

Key Drivers of Earnings Management in Indonesian Stock Market-Listed Insurance Companies

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ABSTRACT

Purpose: The purpose of this study is to investigate whether leverage, company performance, and the percentage of shares offered to the public during an IPO significantly influence earnings management practices in insurance companies listed on the Indonesia Stock Exchange. By focusing on these financial and structural factors, the research aims to provide empirical evidence on how internal and external pressures shape managerial decisions related to earnings reporting.

Method: The study employs a quantitative approach using secondary data drawn from insurance companies that went public on the Indonesia Stock Exchange. The variables analyzed include leverage ratios, company performance measured by Return on Assets (ROA), and the proportion of shares offered to the public during the IPO. Multiple regression analysis was applied to examine the relationship between these independent variables and earnings management, ensuring statistical rigor in testing the proposed hypotheses.

Findings: The findings reveal that leverage, company performance, and the percentage of shares offered at IPO all have an effect on earnings management. However, among these variables, leverage emerges as the most dominant factor influencing managerial behavior. While ROA and IPO share percentage also show an impact, their effects are less pronounced compared to leverage, highlighting the critical role of debt obligations in shaping earnings management strategies.

Implication: These results suggest that companies with higher leverage are more likely to engage in earnings management, possibly to meet debt covenants or maintain investor confidence. For regulators and stakeholders, this underscores the need to monitor leverage levels as a key indicator of potential earnings manipulation. It also implies that IPO structures and performance metrics should be carefully evaluated to ensure transparency in financial reporting.

Originality: This study contributes originality by focusing specifically on insurance companies undergoing IPOs in Indonesia, a sector and context that has received limited scholarly attention. By integrating leverage, performance, and IPO share percentage into a single framework, the research provides a comprehensive view of earnings management drivers and highlights leverage as the most influential factor, offering new insights for future studies.

Keywords: Leverage, Company Performance, Percentage of IPO Shares, Earnings Management.

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1. INTRODUCTION

The development of the business world in entering the free market era is very rapid and filled with various competitions between companies. In facing this increasingly tight competition, companies are required to be able to maintain company operational activities so that they remain stable and continue to develop. Financial reports are a communication medium to connect parties interested in the company (Brennan & Merkl-Davies, 2018). One measure of a company's performance in financial reports is earnings because earnings information is the main concern for assessing management performance or responsibility. It also helps shareholders or other parties estimate the company's earnings power in the



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future. Table 1 presents a list of earnings (profit) for the 2016-2020 period from the insurance companies sampled in this study. Based on Table 1, PT PI was the company with the highest earnings for 5 years, except in the fourth year, when it was replaced by PT PL. The lowest earnings for 5 consecutive years were held by PT AHAP, except in the second year. Over the 5 years, the highest earnings were IDR 303,907 (PT PI), and the lowest (IDR 16,999) by PT LGI.

Table 1. Insurance company earnings (profit) for the last 5 years

No.	Company	I	II	III	IV	V
1	PT. PI, Tbk	52,933	172,621	244,757	40,561	303,907
2	PT. PL, Tbk	39,852	163,291	347,105	196,752	323,379
3	PT. AR, Tbk	7,370	12,013	16,198	15,042	15,464
4	PT. MRI, Tbk	4,112	10,248	2,261	3,520	9,563
5	PT. LGI, Tbk	6,446	(16,999)	10,718	20,952	1,979
6	PT. AHAP, Tbk	2,074	3,237	2,021	2,720	2,157
7	PT. ADM, Tbk	11,257	10,100	9,604	8,527	3,102
8	PT. AB, Tbk	11,372	5,915	14,933	3,206	1,288
9	PT. PAI, Tbk	16,102	15,882	18,050	4,842	16,103
10	PT. AJT, Tbk	12,798	14,274	12,500	7,079	5,681
11	PT. BDA, Tbk	10,331	15,026	8,478	(8,396)	1,759

Source: IDX

Management is aware of the tendency to pay more attention to earnings, especially managers whose performance is measured based on this information. Poor performance can encourage shareholders to replace managers, which can then also reduce the market value of the manager concerned in the labor market, this is what can encourage managers to carry out deviant behavior (dysfunctional behavior), one form of which is earnings management. Sundvik (2019) defines earnings management as manipulation within and outside the limits of Generally Accepted Accounting Principles (GAAP).

