



Analysis of the Effect of Ownership Structure, Leverage, Profitability, and Dividend Policy on Earnings Management with Audit Quality Moderation in Manufacturing Companies

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Abstract

This study aims to analyze the influence of managerial ownership, leverage, profitability, and dividend policy on earnings management, with audit quality as a moderating variable in manufacturing companies. This study employed a quantitative approach with a causal associative method. The study population was manufacturing companies listed on the Indonesia Stock Exchange (IDX), with a sample of 220 observations selected using a purposive sampling technique. The data used were secondary data obtained from the companies' annual financial reports. Data analysis was performed using multiple linear regression and moderated regression analysis (MRA) with the assistance of IBM SPSS Statistics 26 software. The results showed that managerial ownership, leverage, profitability, and Dividend Policy had no significant partial effect on earnings management. Furthermore, the Moderated Regression Analysis (MRA) results indicated that audit quality was unable to moderate the influence of managerial ownership, leverage, profitability, or dividend policy on earnings management. Audit quality also had no direct effect on earnings management. This finding indicates that earnings management practices in manufacturing companies are more influenced by other factors outside the research model, such as corporate governance mechanisms, internal control effectiveness, management characteristics, and other external factors.

Keywords: Earnings Management; Ownership Structure; Leverage; Profitability; Dividend Policy; Audit Quality.

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INTRODUCTION

Financial reports are the final output of the accounting process, providing information regarding a company's financial position, performance, and cash flows over a specific period. The information contained in financial reports serves as an essential basis for economic decision-making by various stakeholders, including management, investors, creditors, regulators, and the public. Among the information presented, earnings receive the greatest attention because they are widely regarded as a key indicator of a company's operational performance and future prospects. According to Suwardjono (2005), earnings represent the financial gain obtained when total revenues exceed the total costs incurred in producing goods or providing services. Consequently, investors and creditors frequently rely on earnings information to evaluate company performance, estimate future cash flows, and assess investment risk. Companies reporting consistently high earnings generally receive more favorable market responses than companies with unstable earnings, making reported earnings one of the most influential indicators in corporate valuation.

The importance of earnings information also creates incentives for management to present favorable financial performance. In certain circumstances, managers may exercise discretion in financial reporting to influence reported earnings in order to satisfy shareholders' expectations, maintain stock prices, comply with contractual obligations, or achieve performance targets. Garel et al., (2021) explain that managers responsible for preparing financial statements may engage in dysfunctional reporting behavior to improve stakeholders' perceptions of company performance. Such practices are commonly referred to as earnings management, which Sulistyanto (2018) defines as managerial intervention in the financial reporting process intended to influence reported earnings. From a legal perspective, earnings management may remain within generally accepted accounting principles, for example

through changes in depreciation methods or inventory valuation methods. Nevertheless, earnings management becomes problematic when managers intentionally recognize revenues prematurely, defer expenses, or manipulate transactions to present a misleading picture of the company's financial condition (Aygün et al., 2014). Therefore, earnings management remains an important issue because it reduces the reliability of financial statements and increases information asymmetry between management and external stakeholders.

The issue of earnings management continues to attract considerable attention in Indonesia. Several high-profile cases involving PT Garuda Indonesia, PT Kimia Farma, PT Waskita Karya, PT Asuransi Jiwasraya, PT Bumi Resources, and PT Telkom Indonesia demonstrate that financial statement manipulation, inappropriate revenue recognition, asset overstatement, and other reporting irregularities continue to occur in large corporations. These cases indicate that weaknesses in corporate governance and monitoring mechanisms may provide opportunities for managers to manipulate reported earnings. Furthermore, the economic uncertainty experienced during the post-COVID-19 period increased pressure on many companies to maintain financial performance and investor confidence, thereby potentially strengthening managerial incentives to engage in earnings management. Consequently, understanding the factors capable of constraining or encouraging earnings management has become increasingly important, particularly during the 2020–2023 period when many firms were still adapting to post-pandemic economic conditions.

