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CHARACTERISTICS OF TOP MANAGEMENT, AUDIT QUALITY, AND EARNINGS MANAGEMENT IN INFRASTRUCTURE COMPANIES

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ABSTRACT
Financial statements serve as a medium for communicating information regarding various economic events and transactions, including operating performance, financial position, changes in financial position, changes in equity, and corporate cash flows. One of the key pieces of information presented in financial statements is corporate earnings. Earnings are often utilized as an instrument to enhance the appearance of financial reports in order to portray improved company performance. Consequently, earnings management practices are frequently employed to present financial information that does not fully reflect the firm's actual condition. This study aims to analyze the effect of top management characteristics on earnings management, with audit quality serving as a moderating variable. The research population consists of 67 infrastructure sector companies listed on the Indonesia Stock Exchange (IDX) during the 2020–2024 period. The sample was selected using a purposive sampling technique, resulting in 55 companies that met the criteria and yielding 275 observations over five years. Data were obtained from the companies' annual reports and analyzed using Moderated Regression Analysis (MRA) based on panel data with the assistance of EViews 10 software. The results indicate that top management knowledge and tenure do not empirically demonstrate a negative and significant effect on earnings management. Audit quality is empirically proven to moderate the relationship between top management knowledge and earnings management practices. However, audit quality does not moderate the relationship between management tenure and earnings management practices in infrastructure companies listed on the Indonesia Stock Exchange during the 2020–2024 period.
Keywords: *Top Management Knowledge, Top Management Tenure, Audit Quality, Earnings Management, Infrastructure Companies*

ABSTRAK
Laporan keuangan merupakan sarana penyampaian informasi terkait berbagai peristiwa dan transaksi ekonomi, seperti hasil kinerja usaha, kondisi keuangan, perubahan posisi keuangan, perubahan ekuitas, serta arus kas perusahaan. Salah satu informasi penting yang disajikan dalam laporan keuangan adalah laba perusahaan. Laba sering kali dimanfaatkan sebagai instrumen untuk memperindah tampilan laporan keuangan agar kinerja perusahaan terlihat lebih baik. Oleh karena itu, praktik manajemen laba kerap digunakan untuk menyajikan informasi keuangan yang tidak sepenuhnya mencerminkan kondisi sebenarnya. Penelitian ini bertujuan untuk menganalisis pengaruh top management characteristic terhadap earnings management dengan audit quality sebagai variabel moderasi. Populasi penelitian mencakup 67 perusahaan sektor infrastruktur yang terdaftar di Bursa Efek Indonesia (BEI) selama periode 2020–2024. Sampel dipilih menggunakan teknik purposive sampling, dengan 55 perusahaan memenuhi kriteria, menghasilkan 275 observasi dalam lima tahun. Data diperoleh dari annual report perusahaan, lalu dianalisis menggunakan metode Moderated Regression Analysis (MRA) berbasis data panel dengan bantuan software Eviews10. Hasil penelitian menunjukkan bahwa pengetahuan dan masa jabatan manajemen puncak tidak terbukti secara empiris berpengaruh negatif dan signifikan terhadap manajemen laba. Kualitas audit terbukti secara empiris mampu memoderasi hubungan antara pengetahuan manajemen puncak dengan praktek manajemen

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laba. Namun, kualitas audit tidak mampu memoderasi masa jabatan dengan praktek manajemen laba pada Perusahaan infrastruktur yang terdaftar di Bursa Efek Indonesia periode 2020-2024
Kata Kunci: *Pengetahuan Manajemen Puncak, Masa Jabatan Manajemen Puncak, Kualitas Audit, Manajemen Laba, Perusahaan Infrastruktur*

INTRODUCTION

In the modern business environment, financial statements play a crucial role in providing information about a company's financial performance and position for stakeholders' economic decision-making. Financial reporting is expected to reflect the actual condition of the company; however, the flexibility inherent in accounting standards allows management to exercise judgment that may lead to biased or manipulated financial information for certain objectives (Qawasmeh & Azzam, 2020). Among the components of financial statements, earnings information receives the greatest attention because it is widely used to evaluate managerial performance and predict future profitability, as stated in Statement of Financial Accounting Concepts (SFAC) No. 1 and the conceptual framework issued by the International Accounting Standards Board.