Based on the description of the background that has been stated, the problem of this research is formulated, namely "is there an influence of leverage, company performance and the percentage of shares offered to the public at the IPO on earnings management in insurance companies that go public on the Indonesia Stock Exchange?"

Therefore, the aim is to test and prove that leverage factors, company performance and the percentage of shares offered to the public at the IPO have a significant influence on earnings management in insurance companies that go public on the Indonesia Stock Exchange. Many studies have studied earnings management. However, little has concerned the IPO event. This study fills the gap in research by using the IPO event to predict the tendency of earning management, especially in insurance companies. Practically, this study contributes to the investor regarding earning management in the IPO event.

2. LITERATURE REVIEW

2.1. Earnings Management

El Diri (2018) defines earnings management as an intervention with a specific purpose in the external financial reporting process with the intention of obtaining some personal benefit (Baskaran et al., 2021). Healy and Wahlen (1999) state that Earnings Management occurs when managers use judgment in financial reporting and preparing transactions to change financial reports so as to mislead stakeholders about the company's economic performance or to influence results related to contracts that depend on reported accounting figures. Earnings management in this study is measured by the total accruals (TA) proxy. The equation used to calculate TA is as follows:

$$TA_t = \frac{(\Delta CA_t - \Delta CL_t - \Delta Cash_t + \Delta STD_t - Depr_t)}{A_{t-1}} \dots \dots \dots (1)$$

2.2. Leverage and Earnings Management

Leverage can be defined as the use of assets or funds where for this use the company must cover fixed costs or pay fixed expenses (Dianova & Nahumury, 2019). The higher the level of leverage, the higher the risk faced and the greater the expected level of return or income (Adzroo & Suryaningrum, 2023).

Expectancy Theory states that individuals change their behavior based on the expected outcome of an event. Benefits derived from an expected result can be intrinsic (such as appreciation or self-esteem) or extrinsic (such as wages or promotions) (Vroom et al., 2005). So, the company will try to avoid this by managing earnings to increase revenue and profits. This will provide a relatively better bargaining position for the company to obtain a loan (Matsa, 2010; Wang et al., 2021). Ridanti & Suryaningrum (2021) conducted research on earnings management in IDX-registered manufacturing companies. The results of his research prove that although financial difficulties (high leverage) do not affect accrual earnings management, they do affect real earnings management. Debt structure influences earnings management with the presence of control variables.

H1: Leverage Influences Earnings Management

2.3. Company Performance and Earnings Management

Company operational performance is the company's performance in carrying out its activities in order to obtain maximum profits. According to Olayinka (2022), performance appraisal is a periodic determination of the operational effectiveness of a company, company departments and employees, with the main objective being to motivate employees to achieve organizational goals and to comply with predetermined standards of behavior in order to produce actions and results, which are desired. These behavioral standards can take the form of formal policies or plans outlined in the budget. Measurement of company performance can be measured from the comparison between net profit after tax and total assets, which is called Return on Assets (ROA), or can also be used by comparing operating profit after tax with the amount of capital invested in the business in question which is called Return on Investment (ROI). Company performance in this research uses the Return on Assets (ROA) approach using the following formula:

$$ROA = \frac{\text{Total Earnings}}{\text{Total Assests}} \times 100\% \dots \dots \dots (2)$$

Signalling theory discusses how signals of management success or failure should be conveyed to owners (Bafera & Kleinert, 2023). Managers may have the initiative to influence accounting policies because accounting numbers are often used as a tool to measure management performance. The company's poor performance can encourage shareholders to change managers, which can then also reduce the market value of the manager concerned in the labour market; this will encourage managers to carry out earnings management (Kurniawan et al., 2022).