One governance mechanism that is expected to influence earnings management is managerial ownership, which in this study represents the Managerial Ownership of the company. Unlike concentrated ownership, which refers to ownership concentration among dominant shareholders, managerial ownership reflects the proportion of company shares owned by directors and managers who are directly involved in corporate decision-making. According to Agency Theory proposed by Jensen and Meckling (1976), increasing managerial ownership aligns the interests of managers with those of shareholders, thereby reducing agency conflicts and limiting opportunistic behavior. As managers become shareholders, they are expected to bear the consequences of their own decisions, including those related to financial reporting quality. Previous studies by Utomo et al. (2019), Nizami and Sakir (2020), and Azoury et al., (2018) also suggest that ownership mechanisms can strengthen managerial oversight and reduce incentives for earnings management. Therefore, managerial ownership is expected to function as an internal governance mechanism capable of improving the credibility of financial reporting.

Besides managerial ownership, leverage is another factor that is frequently associated with earnings management. Leverage reflects the proportion of debt used in financing a company's assets and operations. Companies with high leverage generally face greater pressure to comply with debt agreements and maintain creditors' confidence. According to Mahesa (2018), agency conflicts may arise not only between shareholders and managers but also between managers and creditors because each party seeks to maximize its own interests. Similarly, Lee (2022) argues that increasing debt levels expose companies to greater financial risk, potentially motivating managers to manipulate reported earnings in order to present stronger financial performance and reduce concerns regarding the company's ability to meet its financial obligations. Nevertheless, previous empirical studies have reported inconsistent findings regarding the influence of leverage on earnings management, indicating that the relationship remains inconclusive and requires further investigation.

Profitability is also considered an important determinant of earnings management because it reflects management's success in generating returns from corporate resources. Companies with high profitability are generally expected to maintain stable financial performance, whereas companies experiencing declining profitability may attempt to avoid negative market reactions. Research conducted by Yovi et al., (2022) indicates that companies with stable earnings tend to receive more positive responses from investors. Conversely, Abiprayu (2011) argues that declining profitability may encourage managers to manipulate reported earnings to maintain the company's reputation and market value. These contrasting perspectives suggest that profitability may create different incentives for earnings management depending on the company's financial condition and external monitoring mechanisms.

Dividend policy has likewise been identified as a potential factor influencing earnings management. Dividend policy reflects management's decision regarding the proportion of earnings distributed to shareholders. Stable dividend payments are commonly interpreted as a positive signal of corporate performance and financial stability. Li and Chen (2020) found that dividend payout policy is associated with earnings management because managers may attempt to maintain reported earnings at levels that support dividend continuity and satisfy shareholders' expectations. However, previous studies have not reached consistent conclusions regarding this relationship, suggesting that additional empirical evidence is still needed, particularly in emerging capital markets.

Another important mechanism that may influence earnings management is audit quality. According to Yuliantoro et al., (2019), audit quality represents the auditor's ability to detect and report material misstatements in financial statements. High-quality audits improve the credibility of financial reporting and reduce opportunities for opportunistic managerial behavior. In this study, audit quality is positioned as a moderating variable because it is expected to strengthen or weaken the relationships between managerial ownership, leverage, profitability, dividend policy, and earnings management. Chairi and Ghazali (2009) explain that a moderating variable affects the strength or direction of the relationship between independent and dependent variables. Accordingly, companies audited by higher-quality auditors are expected to exhibit lower levels of earnings management because external monitoring complements internal governance mechanisms.

Although numerous studies have investigated the determinants of earnings management, previous empirical findings remain inconclusive. Some studies report that managerial ownership is effective in reducing earnings management, whereas others find insignificant effects. Similar inconsistencies are also observed in studies examining leverage, profitability, and dividend policy. Furthermore, most previous studies have focused primarily on the direct effects of these variables, while relatively limited attention has been given to the moderating role of audit quality in explaining the relationships between corporate governance mechanisms, financial characteristics, and earnings management. In addition, relatively few studies have simultaneously examined these variables within Indonesian manufacturing companies during the post-COVID-19 recovery period, when firms faced considerable financial pressure and uncertainty that may have altered managerial reporting incentives.

Based on these research gaps, this study offers several contributions to the earnings management literature. First, it integrates managerial ownership, leverage, profitability, and dividend policy into a single analytical framework to provide a more comprehensive explanation of earnings management practices. Second, this study examines audit quality as a moderating variable to determine whether external audit quality strengthens or weakens the influence of internal governance and financial characteristics on earnings management. Third, the study focuses on manufacturing companies listed on the Indonesia Stock Exchange during the 2020–2023 post-pandemic period, providing updated empirical evidence under a unique economic environment characterized by recovery and financial uncertainty. Therefore, this study is expected to enrich the literature on earnings management while providing practical implications for investors, regulators, auditors, and corporate management in improving financial reporting quality and corporate governance practices.

