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DOES PRESIDENTIAL ELECTION MATTERS? EARNINGS MANAGEMENT STUDY IN INDONESIA

Abstract:

This study investigates the correlation between earnings management and presidential elections in Indonesia. Prior research has demonstrated that general elections have a detrimental effect on the practice of earnings management at State-Owned Enterprises (SOEs). The objective of this study is to examine the impact of presidential elections on the practice of earnings management in Indonesia, specifically focusing on SOEs. A study was carried out utilizing a sample of 63 Indonesian companies that are listed on the Indonesia Stock Exchange (IDX), out of which 21 are SOEs. The study spanned over a period of 5 years. It aimed to investigate the impact of presidential elections in the years leading up to the election, the election year itself, and the years after the election. Our empirical research shows that presidential elections harm the practice of real earnings management in both SOEs and non-SOEs. Additionally, we observe a significant increase in the prevalence of earnings management before the election period compared to the period following the election. The discovery indicates a substantial increase in pressure caused by political events, such as the presidential election. These findings provide a reference point for future studies and aid in anticipating earnings management practices during prospective political events, particularly presidential elections.

Keywords:

Earnings Management, Election, Stated Owned Enterprises, Political pressure

JEL Classification: E66, M40, M41

1 Introduction

Indonesia, a democratic country with a presidential system, elects its president through general elections every five years. Due to diverse political interests, the election process often becomes a source of debate and tension within society. During the campaign and election periods, the political climate in the country often becomes tense, occasionally triggering demonstrations and protests by the public, which can indirectly impact the country's economic conditions.

In Indonesia, State-Owned Enterprises (SOEs) have a crucial role as entities owned by the government and have a strategic function in the national economy. According to the Ministry of Finance (2022), SOE contributed 362 trillion to the state budget 2021. The magnitude of SOE's contribution underscores the importance of transparency in the financial reports issued by these entities. A lack of transparency in SOE financial reports can lead to significant losses for the country, as evidenced by the case of PT Garuda Indonesia in 2018, which incurred a loss of Rp.2.45 trillion. Therefore, transparency is expected in SOE operations when presenting their financial statements. This transparency is crucial to ensure accountability and maintain stakeholders' trust in SOE. A high level of transparency should ideally reduce earnings management (EM) practices. However, research by Nguyen et al. (2021) suggests the opposite, indicating an increase in opportunistic EM alongside state ownership increases. This implies that state ownership in a company may be used by management to manipulate financial reports for their own benefit, potentially conflicting with the interests of other stakeholders.

Then, how does management behavior change during election periods? Research shows a positive relationship between EM and municipal and council elections in Italy from 2010 to 2015 (Capalbo et al., 2021). This increase in EM is driven by pressures or incentives for corporate management to demonstrate better performance in the eyes of the public or specific stakeholders. This assertion is corroborated by the fact that EM tends to rise during politically uncertain times, especially in highly uncertain election years, such as when elections are won by a margin of less than 5% or when there is a change in ruling parties (Gonçalves et al., 2022). This study explores management behavior, particularly regarding EM actions during elections, specifically focusing on SOEs. Therefore, the findings of this research provide significant contributions and play a crucial role in protecting investors from potentially misleading by financial reporting information.

2 Literature Review and Hypothesis Development

Political pressure is the exertion of influence by political individuals or institutions on organizations or individuals in order to achieve specified objectives. Previous studies by Binder (2018) indicate that central banks with high levels of autonomy often face political pressure related to inflation. Political pressure can generate negative media coverage and public scrutiny, damaging corporate reputation (Preuss & Wielhouwer,2021). In the context of general elections, organizations may face political pressures that can influence EM actions. One such pressure could be felt during election campaign periods. Therefore, it is crucial for companies to be aware of the consequences of political pressure and to consider the company's long-term strategic goals.

As entities owned or controlled by the government, SOEs play a crucial role in economic growth. Research indicates that SOEs often face political pressures to achieve social and political

objectives, sometimes conflicting with economic goals (Spartak & Nedelchev, 2020). Political involvement in SOEs can create pressures that necessitate EM to maintain public trust and achieve both political and economic objectives (Perjuci & Hoti, 2022).