The importance of earnings information creates incentives for management to intervene in the financial reporting process through earnings management practices. Earnings management refers to managerial actions that influence reported earnings to achieve specific objectives (Sulistyanto, 2018) This phenomenon has become a global concern due to several major corporate scandals involving Olympus Corporation, Ahold Delhaize, Enron, and WorldCom (Azis, 2021). Similar cases have also occurred in Indonesia, particularly in the infrastructure and construction sectors, such as those involving PT Waskita Karya (Persero) Tbk and PT Wijaya Karya (Persero) Tbk, where indications of financial reporting irregularities triggered monitoring actions by the Bursa Efek Indonesia (Liputan6.com, 2023). These phenomena indicate that earnings are frequently used to shape the perception of financial performance rather than to reflect the company's actual economic condition.

From a theoretical perspective, earnings management is explained by positive accounting theory, which suggests that managers are motivated by contractual and political factors, including the bonus plan hypothesis, debt covenant hypothesis, and political cost hypothesis (Watts & Zimmerman, 1986). In addition, agency theory explains that conflicts of interest between owners and managers may encourage opportunistic behavior in financial reporting. Within this framework, top management plays a strategic role because executives are directly involved in determining accounting policies and strategic decisions (Choiriah & Lysandra, 2023).

The upper echelon theory explains that organizational outcomes are influenced by managerial background characteristics such as education, experience, and tenure (Papagiannidis, 2022). Managers with higher educational backgrounds tend to possess stronger analytical and information-processing capabilities, which influence strategic and financial reporting decisions (Hsieh et al., 2018) Meanwhile, longer managerial tenure increases experience and organizational commitment, potentially reducing opportunistic reporting behavior due to higher reputational concerns and litigation risks (Papagiannidis, 2022).

In addition to managerial characteristics, audit quality serves as an important corporate governance mechanism to reduce opportunistic managerial behavior. High-quality audits enhance the credibility of financial reporting and limit aggressive earnings management practices (Alzoubi, 2016) Audit quality may also function as a moderating variable because external auditors are responsible for monitoring accounting policies and ensuring compliance with financial reporting standards (Miladi & Chouaibi, 2021).

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Previous studies examining the relationship between top management characteristics and earnings management have produced inconsistent findings. Some studies indicate that managerial education and tenure significantly influence earnings management practices (Chou & Chan, 2018; Dewi & Damayanti, 2020), while other studies report negative or insignificant effects (Anggraeni & Dewi, 2023; Zwageri, 2020). These inconsistencies indicate the presence of a research gap that requires further investigation, particularly by incorporating moderating variables and examining different industrial contexts.

This study offers several novelties. First, this research integrates the upper echelon theory and audit quality within a single empirical framework to explain earnings management behavior, which remains limited in prior studies. Second, this study focuses specifically on the infrastructure sector, which is characterized by long-term contracts, high leverage, and significant estimation discretion, making it more vulnerable to earnings management practices. Third, this study uses a post-pandemic observation period (2020–2024), which captures a unique economic condition that potentially increases managerial pressure in financial reporting. Fourth, audit quality is positioned as a moderating variable to provide a deeper explanation of how corporate governance mechanisms influence the relationship between top management characteristics and earnings management. Based on the theoretical background, empirical phenomena, and inconsistencies in prior findings, this study aims to examine the effect of top management characteristics on earnings management with audit quality as a moderating variable in infrastructure sector companies during the period 2020–2024.