METHOD

This study employed a quantitative explanatory research design to examine the effects of managerial ownership, leverage, profitability, and dividend policy on earnings management, with audit quality as a moderating variable. Secondary data were obtained from the annual reports of manufacturing companies listed on the Indonesia Stock Exchange (IDX) during the 2020–2023 period through the official IDX website. The population comprised 164 manufacturing companies. Using purposive sampling, 55 companies met the selection criteria: (1) consistently listed on the IDX during 2020–2023; (2) published complete annual reports; (3) did not report losses during the observation period; (4) provided complete data for all research variables; and (5) presented financial statements in Indonesian Rupiah. The final sample consisted of 220 firm-year observations.

Although the dataset has a panel structure, this study treated the firm-year observations as pooled data and employed pooled Ordinary Least Squares (OLS) regression using SPSS

version 26. This approach was adopted because the study aimed to examine the average relationships among the research variables rather than estimating firm-specific or time-specific effects.

Earnings management, the dependent variable, was measured using discretionary accruals estimated by the Modified Jones Model (Dechow et al., 1995). Total accruals (TA) were calculated as:

$$TA_{it} = NI_{it} - CFO_{it}$$

where (NI) represents net income and (CFO) represents cash flow from operating activities. Second, non-discretionary accruals (NDA) were estimated using the Modified Jones Model:

$$NDA_{it} = \alpha_0 (1/A_{it-1}) + \alpha_1 (\Delta Rev_{it} / A_{it-1} - \Delta Rec_{it} / A_{it-1}) + \alpha_2 (PPE_{it} / A_{it-1})$$

where (A_{it-1}) denotes total assets in the previous year, (ΔRev_{it}) is the change in revenue, (ΔRec_{it}) is the change in accounts receivable, and (PPE_{it}) represents gross property, plant, and equipment. Finally, discretionary accruals (DA), which represent earnings management, were calculated as:

$$DA_{it} = TA_{it} - NDA_{it}$$

This study employed the absolute value of discretionary accruals as the proxy for earnings management; therefore, all earnings management values are positive because the analysis focuses on the magnitude rather than the direction of earnings management.

The independent variables consisted of managerial ownership, leverage, profitability, and dividend policy. Managerial ownership was measured as the percentage of shares owned by directors and managers relative to total outstanding shares. Leverage was measured using the Debt-to-Asset Ratio (DAR), profitability using Return on Assets (ROA), and dividend policy using the Dividend Payout Ratio (DPR). Audit quality was specified as the moderating variable and measured using a dummy variable, where 1 indicates companies audited by Public Accounting Firms (KAP) affiliated with the Big Ten international accounting networks operating in Indonesia and 0 otherwise.

The data were analyzed using SPSS version 26. Descriptive statistics were first employed to summarize the characteristics of the data, followed by classical assumption tests comprising normality, multicollinearity, heteroscedasticity, and autocorrelation tests. Hypotheses were tested using multiple linear regression and Moderated Regression Analysis (MRA). Model fit was evaluated using the Adjusted R^2 and F-test, while the significance of individual regression coefficients was assessed using the t-test at the 5% significance level.

RESULTS AND DISCUSSION

This study aims to analyze the influence of ownership structure, leverage, profitability, and dividend policy on earnings management with audit quality as a moderating variable in manufacturing companies listed on the Indonesia Stock Exchange for the 2020–2023 period. Before conducting hypothesis testing, descriptive statistical analysis was first conducted to provide an overview of the characteristics of the research data. Descriptive statistics is a test used to assess the quality of research data through the interpretation of the minimum, maximum, average (mean), and standard deviation values of all variables studied. This analysis aims to provide information on the distribution of data and the trends of each research variable. The variables analyzed include Earnings Management (Y), Managerial Ownership (X_1), Leverage (X_2), Profitability (X_3), Dividend Policy (X_4), and Audit Quality (Z). The results of the descriptive statistical tests in this study are presented in the following table.

