are in the market, have a considerable market value, and want to maintain their

reputation by following the rules and code of ethics they have set. For this reason, companies that have been in the market for a long time will have a relatively low level of earnings management, indicating high earnings quality (Bassiouny, 2016).

COV is a dummy variable. A score of 1 (one) is given for the sample year 2020, which was the start of the Covid-19 pandemic, and 0 (zero) otherwise. The Covid-19 pandemic affects firms as the business environment will face an economic downturn. This external pressure could motivate managers to manage earnings with the increasing firm financial difficulties. As a result, earnings management will impact the information quality of financial statements, reducing earnings quality (Azizah, 2021).

ANALYSIS AND DISCUSSION

Purposive sampling resulted in 36 companies listed from 2014 to 2020, resulting in 252 observations with a balanced panel data structure. Companies that meet the criteria are summarized in Table 1. Companies that meet these criteria will be observed from 2014 to 2020 or for seven years, totaling 252 observations. In addition, a sum of 68 CEOs leads 36 different companies in the research sample. The descriptive statistics of the study are presented in Table 2.

Table 2 Panel A shows that the sample has more firms with relatively high earnings quality. For example, the firm code that earned the highest EQ score (indicating low earnings quality) was INPP in 2019 with a score of 0.268, whereas the firm code that earned the lowest EQ score (indicating high earnings quality) was KIJA in 2020 with a score of 0.000. It also shows that the sample has fewer firms that experienced high net income growth (indicating low bonus distribution), fewer firms audited by Big Four than not, and more firms that are not facing FD. Table 2 Panel B reveals that more CEOs have a more-than-average score. Also, no CEO earns the maximum index score. Finally, Table 2 Panel C displays Pearson Correlation between individual variables implemented in the model.

Model 1 regression aims to test the effect of the independent variable on the dependent variable. In contrast, model 2 regression aims to examine the interaction of the moderating variable on the effect of the independent variable with the dependent variable. The regression model was estimated with fixed effects using a cluster regression specification based on cross-section to handle the problem of classical assumptions. A summary of the results of hypothesis testing is presented in Table 3.

Overall, Table 3 displays that almost all variables in the model are significant, at least at the 10% level. The F-stat values on both models are also significant at 1%, suggesting a simultaneous effect of independent variables on the dependent variable. Adjusted R-squared values of 18.36% and 20.73% for model 1 and model 2, respectively, indicate other factors influencing earnings quality that are not captured using the model used in this research.

Table 3 shows that the CEO's positive coefficient (0.0095) is significant at 5%. These results indicate that the characteristics of the CEO diminish company's earnings quality. The results of this study support the research of Nguyen et al. (2021). Although there are differences in the characteristics and regulations between the sample companies, the results are similar. These similar results are caused by the responsibility that the CEO bear. Although placed in various scenarios, the CEO will always try to act rationally by showing the best performance to satisfy the principal, one of which is manipulating

the earnings shown in financial reports (Rusydi, 2021). The dominance of the CEO's demographic background in influencing earnings quality is amplified by the high manager discretion of property and real estate sector companies due to the low effectiveness of corporate governance in preventing earnings management (Pujiastuti, 2020). High manager discretion will encourage personal interpretation and cognitive processes to be more dominant in the strategic decision-making process and overall organizational output, resulting in lower earnings quality (Lapointe-Antunes et al., 2021; Nguyen et al., 2021).

Table 3 shows that BONUS has a positive coefficient (0.0313) and is significant at 1%. However, the CEO and BONUS's interaction variable is insignificant, with a positive coefficient (0.0068). These results mean that the characteristics of the CEO do not strengthen the negative effect of the distribution of bonuses. However, individually, CEO characteristics and bonuses each affect the decline in earnings quality. This result is in line with Saksesssia & Firmansyah (2020). The distribution of bonuses towards directors is still based heavily on financial performance measures instead of non-financial performance measures. Managers are ultimately only motivated to reach the minimum requirement for obtaining a bonus agreement (bogey) or reduce the actual profit so that the bonus received in the current period is maximum or exactly reaches the upper limit (cap) of the bonus plan scheme (Saksesssia & Firmansyah, 2020). However, the demographic

Table 1.
Sample Selection

No.	Criteria	Amount	Measurement
1	Companies listed in BEI as of January 2021	713	Firm
2	Property and real estate companies	77	Firm
3	Companies listed in BEI after December 31, 2012	(33)	Firm
4	Companies with incomplete financial statements	(6)	Firm
5	Companies with incomplete CEO profile	(2)	Firm
Total Firms		36	Firm
Total Years		7	Year
Observations		252	Firm-Year