LITERATURE REVIEW AND HYPOTHESIS DEVELOPMENT

Agency Theory

Agency theory was first introduced by (Jensen & Meckling, 1979), who defined an agency relationship as a contract in which one or more parties (principals) delegate authority to another party (agent) to perform services and make decisions on their behalf. In the corporate context, shareholders act as principals, while managers act as agents responsible for managing the company in accordance with the principals' interests. However, differences in objectives between principals and agents may lead to agency conflicts, where principals seek to maximize firm value while agents tend to pursue personal economic and psychological benefits (Lesmono & Siregar, 2021). These conflicts are strengthened by information asymmetry, where managers possess more complete internal information than shareholders. Information asymmetry provides opportunities for managers to act opportunistically, particularly in financial reporting. Managers may use their discretion in selecting accounting policies and estimates to influence reported earnings in order to improve perceived performance or achieve certain contractual outcomes. This behavior is commonly referred to as earnings management (Siallagan, 2020). Empirical studies also indicate that higher information asymmetry increases the likelihood of earnings management practices (Yando, 2018), reinforcing the relevance of agency theory in explaining managerial behavior in financial reporting.

Upper Echelon Theory

Upper echelon theory (UET), developed by (Hambrick & Mason, 1984) states that organizational outcomes and strategic processes are largely influenced by the characteristics of top management. This theory argues that the cognitive bases, values, and experiences of top executives shape how they interpret information and make strategic decisions, which ultimately affect organizational performance. According to (Papagiannidis, 2022) top

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management characteristics play a key role in explaining and predicting strategic choices because executives rely on their knowledge, assumptions about future events, and evaluation of alternative actions when making decisions. Since cognitive values and perceptions are difficult to observe directly, upper echelon theory suggests that observable managerial characteristics can be used as measurable proxies (Papagiannidis, 2022). These observable characteristics include age, education, tenure, experience, and gender (Hambrick & Mason, 1984). Based on this perspective, (Zwageri, 2020) argues that top management team characteristics are important determinants of corporate strategic decisions, including financial reporting policies and earnings management practices, because executives have significant authority in determining accounting choices and reporting strategies.

Top Management Knowledge on Earnings Management

A higher level of education is one of the key factors in improving managerial knowledge and competence. Higher education enhances an individual's intellectual capacity, analytical skills, and decision-making abilities, which are essential in managing complex organizational activities. Executives with higher educational backgrounds tend to have stronger information-processing capabilities and are more likely to adopt innovative and rational strategies. According to upper echelon theory, top managers with greater knowledge are expected to make more careful and objective decisions that influence the overall financial health of the company. Therefore, the educational background of top management is considered an important factor affecting earnings management practices. Empirical evidence shows that top management knowledge measured through advanced degrees or professional certifications such as a master's degree or CPA significantly influences earnings management (Zwageri, 2020), while accounting expertise and higher education levels are associated with a reduction in earnings management behavior (Hsieh et al., 2018). Based on the above explanation, the following hypothesis is proposed:
H_1: Top management education has a significant effect on earnings management.

Top Management Tenure on Earnings Management

Managerial tenure provides valuable work experience for top management, and longer tenure is generally associated with better operational performance, stronger reputation, and greater awareness of litigation risks. Executives who serve longer within an organization tend to develop stronger organizational commitment and deeper understanding of internal processes, which may influence their strategic and financial reporting decisions. According to (Papagiannidis, 2022), executives with longer tenure are also more emotionally attached to the organization, which may affect their response to organizational changes and risk-taking behavior. From a financial reporting perspective, top management with longer tenure may have lower incentives to engage in aggressive earnings management because they are more concerned with maintaining long-term reputation and organizational stability. Conversely, executives with shorter tenure may be more likely to engage in earnings management to quickly build credibility and performance perception (Olivia et al., 2022). However, other studies suggest that longer tenure may also increase opportunities for earnings management due to stronger control over internal policies and reporting practices. Empirical evidence indicates that top management tenure significantly influences earnings management behavior (Putri & Darmayanti, 2021). Based on the above explanation, the following hypothesis is proposed:
H_2: Top management tenure has a significant effect on earnings management.