Table 1. Descriptive Statistical Analysis

Variabel	N	Minimum	Maximum	Mean	Std. Deviation
Managerial Ownership (X_1)	220	.00	.37	.0503	.10209
Leverage (X_2)	220	.00	.87	.3223	.18872
Profitability (X_3)	220	-.28	.70	.0483	.09139
Dividend Policy (X_4)	220	.00	.98	.2165	.19231
Audit Quality	220	0	1	.84	.371
Earnings Management	220	.11	.33	.2367	.05072
Valid N (listwise)	220				

Based on Table 1, this study used 220 firm-year observations obtained from 55 manufacturing companies listed on the Indonesia Stock Exchange (IDX) during the 2020–2023 period. The descriptive statistics indicate that earnings management, measured using discretionary accruals, has a minimum value of 0.1100 and a maximum value of 0.3300, with a mean of 0.2367 and a standard deviation of 0.0507. The relatively small standard deviation compared with the mean indicates that the variation in earnings management among the sampled firms is relatively low.

Managerial Ownership has a minimum value of 0.0000 and a maximum value of 0.3700, with a mean of 0.0503 and a standard deviation of 0.1021. The standard deviation exceeds the mean, indicating considerable variation in Managerial Ownership across the sampled companies. Leverage, measured by the Debt-to-Asset Ratio (DAR), ranges from 0.0000 to 0.8700, with a mean of 0.3223 and a standard deviation of 0.1887. Since the mean is higher than the standard deviation, the distribution of leverage among the sampled firms can be considered relatively moderate.

Profitability, measured by Return on Assets (ROA), has a minimum value of –0.2800 and a maximum value of 0.7000, with a mean of 0.0483 and a standard deviation of 0.0914. The negative minimum value indicates that some companies experienced accounting losses during the observation period. Furthermore, the standard deviation exceeds the mean, suggesting substantial variation in profitability among the sampled firms.

Dividend policy, proxied by the Dividend Payout Ratio (DPR), ranges from 0.0000 to 0.9800, with a mean of 0.2165 and a standard deviation of 0.1923. The relatively close values of the mean and standard deviation indicate a moderate level of variation in dividend distribution policies across manufacturing companies during the study period. The minimum value of zero also suggests that several firms did not distribute dividends in certain years.

Audit quality, measured using a dummy variable based on the classification of Big Ten and Non-Big Ten Public Accounting Firms, has a mean value of 0.8400 and a standard deviation of 0.3710. As the variable is coded as 1 for companies audited by Big Ten-affiliated Public Accounting Firms and 0 otherwise, the mean indicates that approximately 84% of the sampled firms were audited by Big Ten-affiliated auditors, while the remaining 16% were audited by Non-Big Ten Public Accounting Firms.

Table 2. Normality Test

One-Sample Kolmogorov-Smirnov Test		Unstandardized Residual
N		220
Normal Parameters ^{a,b}	Mean	.0000000
	Std. Deviation	.05003299
Most Extreme Differences	Absolute	.050
	Positive	.029
	Negative	-.050
Test Statistic		.050
Asymp. Sig. (2-tailed)		.200c,d

Table 2 presents the results of the normality test using the One-Sample Kolmogorov–Smirnov (K–S) test on the unstandardized residuals of the regression model. The test was conducted using 220 observations. The residuals have a mean value of 0.0000 and a standard deviation of 0.0500, indicating that the residuals are centered around zero, as expected in a well-specified regression model. The Kolmogorov–Smirnov test produced a test statistic of 0.050 with an Asymp. Sig. (2-tailed) value of 0.200. Since the significance value is greater than the commonly accepted threshold of 0.05 ($0.200 > 0.05$), the null hypothesis of normal distribution cannot be rejected. Therefore, the residuals are considered to be normally distributed.

These findings indicate that the regression model satisfies the normality assumption, suggesting that the residuals do not significantly deviate from a normal distribution. Consequently, the model is appropriate for subsequent multiple linear regression analysis, as the normality assumption required for valid statistical inference has been fulfilled.