Table 2.
Descriptive Statistics

Panel A: Descriptive Statistics										
Discrete Variable	N	Mean	Std. Dev.	Min.	P25	Median	P75	Max.		
EQ	252	0.046	0.045	0.000	0.014	0.034	0.063	0.268		
BONUS	252	0.178	0.347	0.000	0.000	0.000	0.126	1.000		
SIZE	252	29.094	1.530	25.012	28.117	29.373	30.216	31.740		
LEV	252	0.362	0.162	0.034	0.243	0.369	0.489	0.776		
OCF	252	0.014	0.058	-0.275	-0.020	0.007	0.046	0.288		
AGE	252	31.083	7.562	10	26	31	36	48		
Dummy Variable	N		0				1			
AQ	252		203	(80.56%)		49	(19.44%)			
FD	252		220	(87.30%)		32	(12.70%)			
COV	252		36	(14.29%)		216	(85.71%)			
Panel B: CEO Characteristics										
Index	N	Mean	St. Dev.	Min.	P25	Median	P75	Max.		
pAGE	252	0.381	0.487	0	0	0	1	1		
pROA	252	0.175	0.380	0	0	0	0	1		
pCERT	252	0.579	0.495	0	0	1	1	1		
pCFO	252	0.802	0.400	0	1	1	1	1		
pFOUNDER	252	0.091	0.289	0	0	0	0	1		
pEARLY	252	0.349	0.478	0	0	0	1	1		
pCHAIRMAN	252	0.282	0.451	0	0	0	1	1		
pROLE	252	0.730	0.445	0	0	1	1	1		
CEO	252	3.389	1.246	0	3	3	4	7		
Panel C: Pearson Correlation										
	EQ	BONUS	AQ	FD	CEO	SIZE	LEV	OCF	AGE	COV
EQ	1									
BON US	0.27***	1								
AQ	-0.09	0.08	1							
FD	0.11*	-0.13**	-0.04	1						
CEO	0.12*	-0.06	-0.12*	0.25***	1					
SIZE	-0.08	-0.01	0.25***	-0.32***	-0.24***	1				
LEV	-0.16***	-0.08	-0.02	0.30***	-0.01	0.44** *	1			
OCF	0.02	0.09	0.04	0.26***	-0.19***	0.09	0.01	1		
AGE	-0.06	-0.18***	0.19***	0.12*	0.01	-0.03	0.00	0.14**	1	
COV	-0.11	-0.13	0.00	0.22*	0.07	0.04	-0.08	0.16*	1.00	1

Notes: *, **, and *** signs indicate a significance level of 10%, 5%, and 1%, respectively. **EQ** is the absolute value of discretionary accruals. **BONUS** is a net profit trend index. **AQ** is an audit quality dummy variable with a value of 1 if the company is audited by the Big Four audit firms and 0 otherwise. **FD** is a dummy variable with a value of 1 if the company is experiencing financial distress and 0 otherwise. **CEO** is a characteristic of the CEO consisting of financial expertise, reputation, internal power, and age. **SIZE** is the company's size measured by the natural logarithm of total assets. **LEV** is leverage measured by total debt divided by total assets, and **OCF** is net operating cash flow divided by total assets. **AGE** is the company's age in years calculated from the year the company was founded. **COV** is a dummy variable with a value of 1 in the year 2020 of the observation and 0 otherwise.

background of the CEO does not significantly moderate the effect of earnings management with bonus objectives. CEO prefer to maximize the incentives they receive by increasing their professional skills and experience to be promoted to companies that provide higher compensation, not by doing earnings management (Godfrey et al., 2010). This option is chosen when the industry's environment and business prospects face uncertainty, resulting in suboptimal bonus incentives (Herlina & Murhadi, 2020). Additionally, as shown by a recent survey by Deloitte (2022), Indonesian firms' culture of sustainability reporting is still driven mainly by regulation, followed by the initiative of CEOs. Firms that focus solely on financial performance metrics and overlook the importance of sustainability reporting will be more likely to engage in earnings management through real activities and discretionary accruals (Nguyen, 2022).