Earnings management can be defined as using accounting estimates and judgments to modify company transactions with the intention of misleading stakeholders about the company's economic performance (Healy & Wahlen, 1999). This practice can occur in two forms: accrual-based earnings management (AEM) and real activities earnings management (REM) (Sani et al., 2020). Both forms indicate opportunistic management behavior that can be triggered by political pressures such as general elections. Watts & Zimmerman (1986) introduced the positive accounting theory, which posits three main hypotheses regarding the motivations for EM: bonus plan, debt covenant, and political cost. Indirectly, positive accounting theory also highlights the relationship between earnings management practices and politics.

Previous research documents a positive relationship between EM and firms with political connections and elections (Ramanna & Roychowdhury, 2010). They do this to protect themselves from possibly harmful political criticism and to prevent any political disgrace caused by the politicians they endorse. EM practices are also employed to bolster electoral success by leveraging the political relationships held by the firm (Watts & Zimmerman, 1986). Prior studies have demonstrated that elections are negatively associated with EM, but other factors influencing firms to engage in EM during elections include political uncertainty. This relationship is further supported by public choice theory, where to enhance their re-election chances (Black et al., 1998) or the ruling party's prospects of winning again, politicians engage in pre-election manipulation of economic performance measures to alter voter perceptions of their governance efficiency (Capalbo et al., 2021). To examine whether the relationship between elections and EM also occurs in Indonesia, the following hypothesis is formulated:

H_1: Election period affects earnings management actions

Another factor influencing EM during election periods is state ownership. Research by Rammana and Roychowdhury (2010) demonstrates a positive relationship between EM, political connections, and elections, suggesting that firms tend to engage in EM to bolster electoral success and leverage political relationships. To explore the impact of state ownership on EM during election periods, this study focuses on SOEs, as several conditions strengthen the relationship between SOEs and EM during elections: (I) the significant role of the government in SOEs. Most SOEs in Indonesia are government-owned, often with majority government shares. This government involvement can create significant financial dependence on electoral decisions, akin to conditions observed in Municipal-Owned Enterprises studies in Italy (Capalbo et al., 2021); (II) SOEs' extensive involvement in government projects; many are engaged in government-funded infrastructure and public service projects. Political decisions during elections can directly impact these projects and, consequently, SOEs' financial positions. (III) appointment and dismissal of SOE directors by the government. SOE directors are often appointed by the government, particularly by relevant ministries or agencies. Political decisions during elections can influence the appointment and dismissal of SOE directors, potentially leading to EM practices that serve political interests; (IV) political officials' involvement in SOE boards. Some SOE directors have political backgrounds or direct involvement in political activities. In Indonesia, the Minister of SOEs also has the authority to restructure the board of directors of SOEs. Sensitivity

to political decisions may drive EM practices to achieve specific political goals; (V) short tenures of SOE directors. Many SOE directors have relatively short tenures. This short tenure can create a need to ensure financial targets are met within their term, particularly during political changes that may affect SOEs' leadership. Furthermore, although state ownership may significantly influence some organizational aspects, both SOEs and non-SOEs may still adopt EM actions for their own interests, consistent with agency theory principles outlined by Jensen & Meckling (1976), where asymmetric information between principals and agents allows agents to exploit their superior information for personal gain, potentially diverging from the principals' interests. Therefore, the following hypothesis is proposed to examine the impact of state ownership during election periods:

H2: Election period increases earnings management in SOEs

3 Data and Methodology

This study uses corporations whose majority or a significant portion of their capital is owned by the Republic of Indonesia and listed on the Indonesia Stock Exchange, excluding the financial sector. We also use a matched sample of 2 corporations selected from each state-owned enterprise. The research period spans five years (2017-2021), consisting of 2 years prior to the general election (2017-2018), the election year itself (2019), and two years post-election (2020-2021). Data utilized in this study are derived from annual financial reports during the specified period. To investigate the impact of general elections on earnings management, this research conducts multivariate regression analysis.