H2: Company Performance Influences Earnings Management

2.4. Percentage of Shares Offered to the Public at the IPO and Earnings Management

For a company that is offering its shares to the public for the first time (going public), it is not easy to determine the offering price because the accuracy of the offering price will have direct consequences for the welfare of the issuers. Hence, determining the initial offering price is a joint decision between the issuers (Hadiwidjaja et al., 2021). A company that goes public with an underwriter appointed by the issuer to sell the company's shares to investors. The percentage of shares offered to the public during an IPO can be formulated as follows:

$$IPO = \frac{\text{Stock offered}}{\text{Total Stock}} \times 100\% \dots \dots \dots (3)$$

The percentage of shares offered to the public during an IPO shows the amount of private information management must disclose. The existence of the investing public means that management is obliged to periodically provide internal information to investors as a form of accountability. Penelitian manajemen laba pada kejadian IPO menunjukkan bahwa perusahaan cenderung melakukan pre-IPO earning management. Perusahaan yang membutuhkan akses modal di pasar cenderung tidak melakukan pre-IPO earning management (Premti & Smith, 2020). Mangala & Dhanda (2022) penelitian ini mengungkapkan kontribusi akrual jangka pendek yang lebih besar dalam manajemen laba berdasarkan nilai Discretionary Accrual (DCA) yang lebih tinggi.

H3: Shares offered to IPO Influences Earnings Management

The development of Hypotheses, the relationship between variables and the hypothesis testing are shown in Figure 1. The dependent variable is earning management and the independent variables are leverage, company performance, and IPO stock.

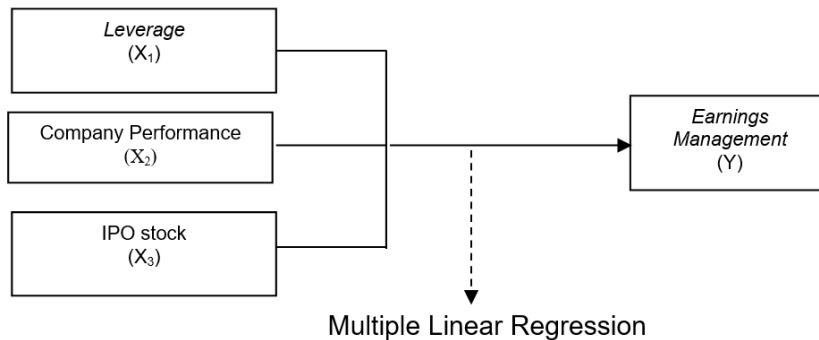


Figure 1. Research Framework

3. RESEARCH METHOD

3.1. Research Design

This study adopts a quantitative research design using multiple regression analysis to examine the relationship between leverage, company performance, and the percentage of shares offered at IPO with earnings management in insurance companies listed on the Indonesia Stock Exchange. Quantitative designs are appropriate when the goal is to test hypotheses and measure relationships among variables using numerical data (Creswell & Creswell, 2018). Secondary data were collected from company financial reports, ensuring reliability and consistency across observations. The use of regression analysis allows for the identification of both the strength and direction of relationships between independent and dependent variables, which is essential in financial research contexts (Hair, Black, Babin, & Anderson, 2021). By employing this design, the study ensures objectivity, replicability, and statistical rigor, providing evidence-based insights into how leverage and other factors influence earnings management practices. This methodological choice aligns with the study's purpose of empirically testing financial determinants of managerial behavior in the Indonesian insurance sector.

3.2. Sample dan Data Collection

The type of data used is secondary data, namely data taken from reports of the companies studied or data collected from the Indonesian Stock Exchange in the form of brochures, prospectuses and financial reports for each company so that the data source used in this research was obtained from the Indonesian Stock Exchange. The data collection technique used is documentation, namely collecting data by collecting and studying related company records or documents. The population in this study are non-banking companies operating in the insurance sector and listed on the Indonesian Stock Exchange. The sampling technique was purposive sampling and yielded 11 insurance companies in IPO stage.

3.3. Operational Definitions and Variable Measurement

Based on the conceptual framework and hypotheses developed, the variables used in this study are earnings management (Y) as the dependent variable, and the independent variables are leverage (X1), company performance (X2), and the percentage of shares offered to the public during the IPO (X3). The operational definitions and variable measurements are shown in Table 2.

3.4. Data analysis

In this study, the Kolmogorov Smirnov test was used to test the normality of the data. The Kolmogorov Smirnov test assumes that the distribution of the observed variables is continuous and is suitable for testing the goodness of fit of a variable measured at least on an ordinal scale.