Table 3. Multicollinearity Test

Table 1. Multicollinearity Test							
Coefficients ^a							
Model	Unstandardized Coefficients		Standardized Coefficients	T	Sig.	Collinearity Statistics	
	B	SE	Beta			Tolerance	VIF
(Constant)	.247	.010		3.891	.000		
Managerial Ownership (X ₁)	-2.371E-5	.003	.010	.139	.034	.958	1.044
Leverage (X ₂)	8.047E-5	.000	.020	.296	.767	.984	1.016
Profitability (X ₃)	.017	.030	.044	.584	.560	.824	1.214
Dividend Policy (X ₄)	.003	.005	.040	.546	.586	.837	1.195
Audit Quality	-.017	.009	-.121	-1.778	.077	.985	1.015
a. Dependent Variable: Manajemen Laba							

a. Dependent Variable: Manajemen Laba

Based on Table 3, all independent variables have a Tolerance value above 0.10 and a VIF value below 10. The Tolerance value for each variable range from 0.824 to 0.985, while the VIF value ranges from 1.015 to 1.214. These results indicate that Ownership Structure, Leverage, Profitability, Dividend Policy, and Audit Quality do not exhibit multicollinearity. Therefore, the regression model in this study meets the multicollinearity assumption and is suitable for analyzing the effect of ownership structure, leverage, profitability, and dividend policy on earnings management, with audit quality as a moderating variable.

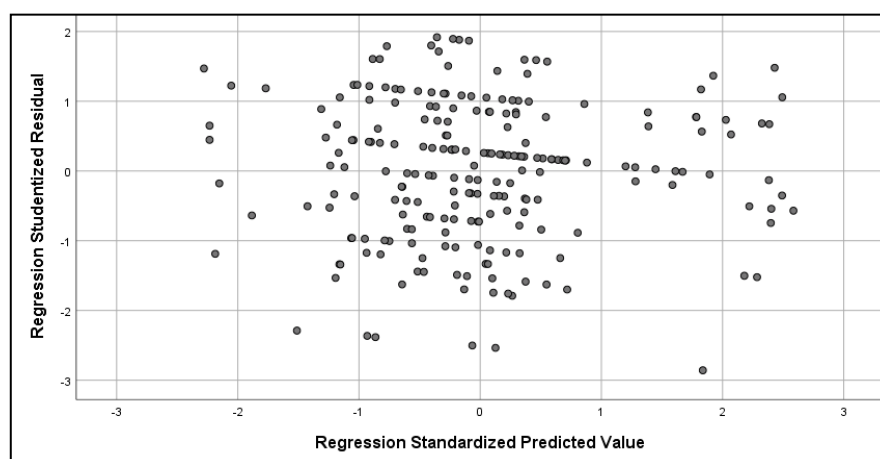
Table 4. Heteroscedasticity Test

Residuals Statistics ^a					
	Minimum	Maximum	Mean	Std. Deviation	N
Predicted Value	.2177	.2583	.2367	.00835	220
Std. Predicted Value	-2.280	2.585	.000	1.000	220
Std. Error of Predicted Value	.004	.025	.008	.003	220
Adjusted Predicted Value	.2135	.2594	.2367	.00859	220
Residual	-.14201	.09630	.00000	.05003	220
Std. Residual	-2.806	1.903	.000	.989	220
Stud. Residual	-2.858	1.918	.000	1.001	220
Deleted Residual	-.14736	.09782	-.00005	.05132	220
Stud. Deleted Residual	-2.908	1.930	-.001	1.005	220
Mahal. Distance	.513	53.646	4.977	6.188	220
Cook's Distance	.000	.062	.004	.008	220
Centered Leverage Value	.002	.245	.023	.028	220

Based on Table 4, the residual statistics indicate that the regression model has a relatively stable residual distribution. The residual value has a mean of 0.00000 with a standard deviation of 0.05003, suggesting that the prediction errors are centered around zero and do not systematically move in either a positive or negative direction. In addition, the standardized residual has a mean of 0.000 and a standard deviation of 0.989, which is close to the ideal standard deviation value of 1. This condition shows that the residuals are generally distributed within acceptable limits. The range of standardized residuals, from -2.806 to 1.903, also indicates that there are no extreme residual values that seriously distort the regression results.

Furthermore, the maximum Cook's Distance value is 0.062, which is far below the commonly used threshold of 1. This finding indicates that no single observation has an excessive influence on the overall regression model. Therefore, the model can be considered relatively free from influential outliers.