Table 3 shows that the AQ variable is

insignificant with a negative coefficient (-0.0379). On the other hand, the interaction of CEO and AQ variables has a negative coefficient (-0.0226) and is significant at the 5% level. These results mean that AQ, as proxied by auditor size, does not affect the company's earnings quality. However, CEO characteristics that harm earnings quality can be mitigated with high-quality audits, improving earnings quality. The results of this study are not in line with Ahmad et al. (2016). The difference in the results of this study is believed to be due to differences in the quality of the governance culture of manufacturing companies and companies in the property and real estate sector. The percentage of manufacturing companies examined by the Big Four auditors is greater than that of property and real estate companies. This low percentage indicates weak corporate governance culture. High-quality external independent auditors play a role as an instrument of corporate governance, especially in emerging markets where firms

Table 3.
Regression Results

Dep. Variable: Earnings Quality (EQ)	Expected Sign	Model 1			Model 2	
		Coefficient	Prob.		Coefficient	Prob.
BONUS	+	0.0313	0.008 ***		0.0053	0.394
AQ	-	-0.0379	0.117		0.0538	0.352
FD	+	-0.0023	0.465		-0.0280	0.322
CEO	+	0.0095	0.026 **		0.0121	0.078 *
CEO*BONUS	+				0.0068	0.109
CEO*AQ	+				-0.0226	0.035 **
CEO*FD	+				0.0061	0.318
SIZE	-	0.0380	0.006 ***		0.0320	0.017 **
LEV	+	-0.0625	0.043 **		-0.0687	0.027 **
OCF	-	0.1060	0.099 *		0.1281	0.113
AGE	-	-0.0090	0.001 ***		-0.0088	0.002 ***
COV	+	0.0160	0.055 *		0.0158	0.047 *
Constant	+/-	-0.790	0.034 *		-0.632	0.057 *
<i>N</i>						252
<i>Adj. R-squared</i>						0.1913
<i>F-stat</i>						2.8787**
						3.2169***

Notes: *, **, and *** signs indicate a significance level of 10%, 5%, and 1%, respectively. **EQ** is the absolute value of discretionary accruals. **BONUS** is a net profit trend index. **AQ** is an audit quality dummy variable with a value of 1 if the company is audited by the Big Four audit firms and 0 otherwise. **FD** is a dummy variable with a value of 1 if the company is experiencing financial distress and 0 otherwise. **CEO** is a characteristic of the CEO consisting of financial expertise, reputation, internal power, and age. **SIZE** is the company's size measured by the natural logarithm of total assets. **LEV** is leverage measured by total debt divided by total assets, and **OCF** is net operating cash flow divided by total assets. **AGE** is the company's age in years calculated from the year the company was founded. **COV** is a dummy variable with a value of 1 in the year 2020 of the observation and 0 otherwise.

are subject to greater agency problems. High-quality audit firms enhance the credibility of the dominant shareholders with investors (Claessens & Yurtoglu, 2013). The audit process is not only determined by the capabilities and technology of the auditors. Collaboration between management and auditors is critical to ensure that misstatements in financial statements can be found and corrected, whether those misstatements are intentional or not (Amiram et al. 2018; Baatwah et al. 2015; Iriyadi 2019). Big Four auditors have a more decisive influence on improving earnings quality by anticipating the CEO with a demographic background potentially harmful to financial reporting. It limits manager discretion, weakening the influence of demographic background (Wangrow et al., 2015). The sample also shows that at least a quarter of the CEOs is

affiliated with the board of commissioners, indicating a typical family firm characteristic in Indonesia, as often mentioned in several studies (Kumala & Siregar, 2020). Family firms will not prioritize information disclosure, which leads to increased information asymmetry. A high-quality audit can prevent excessive expropriation by ultimate shareholders towards minority shareholders by limiting earnings management.

Table 3 shows that the FD variable has a negative coefficient (-0.0023), but it is insignificant. The interaction of CEO and FD variables also has a positive coefficient (0.0061) and is insignificant. These results suggest that FD does not affect earnings quality, individually and after interacting with CEO characteristics. The results of this study are not in line with Ghazali et al. (2015). FD will place companies at various