Outlier data is data that is significantly different from other data. Outlier data can occur for several reasons, namely errors in data entry and errors in sampling, and there is indeed extreme data whose existence cannot be avoided. Detection of outliers can be done by determining the threshold

value that is categorized as an outlier by converting the research data values into a standard score, also called a Z-score, which has an average value of zero and a standard deviation of one. If the data is an outlier, then the Z value obtained is greater than +1.96 or smaller than -1.96. If you look at the z table, the value $z = 1.96$ is the same as the area under the normal curve of 97.5%. This means that 97.5% of all data values are normal data or if the data varies from the average, the variation is still within normal limits (Hair et. Al., 2021).

Table 2. Operational Definitions and Variable Measurement

No	Variable	Operational Definition	Measurement
1	Earnings Management (Y)	Management action to choose accounting policies from a certain standard with the aim of maximizing the welfare or market value of the company, measured based on the proxy of total accruals	$TA_t = \frac{(\Delta CA_t - \Delta CL_t - \Delta Cash_t + \Delta STD_t - Depr_t)}{A_{t-1}}$ (Jones, 1991)
2	Leverage (X ₁)	the ratio between debt and assets that shows the proportion of assets used to guarantee debt.	$Leverage = \frac{Total\ Debt}{Total\ Assets} \times 100\%$ (Adzroo & Suryaningrum, 2023)
3	Performance (X ₂)	The level of success achieved by company management in carrying out company operations. Company performance in this study uses Return on Assets (ROA) as a measurement.	$ROA = \frac{Total\ Return}{Total\ Assets} \times 100\%$ (Olayinka, 2022)
4	IPO share (X ₃)	the large percentage of shares offered to the public during an IPO compared to the number of shares issued in a certain period (one period)	$IPO = \frac{Stock\ offered}{Total\ Stock} \times 100\%$ (Dechow, 1996; Hadiwidjaja et al., 2021)

Source: Previous Research.

Multiple Linear Regression

The analysis technique used in this research is a multiple linear regression analysis model with the following equation model:

$$Y = \alpha + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + \varepsilon \dots\dots\dots (4)$$

Where:

Y: Earnings Management

X₁: Leverage

X₂: Company Performance

X₃: Percentage of shares offered to the public during the IPO

α : Constant

$\beta_1, \beta_2, \beta_3$: Regression coefficient

ε : error

The regression equation must be BLUE (Best Linear Unbiased Estimator), meaning that the decision-making for the F-test and t-test must not be biased. To produce a BLUE decision, three classical assumptions must be met that cannot be violated by linear regression: no multicollinearity, no heteroscedasticity, and no autocorrelation. If one of the three basic classical assumptions is violated, then the regression equation obtained is no longer BLUE, so the decision-making through the F-test and T-test becomes biased.

Goodness of Fit and R-square

The F-test is used to determine whether or not the resulting regression model is suitable, while the R-square is used to determine the effect of leverage, company performance, and the percentage of shares offered to the public at the IPO on earnings management. The criteria for the F-test is if the probability value < 0.05, then the model is fit.

Hypotheses Testing

The t-test is used to test whether the influence of the independent variable (X) is significant or not on the dependent variable (Y). The criterion is the probability value < 0.05.

4. RESULTS AND DISCUSSION

4.1. Results

The Earning Management of Insurance Companies

The measurement of earnings management in this research is proxied by total accruals (Jones, 1991). If total accruals are positive, then there is an indication of earnings management by increasing profits ($TA > 0$), if total accruals are equal to zero, then there is no indication of earnings management and if total accruals are negative then there is an indication of earnings management by reducing profits ($TA < 0$) (Surifah, 2017). To test whether the total accrual (TA) value is greater or less than zero, a parametric statistical approach is used, namely the one-sample t-test in Table 3.

Table 3. The Criteria of Earning Management

	Test Value = 0	
	T _{count}	Sig.
Total Accruals	-1.722	0.092

Source: Data processed.

Table 3 shows that when the total accruals calculated using the Jones model for earnings management are -1.722 with a significance level of 0.092, it means that the estimated discretionary accruals are negative. This result suggested that managers may be engaging in income-decreasing earnings management. In other words, the company might be reducing reported earnings, possibly to smooth income, lower tax burdens, or manage expectations.