To strengthen this interpretation, heteroscedasticity testing was also conducted through scatterplot analysis between the standardized predicted value (ZPRED) and standardized residual (ZRESID). The scatterplot is useful for observing whether the residuals form a systematic pattern. If the points are randomly spread above and below the zero line without forming a particular shape, the model can be considered free from heteroscedasticity. Conversely, if the points form a narrowing, widening, or wave-like pattern, heteroscedasticity may be present. Thus, a random residual pattern supports the assumption of homoscedasticity.

**Gambar 1.** Scatterplot

Based on the scatterplot, the residual points appear randomly distributed above and below the horizontal line at 0 and do not form any specific pattern, such as a funnel, widening, or wavy pattern. The points are also scattered across various Regression Standardized Predicted Value values without showing any systematic trend. This condition indicates that the residual variance is constant (homoscedasticity), thus the regression model does not exhibit heteroscedasticity. Therefore, one of the classical assumptions in regression analysis has been met, and the regression model used to analyze the effect of ownership structure, leverage, profitability, and dividend policy on earnings management, with audit quality as a moderating variable, can be declared suitable for use in hypothesis testing.

Table 5. Autocorrelation Test

Model Summary^b					
Model	R	R Square	Adjusted R Square	Std. Error	Durbin-Watson
1	.165a	.027	.004	.05061	1.010

Based on Table 5, the R value is 0.165, indicating that the relationship between ownership structure, leverage, profitability, and dividend policy with earnings management is relatively weak. The R Square value of 0.027 indicates that the four independent variables are able to explain 2.7% of the variation in earnings management, while the remaining 97.3% is influenced by other variables outside the research model. The Adjusted R Square value of 0.004 indicates that after adjusting for the number of variables in the model, the model's ability to explain the variation in earnings management is 0.4%. Furthermore, the Durbin–Watson value of 1.010 indicates that the regression model does not experience autocorrelation, thus the classical assumption of autocorrelation has been met and the model is suitable for further analysis.

Table 6. ANOVA

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	.015	5	.003	1.191	.315 ^b
	Residual	.548	214	.003		
	Total	.563	219			

Based on Table 6, the results of the simultaneous test (F test) show a calculated F value of 1.191 with a significance value (Sig.) of 0.315. Since the significance value of 0.315 > 0.05, it can be concluded that ownership structure, leverage, profitability, dividend policy, and audit quality simultaneously have no significant effect on earnings management in manufacturing companies. Therefore, the regression model constructed is unable to explain the influence of the five independent variables simultaneously on earnings management, so the hypothesis stating that there is a simultaneous influence is not supported by the results of this study.

Table 7. Multiple Regression Coefficients

Variable	Regression Coefficient (B)	t	Sig.
Constant	0,247	3,891	0,000
Managerial Ownership (X_1)	-2,371E-5	-0,139	0,890

Variable	Regression Coefficient (B)	t	Sig.
Leverage (X ₂)	8,047E-5	0,296	0,767
Profitability (X ₃)	0,017	0,584	0,560
Dividend Policy (X ₄)	0,003	0,546	0,586

Based on the results of the multiple linear regression analysis in Table 7, the regression equation is obtained:

$$Y=0,247-2,371E^{-5}X_1+8,047E^{-5}X_2+0,017X_3+0,003X_4+e$$

This shows the influence of ownership structure, leverage, profitability, and dividend policy on earnings management. A constant value of 0.247 indicates that if all independent variables are held constant, the earnings management value is estimated at 0.247. The Managerial Ownership regression coefficient of -2.371E-5 indicates a negative influence, while leverage (8.047E-5), profitability (0.017), and dividend policy (0.003) indicate a positive influence on earnings management. This means that an increase in Managerial Ownership tends to decrease earnings management, while an increase in leverage, profitability, and dividend policy tends to increase earnings management, assuming other variables remain constant. Furthermore, testing is continued using Moderated Regression Analysis (MRA) to analyze the role of audit quality as a moderating variable in the relationship between independent variables and earnings management.