Table 4.
CEO Characteristics Component

No.	Index	Criteria	Description
1	pAGE	Equals one if: (1) the age of the CEO is less than the 25th percentile of the CEO's mean age; or (2) the CEO's age is one year or less from retirement age, and zero otherwise. Before January 1, 2019, the retirement age in Indonesia was 56 years, while after January 1, 2019, the retirement age increased to 57 years based on Government Regulation Number 45 of 2015 regarding The Implementation of the Pension Guarantee Program (Ali & Zhang, 2015).	Modified
2	pROA	Equals one if the average return on assets for the last three years of the CEO's tenure is negative and zero otherwise. Return on assets is net income before extraordinary items divided by total assets (Nguyen et al., 2021).	No modification
3	pCERT	Equals one if the CEO does not have an MBA, CPA, or similar certification and zero otherwise (Aier et al., 2005).	No modification
4	pCFO	Equals one if the CEO has no work experience as a CFO and zero otherwise (Aier et al., 2005).	No modification
5	pFOUNDER	Equals one if the CEO is the founder or co-founder of the company and zero otherwise (Nguyen et al., 2021).	No modification
6	PEARLY	Equals one if the CEO is still within the first three years of their tenure as CEO, and zero otherwise (Ali & Zhang, 2015).	No modification
7	pCHAIRMAN	Equals one if the CEO has a family affiliation with a member or chairman of the company's board of commissioners and zero otherwise (Setyawan & Anggraita, 2017).	Modified
8	pROLE	Equals one if the CEO tenure in that year is less than the average CEO tenure in one industry and zero otherwise (Aier et al., 2005).	No modification

risks, including significant legal and accounting costs and difficulty retaining customers, suppliers, and employees (Brigham & Houston, 2019). The manager's reputation is also at stake if the company fails to get out of financial pressure

(Ghazali et al., 2015). In addition, the CEO is believed to play an insignificant role in saving the company from financial difficulties because financial difficulties are a complex condition that requires collaboration and cooperation from all

Table 5.
Robustness Test Results

Panel A: Robustness Test for Model 1					
Dep. Variable: Earnings Quality (EQ)	Expected Sign	Main (Kasznik)	Dechow	Kothari	Jaggi
BONUS	+	(0.031)***	(0.03)***	(0.028)**	(0.024)**
AQ	-	(-0.038)	(-0.055)	(-0.045)	(-0.037)
FD	+	(-0.002)	(-0.01)	(-0.003)	(-0.008)
CEO	+	(0.009)**	(0.006)	(0.004)	(0.006)
SIZE	-	(0.038)***	(0.053)	(0.055)	(0.055)
LEV	+	(-0.062)**	(-0.019)	(-0.008)	(0.028)
OCF	-	(0.106)*	(-0.304)	(-0.35)	(-0.304)
AGE	-	(-0.009)***	(-0.01)	(-0.011)	(-0.011)
COV	+	(0.016)*	(0.01)	(0.011)	(0.012)
Constant	+/-	(-0.791)	(-1.169)	(-1.208)	(-1.236)
<i>Observations</i>		252	252	252	252
<i>F-statistics</i>		2.879**	2.283**	3.074***	1.844*
<i>R-squared</i>		0.220	0.172	0.185	0.154
<i>Adj. R-squared</i>		0.191	0.141	0.155	0.122
Panel B: Robustness Test for Model 2					
Dep. Variable: Earnings Quality (EQ)	Expected Sign	Main (Kasznik)	Dechow	Kothari	Jaggi
BONUS	+	(0.005)	(0.012)	(0.024)	(-0.006)
AQ	-	(0.054)	(-0.025)	(0.001)	(0.034)
FD	+	(-0.028)	(-0.038)	(0.01)	(-0.004)
CEO	+	(0.012)*	(0.005)	(0.007)	(0.008)
CEO*BONUS	+	(0.007)	(0.005)	(0.001)	(0.009)
CEO*AQ	+	(-0.023)**	(-0.007)	(-0.011)	(-0.017)
CEO*FD	+	(0.006)	(0.007)	(-0.003)	(-0.001)
SIZE	-	(0.032)***	(0.05)	(0.052)	(0.051)
LEV	+	(-0.069)**	(-0.023)	(-0.009)	(0.027)
OCF	-	(0.128)*	(-0.291)	(-0.345)	(-0.286)
AGE	-	(-0.009)***	(-0.01)	(-0.011)	(-0.011)
COV	+	(0.016)**	(0.01)	(0.011)	(0.013)*
Constant	+/-	(-0.632)	(-1.094)	(-1.157)	(-1.129)
<i>Observations</i>		252	252	252	252
<i>F-statistics</i>		3.217***	2.303**	3.339***	2.212**
<i>R-squared</i>		0.252	0.177	0.189	0.164
<i>Adj. R-squared</i>		0.215	0.136	0.148	0.122

Notes: *, **, and *** signs indicate a significance level of 10%, 5%, and 1%, respectively. The value inside the bracket is the coefficient of regression. **EQ** is the absolute value of discretionary accruals. **BONUS** is a net profit trend index. **AQ** is an audit quality dummy variable with a value of 1 if the company is audited by the Big Four audit firms and 0 otherwise. **FD** is a dummy variable with a value of 1 if the company is experiencing financial distress and 0 otherwise. **CEO** is a characteristic of the CEO consisting of financial expertise, reputation, internal power, and age. **SIZE** is the company's size measured by the natural logarithm of total assets. **LEV** is leverage measured by total debt divided by total assets, and **OCF** is net operating cash flow divided by total assets. **AGE** is the company's age in years calculated from the year the company was founded. **COV** is a dummy variable with a value of 1 in the year 2020 of the observation and 0 otherwise.