The significance value ($p = 0.092$) indicates that the result is not statistically significant at the conventional 5% threshold ($p < 0.05$), but it is close to the 10% level, which some researchers consider a marginal level of significance. This implies that while there is some evidence of earnings management, it is relatively weak and should be interpreted with caution. Negative accruals often reflect conservative accounting choices or deliberate deferral of income recognition (Chung et al. (2026). Thus, the interpretation is the company shows signs of income-decreasing earnings management and the evidence is marginally significant (at 10%), but not strong enough to be conclusive, meaning that 11 (eleven) insurance companies in this study indicate practicing earnings management by reducing profits.

Multiple Linear Regression Equation

Before conducting the analysis using multiple linear regression equations in Table 4, a classical assumption analysis was performed to ensure the regression equation was unbiased. The results of the classical assumption analysis demonstrated that the existing data produced a BLUE regression equation, allowing the analysis to proceed.

Table 4. Multiple Linear Regression Equation

Model	Regression Coefficient
Constant	0.186
Leverage (X ₁)	-0.00486
Companies Performance (ROA) (X ₂)	-0.00338
Percentage of shares offered at IPO (X ₃)	-0.00461

Source: Data processed.

Based on Table 4, the resulting regression equation is:

$$Y = 0.186 - 0.004865 X_1 - 0.003380 X_2 - 0.004610 X_3 \dots\dots\dots (5)$$

The regression equation above explains that:

1. The constant (α) = 0.186 indicates the magnitude of earnings management (Y). If leverage (X₁), company performance (ROA) (X₂), and the percentage of shares offered at the IPO (X₃) are constant or zero, then the magnitude of earnings management (Y) is 0.186.
2. The regression coefficient for the leverage (β_1) = -0.00486, meaning that every 1% increase in leverage (X₁) will decrease earnings management (Y) by 0.00486, assuming the company performance (ROA) (X₂) and the percentage of shares offered at the IPO (X₃) are constant.

3. The regression coefficient for the ROA (β_2) = -0.00338, meaning that every 1% increase in ROA (X2) will decrease earnings management (Y) by 0.00338, assuming the company leverage (X1) and the percentage of shares offered at the IPO (X3) are constant.
4. The regression coefficient for the percentage of shares offered at the IPO (β_3) = -0.00461, meaning that every 1% increase in percentage of shares offered at the IPO (X3) will decrease earnings management (Y) by 0.00461, assuming the and leverage (X1) and the company performance (ROA) (X2) are constant.

Goodness of Fit Test (F Test)

The F test (Table 5) can be used to determine whether the model used is suitable or appropriate to determine the effect of Leverage (X1), company performance (ROA) (X2) and the percentage of shares offered at IPO (X3) on earnings management (Y).

Table 5. Goodness of Fit Test Results

Dependent Variables	F-value	Sig-F
Leverage (X1)	9.194	0.000
Companies Performance (ROA) (X2)		
Percentage of shares offered at IPO (X3)		
$R^2 = 0.471$		

Source: Data processed.

Based on Table 5, the resulting F-value is 9.194 with a significance level (p-value) of less than 5%, namely 0.000, so H0 is rejected and H1 is accepted, which means that the model used is suitable or appropriate to determine the effect of Leverage (X1), company performance (ROA) (X2) and the percentage of shares offered at IPO (X3) on earnings management (Y), so that the research hypothesis "that leverage, company performance and the percentage of shares offered to the public at IPO have an effect on earnings management in insurance companies that go public on the Indonesia Stock Exchange" is proven to be true.

Hypothesis Test Results

The t-test was used to determine the partial effect of leverage (X1), company performance (ROA) (X2), and the percentage of shares offered at the IPO (X3) on earnings management (Y).

Table 6. Hypothesis Test Results

Dependent Variables	t-value	Sig.
Leverage (X1)	-5.034	0.000
Companies Performance (ROA) (X2)	-0.900	0.375
Percentage of shares offered at IPO (X3)	-1.946	0.061

Source: Data processed.

Based on Table 6, the following results are obtained:

- a. The calculated t-value for the leverage variable (X1) is -5.034 with a significance level (p-value) of less than 5%, namely 0.000. Therefore, H0 is rejected and Ha is accepted, indicating that leverage (X1) influences earnings management (Y).
- b. The calculated t-value for the company performance (ROA) (X2) is -0.900 with a significance level (p-value) of greater than 5% (0.375). Therefore, H0 is accepted and Ha is rejected, indicating that company performance (ROA) (X2) does not influence earnings management (Y).
- c. The calculated t-value for the percentage of shares offered at the IPO (X3) is -1.946 with a significance level (p-value) of greater than 5% (0.061). Therefore, H0 is accepted and Ha is rejected, indicating that IPO (X3) does not influence earnings management (Y).