Dependent Variable

This study employs EM as the dependent variable to describe earnings management, encompassing accrual-based earnings management (AEM) and real earnings management (REM). The study utilizes the Jones model to assess discretionary accruals in measuring the level of AEM. In this approach, total accruals are the dependent variable regressed against two independent variables. The first independent variable is ΔREV (revenue change), used to control for changes in working capital that arise in response to economic changes, and the second is PPE (property, plant, equipment), which is implemented as a control for non-discretionary depreciation expenses. Thus, this model provides a more comprehensive foundation for analyzing and measuring accrual-based earnings management practices by considering controls over depreciation costs and changes in working capital as critical factors. The following regression is performed to estimate the relevant regression coefficients β_1,β_2 and β_3:

$$\frac{TA_t}{A_{t-1}} = \alpha_0 + \beta_1(\frac{1}{A_{t-1}}) + \beta_2(\frac{\Delta REV_t}{A_{t-1}}) + \beta_3(\frac{PPE_t}{A_{t-1}}) + \varepsilon_t \quad (1)$$

In this equation, TA_t represents the total accruals of the firm in year t ; ΔREV_t denotes the change in sales revenue in year t; PPE_t refers to the total gross property, plant, and equipment, and ε_t represents discretionary accruals. The absolute value of the residual is utilized as an indicator of AEM. Consequently, a higher value suggests a greater indication of earnings manipulation.

To assess REM conducted by companies, this study employs the Roychowdhury model (2006), which considers three matrices: the abnormal levels of operating cash flows, production costs,

and discretionary expenditures. Managers can engage in real earnings management through sales manipulation, such as accelerating sales by offering price discounts or implementing more lenient credit terms during periods when they aim to achieve earnings target (Roychowdhury, 2006). To measure the abnormal levels of cash flows resulting from sales manipulation, the following formula is used:

$$\frac{CFO_{it}}{TA_{it-1}} = \alpha_0 + \beta_1 \frac{1}{TA_{it-1}} + \beta_2 \frac{S_{it}}{TA_{it-1}} + \beta_3 \frac{\triangle S_{it}}{TA_{it-1}} + \varepsilon_{it} \quad (2)$$

CFO_{it} describes cash flows from operations taken from the cash flow statement of firm i in year t; TA_{it-1} describes total assets at the end of year t; S_{it} represents net sales for firm i in year t; ΔS_{it} describes the change in net sales of firm i in year t; while ε_{it} is a regression residual that represents a proxy for cash flows from abnormal operations (Abnormal CFO).

Managers can also engage in REM by enhancing earnings through strategies such as overproduction of inventory, with the aim of reporting higher operating margins. Consequently, fixed overhead costs per unit can decrease as the production volume increases. To indicate higher levels of manipulation through overproduction, the following formula is used:

$$\frac{PROD_{it}}{TA_{it-1}} = \alpha_0 + \beta_1 \frac{1}{TA_{it-1}} + \beta_2 \frac{S_{it}}{TA_{it-1}} + \beta_3 \frac{\triangle S_{it}}{TA_{it-1}} + \beta_4 \frac{\triangle S_{it-1}}{TA_{it-1}} + \varepsilon_{it} \quad (3)$$

$PROD_{it}$ reflects the production costs of firm i in year t, which are equal to total sales costs plus changes in inventory; ε_{it} is the regression residual's proxy for Abnormal Production Costs.

Companies also have the option to engage in REM by reducing discretionary expenses to boost earnings for the period. To measure REM through abnormal discretionary expenses, the following formula is used:

$$\frac{DISXP_{it}}{TA_{it-1}} = \alpha_0 + \beta_1 \frac{1}{TA_{it-1}} + \beta_2 \frac{S_{it-1}}{TA_{it-1}} + \varepsilon_{it} \quad (4)$$

$DISXP_{it}$ represents discretionary expenses, including selling, general and administrative, research and development, and advertising expenses for firm i in year t; ε_{it} in this formula is the regression residual, which represents a proxy for Abnormal Discretionary Expenses.