levels of management, thereby increasing the company's chances of getting out of FD (Shahab, Ntim Chengang, Ullah & Fosu, 2018). Company management focuses on finding solutions to FD because managers realize that accrual earnings management cannot be carried out continuously (Ghazali et al., 2015; Herlina & Murhadi, 2020).

Robustness Test

Robustness tests are conducted to check whether the model holds different earnings quality proxies. Robustness tests are performed for the earnings quality using three other alternatives of accrual-based earnings management, namely the Modified Jones model (Dechow et al., 1995), performance-matched model (Kothari et al., 2005), and performance-adjusted current discretionary accruals (Jaggi et al., 2009). The difference between the proxies used is the possible methods managers use to conduct earnings management. Dechow et al. (1995) assume that earnings management is performed through the discretion of revenue recognition on credit sales. Kasznik (1999) extends the assumption of Dechow et al. (1995) by adjusting the revenues with receivables and adding OCF as explanatory variables. Kothari et al. (2005) expand the assumption by adding unusual firm performance as explanatory variables on firms performing earnings management. Lastly, Jaggi et al. (2009) assume that earnings management is conducted through performance-adjusted current discretionary accruals using expected current accruals.

For consistency, the absolute values of all four proxies of accrual earnings management are used. Furthermore, all four proxies of the regression model were estimated with fixed effects using a cluster regression specification. The results of the robustness tests are presented in Table 5. Overall, the robustness tests suggest that the findings do not change qualitatively if the proxy of the accrual-based earnings management is manipulated. The results mean that the sample property and real estate firms use various earnings

management techniques. By using the accruals earnings management technique, managers could modify the timing of reported earnings, especially with the earnings-based bonus policy (Menicucci, 2020; Healy, 1985). Managers are predicted not to use one specific tool extensively, such as recognizing a large amount of revenue early, to avoid restatement and scrutiny by the auditor. Instead, managers will prefer to apply certain levels of earnings management techniques using various earnings management tools through the leniency of accounting standards with careful utilization. This decision, however, harms the interest of shareholders as this will cause misleading decision-making (Saksessia & Firmansyah, 2020).

CONCLUSION

This study investigates the moderating role of the CEO's characteristics on earnings quality within the framework of agency relationships with the object of research of property and real estate sector companies listed on the Indonesia Stock Exchange (IDX) from 2014 to 2020, which resulted in 36 companies and 252 observations as research samples. The CEO characteristics moderated type one and type three agency relationships specified by the bonus variables, AQ, and FD. Earnings quality is defined as the EQ, which is the opposite of earnings management.

The characteristics of the CEO negatively affect earnings quality. Age, financial expertise, reputation, and internal power can affect the quality of financial reporting and the effectiveness of corporate governance instruments. Managers' great discretion in making strategic decisions, one of which is in the financial reporting process, will affect the organization's output. The manager's demographic background influences this output. However, the characteristics of the CEO are not significant in moderating the potential for conflict in the agency relationship, mainly related to the quality of the company's earnings. Manager conflicts related to the financial reporting process, both with shareholders and with

creditors, will be more influenced by the collective decisions of the top management team. External audit acts as a supervisory tool and corporate governance mechanism, which limits managers' discretion that emerges from the flexibility of accounting standards.

LIMITATIONS AND SUGGESTIONS.

This study opens a gap for further research to develop upper echelons theory in explaining the role of managers in agency relations. The results of this study indicate that the demographic background of the CEO is not significant in bridging agency conflicts experienced by company managers. However, the demographic background of managers is proven to have a significant role in influencing the company's strategic decision-making processes and policies. For this reason, further research is encouraged to investigate the role of the company's top management team's demographic background and its influence in determining the company's strategy, one of which is related to the financial reporting process.

This study has several limitations. First, the research subject is only limited to the property and real estate sector, so it cannot be generalized to companies listed on the Indonesia Stock Exchange (IDX). Second, the earnings quality proxy is also limited to accrual earnings management and has not used other proxies such as real earnings management. Third, the bonus measurement is also based on the distribution of bonuses based on BONUS with bogeys and caps whose values vary between companies.

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