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Audit Quality in Moderating Top Management Knowledge on Earnings Management

Independent auditors serve as an important monitoring mechanism to reduce agency conflicts between shareholders and management. Higher audit quality improves the credibility of financial reporting because auditors are responsible for ensuring that financial statements are presented fairly in accordance with applicable standards (Paulus et al., 2026). Audit quality is often associated with the size and reputation of the audit firm, where larger audit firms tend to charge higher audit fees, perform more rigorous audit procedures, and produce more reliable financial information compared to smaller audit firms (Ahmad et al., 2016). High audit quality can therefore help reduce errors and manipulation in financial statements (Juany & Suparman, 2022). Top management with higher educational backgrounds tends to possess broader knowledge and stronger analytical capabilities in evaluating financial information and predicting company performance. The presence of high-quality auditors is expected to strengthen the role of managerial knowledge in limiting opportunistic behavior, particularly earnings management practices that may mislead stakeholders. Prior studies indicate that managerial knowledge moderated by audit quality has a significant effect on earnings management (Hsieh et al., 2018; Zwageri, 2020). Based on the above explanation, the following hypothesis is proposed:

H_3: Audit quality moderates the relationship between top management education and earnings management.

Audit Quality in Moderating the Term of Office of Top Management on Earnings Management

Managerial tenure influences cognitive perspectives and encourages executives to make different strategic choices, which ultimately affect organizational performance (Xiong, 2016). Top management teams with longer average tenure tend to implement more effective financial and investment policies, leading to improved organizational performance (Hsieh et al., 2018). In contrast, newly appointed managers generally have stronger incentives to engage in earnings management to build reputation rather than purely reporting actual performance (Paulus et al., 2025) In this context, audit quality reflects the auditor's ability to ensure that financial statements present reliable and credible information for stakeholders (Choiriah, 2022). Top management with longer tenure is more likely to maintain their position by protecting their professional reputation. The presence of high-quality auditors is expected to constrain opportunistic earnings management behavior because stricter audit procedures increase monitoring effectiveness and reduce managerial discretion (Choiriah et al., 2024). Prior research indicates that audit quality can strengthen monitoring mechanisms and limit opportunistic reporting practices among experienced executives (Zwageri, 2020). Based on the above explanation, the following hypothesis is proposed:

H_4: Audit quality moderates the relationship between top management tenure and earnings management.

Agency theory explains that conflicts of interest between principals and agents may encourage opportunistic behavior such as earnings management, especially under information asymmetry. Upper echelon theory states that organizational outcomes, including financial reporting decisions, are influenced by top management characteristics such as education and tenure. In addition, audit quality acts as an external monitoring mechanism that can limit opportunistic behavior and improve financial reporting credibility. Therefore, this study examines the effect of top management education and tenure on earnings management (H1–H2) and the moderating role of audit quality in these relationships (H3–H4).

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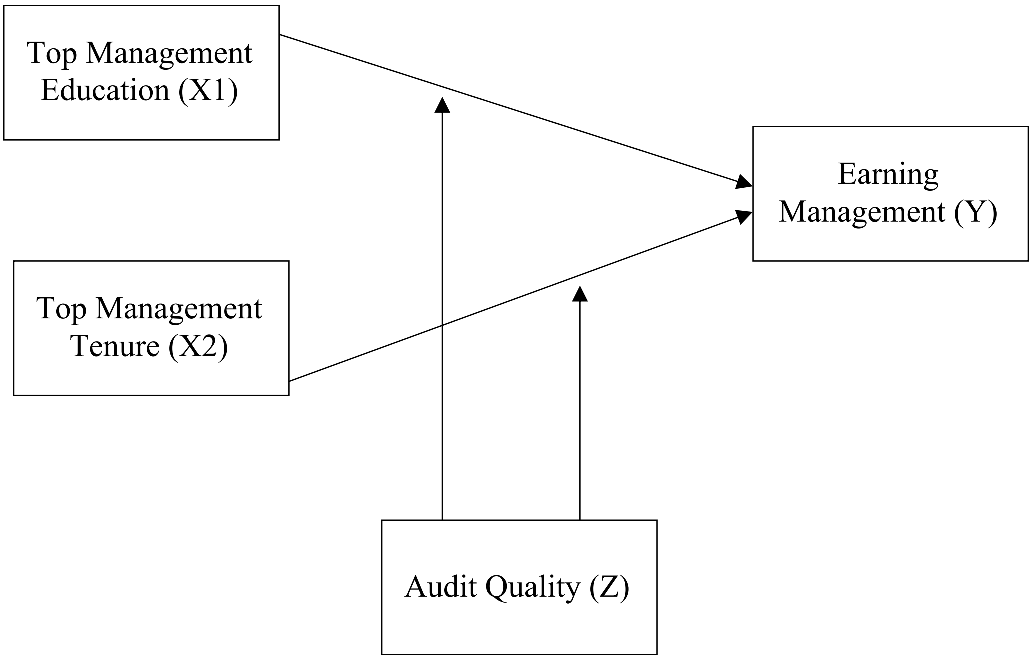