To combine the overall effects of REM from the three matrices (Alhaddad et al., 2022), the abnormal operating cash flows and abnormal discretionary expenses are multiplied by -1. Therefore, high values for the proxies of abnormal operating cash flows and abnormal discretionary expenses indicate higher levels of REM. The following formula expresses this aggregate REM proxy:

REM_ALL = *-Abnormal CFO + Abnormal production costs - Abnormal discretionary expenses*

The total REM_ALL will be used as an indicator of company REM. The higher its value, the higher the earnings manipulation conducted by the company.

Variabel Independen

To address the existing hypotheses, this research utilizes two independent variables: BUMN and ELEC. The BUMN variable represents SOEs, which is a dummy variable. If the government owns or controls more than 50% of the shares, it is assigned a value of one; and zero otherwise. The

ELEC variable reflects the situation of general elections in the country. ELEC is also a dummy variable, where the years covering the election period (2019) are assigned a value of one, while the years outside the election period (2017-2018 and 2020-2021) are assigned a value of zero.

This study also employs a moderation variable to examine whether there is an influence from the ELEC period on SOE, namely BUMN×ELEC. Drawing upon the research conducted by Capalbo et al. (2021), we incorporate several control variables to ensure that the dependent variable is not influenced by other factors unrelated to the research. The control variables used include SIZE (natural logarithm of total assets), LEV (proportion of total debt to total assets), ROAt-1 (Return on Assets from the previous year), GRR (growth rate of firm's revenue), as well as AEM and REM themselves. Each of the explained variables will be formulated into multivariate linear regression

To test the effect of ELEC on EM, the following model is formulated:

$$AEM = \alpha + \beta_1 ELECTION + \beta_2 BUMN + \beta_3 SIZE_{it} + \beta_4 LEV_{it} + \beta_5 ROA_{it-1} + \beta_7 GRR_t + \beta_6 REM + \varepsilon_{it} \quad (5)$$

$$REM = \alpha + \beta_1 ELECTION + \beta_2 BUMN + \beta_3 SIZE_{it} + \beta_4 LEV_{it} + \beta_5 ROA_{it-1} + \beta_7 GRR_t + \beta_6 AEM + \varepsilon_{it} \quad (6)$$

H1a and H1b are supported if $\beta_2 \neq 0$

To test the impact of ELEC on BUMN, the following model is formulated:

$$AEM_{it} = \alpha + \beta_1 BUMN + \beta_2 ELECTION + \beta_3 BUMN \times ELECTION + \beta_4 SIZE_{it} + \beta_5 LEV_{it} + \beta_6 ROA_{it-1} + \beta_7 GRRt + \beta_8 REM_{it} + \varepsilon_{it} \quad (7)$$

$$REM_{it} = \alpha + \beta_1 BUMN + \beta_2 ELECTION + \beta_3 BUMN \times ELECTION + \beta_4 SIZE_{it} + \beta_5 LEV_{it} + \beta_6 ROA_{it-1} + \beta_7 GRRt + \beta_8 AEM_{it} + \varepsilon_{it} \quad (8)$$

H2a and H2b are supported if $\beta_3 > 0$.

4 Analysis and Discussion

Tabel 1 indicates that the ELEC variable does not have a significant impact on AEM, suggesting that ELEC does not have the ability to explain the company's AEM actions. However, Table 1 also shows that the ELEC has a significant inverse effect on the company's REM actions.

Table 1 Regression Results for H1

	AEM		**REM**	
	Coefficient	*t-Statistic*	*Coefficient*	*t-Statistic*
C	3.742	0.582	-1.496	-0.346
ELEC	1.036	1.561	-1.181	-2.670***
BUMN	0.216	0.353	0.254	0.621
SIZE	-0.067	-0.311	0.630	0.435

LEV	-1.200	-0.916	-0.118	-0.134
ROA t-1	-2.372	-0.567	3.327	1.186
GRR	-0.014	-0.021	0.408	0.883
REM	0.603	7.757***	-	-
AEM	-	-	0.272	7.757***
F-Statistic	8.950***		10.244***	
Adjusted R^2	15.1%		17.1%	
n	315		315	
Note: ***, **, * Significant at 1,5 and 10 percent levels (two-tailed)				