Table 8. Moderated Regression Analysis (MRA)

Coefficients ^a					
Model	Unstandardized Coefficients		Standardized Coefficients	T	Sig.
	B	Std. Error	Beta		
(Constant)	.255	.024		10.703	.000
Managerial Ownership	-.002	.007	-.062	-.345	.731
Leverage	-.034	.058	-.183	-.579	.563
Profitability	.032	.069	.097	.469	.640
Dividend Policy	.014	.025	.121	.548	.584
X1-Z	.003	.007	.083	.438	.662
X2-Z	.041	.059	.241	.686	.493
X3-Z	-.037	.073	-.112	-.509	.612
X4-Z	-.004	.027	-.037	-.162	.872
Audit Quality	-.028	.025	-.203	-1.100	.273

Based on the results of the Moderated Regression Analysis (MRA) test in Table 5.10, the interaction variable Managerial Ownership × Audit Quality (X1-Z) has a significance value of 0.662, which is greater than 0.05. This result indicates that Audit Quality is unable to moderate the influence of Managerial Ownership on Earnings Management, so that the fifth hypothesis (H5) is rejected. Furthermore, the interaction variable Leverage × Audit Quality (X2-Z) obtained a significance value of 0.493 (> 0.05), which indicates that Audit Quality is also unable to moderate the influence of Leverage on Earnings Management, so that the sixth hypothesis (H6) is rejected. In the interaction variable Profitability × Audit Quality (X3-Z) obtained a significance value of 0.612 (> 0.05), so that Audit Quality is unable to moderate the influence of Profitability on Earnings Management, and the seventh hypothesis (H7) is rejected. Similarly, the interaction variable Dividend Policy × Audit Quality (X4-Z) has a significance value of 0.872, which is also greater than 0.05. These results indicate that Audit Quality is unable to moderate the effect of Dividend Policy on Earnings Management, so the eighth hypothesis (H8) is rejected. Thus, the overall results of the MRA test indicate that Audit Quality does not play a role as a moderating variable in the relationship between Ownership Structure, Leverage, Profitability, and Dividend Policy on Earnings Management.

The results of the study indicate that managerial ownership has no significant effect on earnings management, thus rejecting the first hypothesis (H1). This result differs from the research by Launa & Respati (2017) which states that the size of a company can determine the extent of the company's profit management practices. This finding indicates that the extent of management share ownership has not significantly influenced a company's propensity to

engage in earnings management practices. In other words, an increase or decrease in managerial ownership does not lead to significant changes in earnings management practices in manufacturing companies. These results indicate that management share ownership is not a sufficiently effective control mechanism to mitigate agency conflicts as explained in agency theory. Although managers have interests as shareholders, decisions regarding the preparation of financial statements are still influenced by other factors, such as corporate governance, the effectiveness of internal controls, oversight by the board of commissioners, and pressures from the business environment. Therefore, managerial ownership is not a primary determinant of earnings management practices.

Furthermore, the results of the study indicate that leverage has no significant effect on earnings management, therefore rejecting the second hypothesis (H2). This is in line with Santoso (2023) research results showing that leverage does not have a significant effect on earnings management. This suggests that a company's debt level is not a primary factor driving management to engage in earnings management practices. Companies with both high and low levels of leverage have relatively similar tendencies in preparing financial statements. These findings do not support the Debt Covenant Hypothesis in Positive Accounting Theory, which states that companies with high debt levels tend to engage in earnings management to avoid violating debt covenants. The results of this study indicate that manufacturing companies prioritize sound financial management and maintaining the credibility of financial reports over manipulating earnings to meet obligations to creditors.

The results also show that profitability has no significant effect on earnings management, therefore the third hypothesis (H3) is rejected. This is in line with Yani et al. (2025), which shows that profitability does not have a significant effect on earnings management. This finding indicates that a company's ability to generate profits is not a factor influencing earnings management practices. Both companies with high and low profitability have similar tendencies in preparing financial reports. These results align with Agency Theory, which explains that oversight mechanisms from shareholders, boards of commissioners, auditors, and regulators can limit opportunistic management actions. Therefore, changes in profitability levels do not provide a reason for management to engage in earnings management practices.

Furthermore, dividend policy also has no significant effect on earnings management, therefore the fourth hypothesis (H4) is rejected. These results are in line with research by Veronika and Rahma (2024) which shows that dividend policy does not have a significant effect on earnings management. These results indicate that a company's decision to distribute dividends is not a factor influencing earnings management practices. Investors and shareholders consider not only dividend amounts but also the company's financial condition, business prospects, and overall performance. This finding supports Agency Theory, which states that conflicts of interest between shareholders and management can be minimized through effective oversight mechanisms, so that dividend policy does not influence management's propensity to engage in earnings management.