Figure 1. Research Framework
Source: Author, (2026)

METHOD

This study uses a quantitative research approach to examine the relationship between top management characteristics, audit quality, and earnings management. The research objects are infrastructure sector companies listed on the Bursa Efek Indonesia during the 2020–2024 period. The study utilizes secondary data obtained from annual reports and financial statements published by the companies. The sampling technique applied is purposive sampling based on specific criteria relevant to the research objectives.

Table 1. Measurement Variable

No.	Variable	Dimensions	Indicator	Scale
1	Top Management Knowledge	Master's Degree or Certified Public Accountant (CPA)	Score 1 if you have a Master's or CPA degree Score 0 If you do not have a Master's Degree or CPA (Zwageri et al., 2020)	Nominal
2	Top Management Tenure	Average Tenure of top management	$\overline{X}TNR = \frac{\Sigma\, TNR}{\Sigma\, MTM}$ (Hsieh et al., 2018)	Ratio
3	Earnings Management	Revenue Discretionary Model	$\Delta ARit = \alpha + \beta 1 \Delta Rit + \varepsilon it$ (Stubben, 2010)	Ratio
4	Audit Quality	Audit Fee	AQ = Audit Fee (Anggasta et al., 2022)	Ratio

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Table 2. Criteria Sampling

No	Sample Criteria	Amount
1	Infrastructure companies listed on the Bursa Efek Indonesia during the 2020–2024 period	67
2	Companies with incomplete data	-12
3	Total research sample	55
	Total observations for the 2020–2024 period (5 years)	275

Source: IDX Data Processed, (2026)

Data collection is conducted through documentation methods by gathering financial and non-financial information related to the research variables. The research instruments consist of measurement proxies for top management education, managerial tenure, audit quality, and earnings management. Data analysis is performed using statistical methods, including descriptive analysis and regression-based hypothesis testing with moderating variables to examine the relationships among the variables.

RESULT AND DISCUSSION

Descriptive statistical analysis provides an overview of each variable used in this study. The results present the minimum, maximum, mean, median, and standard deviation values for each variable, as shown in the Table 3 below.

Table 3. Descriptive Result

	Earning Management	Top Management Knowledge	Top Management Tenure	Audit Quality
Mean	0.271	0.477	4.774	3,040,000,000
Median	0.049	0.500	3.472	655,000,000
Maximum	9.152	1.000	18.067	83,700,000,000
Minimum	0.001	0.000	0.283	60,000,000
Std. Dev.	0.964	0.310	3.811	10,500,000,000

Source: Data Processing Eviews10, (2026)

Based on the descriptive analysis (Table 4.1), the study uses 275 observations (55 companies × 5 years). Earnings management ranges from 0.001 at PT Cardig Aero Services Tbk to 9.1517 at PT Waskita Karya (Persero) Tbk, with a mean of 0.2707 and a standard deviation of 0.9641, indicating variation across infrastructure firms. Top management education has a mean value of 0.4765 (median 0.50), with values between 0 and 1, suggesting a balanced distribution of the dummy/proportion variable. Top management tenure ranges from 0.28 years at PT Garuda Maintenance Facility Aero Asia Tbk to 18.07 years at PT Nusa Raya Cipta Tbk, with an average of 4.77 years, indicating that most executives have moderate tenure. Audit quality ranges from 60,000,000 at PT Leyand International Tbk to 83,700,000,000 at PT Telkom Indonesia (Persero) Tbk, with an average of 3,040,000,000 and a high standard deviation, showing substantial variation in audit quality across companies.