4.2. Discussion

The Influence of Leverage on Earnings Management

Leverage impacts earnings management. This can be caused by several factors. First, a company defaults (is unable to pay its obligations as they fall due) due to financial difficulties. Second, leverage that is too high compared to the industry's general leverage makes it difficult for a company to obtain additional funds through borrowing. Company performance is not affected by earnings management due to the nation's unstable economy and uncertain political climate.

Grounded in Agency Theory, this relationship reflects the conflict between managers (agents) and shareholders or creditors (principals). According to [Jensen and Meckling \(1976\)](#), agency problems arise when managers act in their own interest rather than maximizing shareholder value. High leverage amplifies this tension because managers face stricter monitoring and contractual obligations from creditors. To maintain favorable perceptions or meet debt covenants, managers may manipulate earnings—either upward or downward—depending on strategic incentives ([Bansal et al., 2021](#)).

Empirical evidence supports this theoretical link. [Chung et al. \(2026\)](#) found that firms with higher debt ratios are more prone to earnings management due to increased pressure to meet financial targets. Similarly, [Haniffa et al. \(2006\)](#) and [Al-Matari \(2022\)](#) demonstrated that leverage significantly affects managerial discretion, especially in firms with limited financing flexibility. In Indonesia, [Siregar and Utama \(2008\)](#) and [Nirmala & Ghofar \(2023\)](#) observed that leverage influences the extent of accrual-based earnings management among publicly listed companies, reinforcing the agency perspective.

The implication is that leverage serves as both a financial constraint and a behavioral driver of earnings management. Regulators and investors should pay close attention to highly leveraged firms, as they are more likely to engage in accounting adjustments to satisfy external expectations. Strengthening corporate governance, enhancing transparency, and enforcing stricter audit standards can mitigate agency conflicts and reduce opportunistic reporting behavior. Finally, the discussion may propose directions for future research, suggesting areas where further investigation is needed to build on the current study's findings.

The Influence of Company Performance on Earnings Management

Within the framework of Agency Theory, managers are expected to act in the best interest of shareholders, but conflicts arise due to information asymmetry and differing incentives ([Jensen & Meckling, 1976](#)). While profitability (ROA) could theoretically motivate managers to manipulate earnings—either to sustain positive performance or conceal poor results—the insignificant relationship found here suggests that profitability alone does not create strong agency conflicts in this context. Instead, other pressures, such as leverage or external financing needs, may be more decisive in shaping earnings management behavior ([Bansal et al., 2021](#)).

Empirical studies provide mixed evidence. [Chung et al. \(2026\)](#) found that profitability is not always a consistent predictor of earnings management, as managers may rely more on accruals when facing debt or market pressures. Similarly, [Nirmala and Ghofar \(2023\)](#) observed that in Indonesia, ownership structure and governance mechanisms often play a stronger role than profitability in influencing earnings management. On the other hand, [Al-Jabri \(2026\)](#) highlighted that firm performance interacts with governance quality, meaning profitability alone is insufficient without considering monitoring mechanisms.

The implication is that profitability (ROA) is not a reliable indicator of earnings manipulation in insurance companies undergoing IPOs. Regulators and investors should therefore avoid relying solely on performance metrics when assessing the risk of earnings management. Instead, they should emphasize governance quality, leverage monitoring, and transparency in financial reporting. For researchers, this finding opens opportunities to explore how contextual factors—such as ownership concentration, board independence, or regulatory oversight—moderate the relationship between performance and earnings management.

The Influence of the Percentage of Shares Offered at the IPO on Earnings Management

From the perspective of Agency Theory, IPOs can create agency conflicts because managers may have incentives to manipulate earnings to attract investors or stabilize post-IPO performance ([Mangala and Dhana \(2022\)](#)). However, the insignificant result here implies that the percentage of shares offered does not directly drive earnings management in the studied insurance companies. This may be due to strong regulatory oversight during IPO processes or the presence of external auditors, which reduce opportunities for manipulation ([Bansal et al., 2021](#)).