Based on the results of the Moderated Regression Analysis (MRA), all interaction variables between Audit Quality and Managerial Ownership, Leverage, Profitability, and Dividend Policy have significance values of 0.662, 0.493, 0.612, and 0.872, respectively, all greater than 0.05. Therefore, the fifth through eighth hypotheses (H5–H8) are rejected. These results indicate that Audit Quality does not moderate the relationship between Managerial Ownership, Leverage, Profitability, or Dividend Policy on Earnings Management. Furthermore, Audit Quality also has no direct effect on Earnings Management, with a significance value of 0.273 (>0.05). These findings indicate that audit quality is unable to strengthen or weaken the influence of independent variables on earnings management practices. Although external auditors play a role in providing assurance on the fairness of financial statements, this function is insufficient to influence the relationship between company characteristics and earnings management practices. Therefore, earnings management practices in manufacturing companies are likely more influenced by other factors, such as the effectiveness of corporate governance, internal control systems, management characteristics, and business conditions, than by external audit quality.

CONCLUSION

Based on the data analysis and discussion regarding the influence of Managerial Ownership, Leverage, Profitability, and Dividend Policy on Earnings Management, with Audit Quality as a moderating variable in manufacturing companies, it can be concluded that Managerial Ownership, Leverage, Profitability, and Dividend Policy do not have a significant partial effect on Earnings Management. These results indicate that the size of managerial ownership, the level of leverage, the company's ability to generate profits, and dividend policy are not factors influencing earnings management practices in the manufacturing companies included in the study sample.

Furthermore, the results of the Moderated Regression Analysis (MRA) indicate that Audit Quality is unable to moderate the relationship between Managerial Ownership, Leverage, Profitability, and Dividend Policy on Earnings Management. Therefore, audit quality is unable to strengthen or weaken the influence of the four independent variables on earnings management practices. The results also indicate that Audit Quality has no direct effect on Earnings Management, thus, it does not fulfill its role as a moderating variable in this study.

Overall, this study indicates that earnings management practices in manufacturing companies are more likely influenced by factors beyond the research model, such as corporate governance mechanisms, internal control effectiveness, management characteristics, compensation structures, market pressures, and other external factors not analyzed in this study. Therefore, further research is recommended to consider the addition of other relevant variables to provide a more comprehensive explanation of the factors influencing earnings management practices.

RECOMMENDATIONS

Based on the findings of this study, several recommendations can be proposed. First, manufacturing companies are encouraged to strengthen internal governance mechanisms beyond managerial ownership, leverage control, profitability performance, dividend policy, and external audit quality. Since these variables were not found to significantly influence earnings management, companies should pay greater attention to other mechanisms that may more directly affect financial reporting quality, such as the effectiveness of the board of commissioners, audit committee independence, internal control systems, managerial ethics, and transparency in financial reporting. Strengthening these mechanisms is expected to reduce opportunities for opportunistic behavior and improve the reliability of financial statements.

Second, investors and creditors should not rely solely on ownership structure, leverage level, profitability, dividend policy, or auditor classification when assessing the possibility of earnings management. Although these indicators are useful in evaluating company performance and financial condition, the findings of this study indicate that they are not sufficient to explain earnings management practices in manufacturing companies. Therefore, stakeholders should also consider broader indicators, such as corporate governance quality, consistency of cash flow, accounting policy changes, related-party transactions, and management incentives before making economic decisions.

Third, regulators and professional institutions are expected to strengthen supervision and disclosure requirements related to financial reporting practices. The insignificant role of audit quality in this study suggests that external audit classification alone may not be enough to limit earnings management. Therefore, regulatory bodies should encourage more detailed disclosure of audit processes, auditor independence, audit tenure, and internal control effectiveness. Stronger regulatory monitoring may help improve the quality of financial reporting and reduce information asymmetry between management and external stakeholders.

Finally, future researchers are recommended to expand the research model by including other relevant variables, such as corporate governance mechanisms, audit committee characteristics, institutional ownership, managerial compensation, internal control effectiveness, firm size, business risk, and market pressure. Future studies may also use different proxies for earnings management, such as real earnings management or income smoothing, to obtain a more comprehensive understanding. In addition, because this study used pooled data, future research may apply panel data analysis to capture firm-specific and

time-specific effects more accurately. Expanding the research period, sector coverage, and sample size is also recommended to improve the generalizability of the findings.

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