Table 4. Model Selection

Testing	Prob	Information
Chow	0.000	FEM
Hausman	0.000	FEM

Source: Data Processing Eviews10, (2026)

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The model selection results show that the Chow test probability value (0.000 < 0.05) indicates that the Fixed Effect Model (FEM) is more appropriate than the Common Effect Model. Furthermore, the Hausman test probability value (0.000 < 0.05) confirms that the Fixed Effect Model is more suitable than the Random Effect Model. Therefore, the Fixed Effect Model is used for regression analysis in this study.

Table 5. Hypothesis Testing

Variable	Coefficient	t-Statistic	Prob.	Information
C	-1.217	-4.595	0.000	
TMK -> EM	0.170	3.226	0.000	Supported
TMT -> EM	0.198	2.461	0.002	Supported
AQ*TMK -> EM	0.091	3.914	0.000	Supported
AQ*TMT -> EM	-0.005	-1.319	0.188	Rejected
R-Square		0.527		
F-Square		0.000		

Source: Data Processing Eviews10, (2026)

The results show that top management knowledge (TMK) and top management tenure (TMT) have a significant effect on earnings management. Audit quality moderates the relationship between TMK and earnings management, but does not moderate the relationship between TMT and earnings management. The R-squared value of 0.527 indicates that 52.7% of the variation in earnings management is explained by the model, while the overall model is statistically significant (Prob F = 0.000).

The first hypothesis in this study proposed that top management knowledge negatively affects earnings management, assuming that higher managerial competence and accounting understanding would lead to higher-quality financial reporting. However, the empirical results show that top management knowledge has a positive and significant effect on earnings management, indicating that the hypothesis is not supported. This finding suggests that managerial knowledge does not always function as a control mechanism but may instead become an opportunistic instrument. From the perspective of agency theory introduced by (Jensen & Meckling, 1979), highly knowledgeable executives possess greater capability to exploit information asymmetry between management and stakeholders. A deeper understanding of accounting standards and the flexibility of accounting policies enables managers to conduct earnings management in a more structured manner that is difficult for external parties to detect. Furthermore, according to earnings management theory by (Healy & Wahlen, 1999), earnings management involves significant professional judgment, implying that managerial knowledge can act as a technical prerequisite rather than a constraint. These results indicate that managerial knowledge alone is insufficient to reduce earnings management without strong corporate governance mechanisms such as effective oversight and internal control systems. This finding contradicts (Zwageri, 2020), who found a negative relationship, but supports the findings of (Widagdo et al., 2022), which suggest that higher managerial knowledge may encourage earnings management practices.

The second hypothesis in this study proposed that top management tenure negatively affects earnings management, assuming that longer managerial tenure would increase experience, reputation, and understanding of corporate governance, thereby reducing the likelihood of earnings management practices. However, the empirical results reveal a different outcome: top management tenure has a positive and significant effect on earnings management. This finding indicates that the longer top management holds their position, the greater the tendency for the company to engage in earnings management. The result also

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suggests that managerial tenure does not necessarily function as a mechanism to control opportunistic behavior but instead may increase managerial discretion in financial reporting. The research period of 2020–2024 also contributes to the findings, as it reflects a period of economic uncertainty and recovery pressure that increased the need to maintain stable financial performance, meet debt covenant requirements, and sustain investor confidence. According to financial reporting perspective literature by (Scott, 2015) such pressures often encourage managers to use earnings management as a performance-stabilization strategy. Therefore, this study concludes that top management tenure has a contextual effect on earnings management, influenced by managerial power, governance effectiveness, industry characteristics, and macroeconomic conditions. The results contradict (Zwageri, 2020), who found that longer tenure reduces earnings management, but support the findings of (Al-Hawtmeh et al., 2024; Qi et al., 2018), which indicate that longer managerial tenure tends to increase earnings management practices.