Previous studies have shown mixed evidence. [Mangala and Dhana \(2022\)](#) found that firms often engage in earnings management around IPOs to influence investor perceptions, but the extent varies depending on market conditions and governance structures. In contrast, [Alidarous \(2024\)](#) argued that IPO firms in more regulated environments exhibit less earnings manipulation due to stricter monitoring. Similarly, [Nirmala and Ghofar \(2023\)](#) highlighted that ownership structure and governance mechanisms play a stronger role than IPO share percentage in determining earnings management practices in Indonesia.

The implication is that IPO share percentage alone is not a reliable predictor of earnings management. Regulators and investors should focus more on governance quality, audit effectiveness, and transparency rather than the proportion of shares offered. For researchers, this finding suggests that IPO-related earnings management may be context-dependent, requiring consideration of institutional frameworks and investor protection mechanisms.

5. CONCLUSION

The results of this study highlight the varying influence of financial and structural factors on earnings management in insurance companies listed on the Indonesia Stock Exchange. Leverage demonstrated a strong and significant effect, confirming that debt obligations intensify agency conflicts and motivate managers to manipulate earnings to meet creditor expectations. In contrast, company performance (ROA) showed no significant impact, suggesting that profitability alone does not drive earnings management, consistent with findings that governance and ownership structures often outweigh performance metrics in shaping managerial discretion. Similarly, the percentage of shares offered at IPO did not significantly influence earnings management, indicating that IPO share allocation is not a primary determinant of opportunistic reporting, especially in regulated environments where external monitoring is strong.

5.1. Implications

These findings reinforce the agency theory perspective: earnings management is most strongly driven by external pressures linked to debt rather than internal profitability or IPO share structures. For regulators and investors, this underscores the importance of monitoring leverage levels as a key risk indicator. For practitioners, it suggests that strengthening governance mechanisms—such as independent boards, audit committees, and transparent disclosure—can mitigate agency conflicts and reduce manipulation. For scholars, the results open avenues to explore how contextual factors like ownership concentration, institutional frameworks, and investor protection moderate the relationship between financial variables and earnings management.

5.2. Limitations

This research is limited by its focus on insurance companies listed on the Indonesia Stock Exchange, which may restrict the generalizability of the findings to other industries or markets. The reliance on secondary data also means that the study is constrained by the accuracy and completeness of publicly available financial reports. Furthermore, the use of multiple regression analysis, while robust, only captures linear relationships and may not fully account for complex interactions among variables such as governance mechanisms, ownership structures, or regulatory environments. These limitations suggest that the results should be interpreted within the specific context of the Indonesian insurance sector and the chosen methodological framework.

Future research could expand the scope by including cross-industry comparisons or examining firms in different countries to test whether the influence of leverage, performance, and IPO share percentage on earnings management varies across institutional settings. Incorporating qualitative approaches, such as interviews with managers or auditors, could provide deeper insights into the motivations behind earnings management practices. Additionally, integrating governance variables—such as board independence, audit committee effectiveness, or ownership concentration—would enrich the analysis and help explain why certain financial indicators, like ROA or IPO share percentage, show insignificant effects. By broadening the methodological and contextual lens, subsequent studies can offer more comprehensive evidence and practical recommendations for regulators, investors, and corporate managers.

This study aims to demonstrate and analyze the influence of leverage, company performance, and the percentage of shares offered during an IPO on earnings management based on agency theory. Leverage influences earnings management. This is due to several possible causes. First, a company may default (not be able to pay its obligations as they fall due) due to financial difficulties. Second, leverage that is too high compared to the industry's general leverage makes it difficult for a company to

obtain additional funds through borrowing. Company performance is not affected by earnings management due to the nation's unstable economic situation and uncertain political climate.

Generative AI Statement

The author declared that Generative AI was used in the creation of this manuscript. The author affirms that, while generative AI (ChatGPT, GPT-5) was used to support the drafting process, all intellectual contributions, data interpretation, and final revisions were undertaken by the author. Responsibility for the accuracy, originality, and integrity of the content rests solely with the author.

Abbreviations

IPO – Initial Public Offering.

IDX – Indonesian Stock Market.

ROA – Return on Assets

GAAP – Generally Accepted Accounting Principles

DCA – Discretionary Accrual

BLUE – Best Linear Unbiased Estimator

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Availability of data and materials

All data are secondary data and available in IDX or companies' website.

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