Based on the results of testing the third hypothesis, audit quality is proven to positively and significantly moderate the effect of top management knowledge on earnings management. This indicates that higher audit quality strengthens the role of top management knowledge in influencing earnings management practices. Top management with higher knowledge tends to better understand the flexibility within accounting standards, enabling them to manage earnings more strategically (Choiriah, 2022) High-quality audits create stricter monitoring pressure, limiting aggressive earnings management; however, in such conditions, managerial knowledge becomes a critical factor in adjusting reporting strategies so they remain compliant with accounting standards. This finding is consistent with agency theory proposed by (Jensen & Meckling, 1979), which explains that conflicts of interest between managers and owners encourage managers to manage earnings according to their interests, while external auditing functions as a governance mechanism to reduce information asymmetry. The results suggest that audit quality does not eliminate the influence of managerial knowledge but instead shapes how such knowledge is utilized in financial reporting. Empirically, this finding is supported by (Almubaydeen & Al-Eyasrah, 2025) and (Elnahass et al., 2024), who also found that audit quality moderates the relationship between top management knowledge and earnings management practices.

The fourth hypothesis proposes that audit quality moderates the relationship between top management tenure and earnings management. However, the results indicate that audit quality does not have a significant moderating effect, meaning the hypothesis is not supported. This finding suggests that the level of audit quality is unable to strengthen or weaken the influence of top management tenure on earnings management practices, implying that the presence of high-quality auditors is not always effective in limiting earnings management associated with longer managerial tenure. From the agency theory perspective developed by (Jensen & Meckling, 1979), external auditing functions as a monitoring mechanism to reduce conflicts of interest between managers and shareholders. However, infrastructure companies generally have long-term projects, large asset values, and high accounting complexity, creating wider accounting discretion, particularly in revenue recognition and cost estimation, allowing earnings management to occur within acceptable accounting standards and making it difficult for auditors to fully constrain such practices. Furthermore, top managers with longer tenure tend to possess stronger organizational influence, deeper firm-specific knowledge, and greater control over financial reporting decisions, which can reduce the effectiveness of external audit monitoring. Consequently, audit quality does not act as a moderating factor in this relationship. This result is consistent with prior studies by (Al-Hawtmeh et al., 2024; Juany & Suparman, 2022; Zwageri, 2020) which also found that audit

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quality does not moderate the relationship between top management tenure and earnings management.

CONCLUSION

This study aims to examine the effect of top management knowledge and top management tenure on earnings management, as well as the moderating role of audit quality in infrastructure companies listed on the Bursa Efek Indonesia during the 2020–2024 period. The results indicate that top management knowledge has a positive and significant effect on earnings management, implying that higher managerial competence does not always reduce opportunistic behavior but may instead increase the ability to utilize accounting flexibility. Top management tenure is also found to have a positive and significant effect on earnings management, suggesting that longer tenure strengthens managerial discretion in financial reporting. Furthermore, audit quality is proven to strengthen the relationship between top management knowledge and earnings management, indicating that knowledgeable managers adjust reporting strategies within stricter audit oversight. However, audit quality does not moderate the relationship between top management tenure and earnings management, which suggests that the length of managerial service is not effectively constrained by external audit mechanisms.

Future research is recommended to incorporate additional corporate governance variables such as board independence, audit committee effectiveness, and internal control quality to better explain earnings management behavior. Expanding the research sample beyond the infrastructure sector and extending the observation period may also improve generalization of the findings. For practical implications, companies are expected to strengthen governance mechanisms to balance managerial competence and authority, while regulators and auditors should enhance monitoring practices to reduce opportunistic financial reporting.

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