Source: processed by author

Election periods tend to influence company REM actions while not affecting AEM actions, consistent with previous research showing that companies in Indonesia prefer REM over AEM (Azizah, 2018). REM is perceived as less risky and more confidential compared to AEM, with AEM being more easily detectable by auditors (Braam, 2015). Economic uncertainty leads stakeholders to exhibit tolerance towards figures in financial reports. In response, company managers decrease their EM practices, and elections are considered one of the special events prompting companies to reduce management practices (Agrawal & Chatterjee, 2015). There is a possibility that management engages in big bath practices, where they deliberately reduce their EM actions during elections and increase their profits in the periods following elections (Walsh et al., 1991).

Table 2 Regression Results for H2

	AEM		**REM**	
	Coefficient	*t-Statistic*	*Coefficient*	*t-Statistic*
C	3.908	0.608	-1.588	-0.367
ELEC	0.573	0.708	-0.931	-1.720*
BUMN	-0.058	-0.087	0.401	0.893
BUMN×ELEC	1.391	1.003	-0.748	-0.803
SIZE	-0.069	-0.319	0.064	0.442
LEV	-1.224	-0.934	-0.102	-0.116
ROA t-1	-2.582	-0.616	3.437	1.222
GRR	-0.051	-0.074	0.426	0.922
REM	0.605	7.779***	-	-
AEM	-	-	0.273	7.779***
F-Statistic	7.957***		9.034***	
Adjusted R^2	15.1%		17.0%	
n	315		315	
Note: ***, **, * Significant at 1,5 and 10 percent levels (one-tailed)				

Source: processed by author

Table 2 shows the results of the second hypothesis test, where the variable BUMN×ELEC does

not significantly affect AEM or REM. This means that the H2 proposed in this model is not supported; the results of this test align with the findings of the first hypothesis test, indicating that election years only significantly negatively impact REM and do not affect AEM, both in state-owned and private enterprises. This indicates a difference in the characteristics of SOEs in Indonesia compared to those in Italy, where SOEs in Italy tend to engage in EM during election periods (Capalbo et al., 2021). In contrast, in Indonesia, SOEs cannot explain EM during election periods. From the two tested hypotheses, it can be concluded that election periods do not significantly impact the AEM actions of Indonesian companies. Conversely, it is evident that election periods significantly reduce REM actions, indicating that the impact of election periods only applies to REM and not to AEM. Additionally, this study demonstrates that government ownership does not affect EM actions during election periods, both in the context of REM and AEM.

Tables 1 and 2 present intriguing findings, where AEM and REM influence each other. In other words, companies in Indonesia tend to engage in AEM and REM simultaneously. This finding is consistent with the research by Owusu et al. (2022), which states that in the UK, companies audited by female auditors tend to limit AEM and REM. However, these findings contradict findings in Pakistan, where AEM tends to reduce REM actions (Shah et al., 2020). Additionally, these findings differ from Zang's research (2012), which shows a trade-off between REM and AEM.

Additional Analysis

Additional analysis was conducted to compare the impact of elections on the pre-election year (2017-2018), election year (2019), and post-election years (2020-2021). The first approach involved re-running regressions using the three different periods, and the results are presented in Tables 3, 4, and 5.

Table 3 Regression for the pre-election year (2017-2018)

	AEM		**REM**	
	Coefficient	*t-Statistic*	*Coefficient*	*t-Statistic*
C	6.234	0.559	-6.985	-0.697
BUMN	0.035	0.034	0.483	0.525
SIZE	-0.097	-0.257	0.243	0.716
LEV	-2.569	-0.978	-0.267	-0.113
ROA t-1	-10.496	-1.140	8.592	1.037
GRR	-0.448	-0.425	0.108	0.114
REM	0.581	6.694***	-	-
AEM	-	-	0.471	6.694***
F-Statistic	7.895***		7.974***	
Adjusted R^2	24.9%		25.1%	
N	315		315	
Note: ***, **, * Significant at 1,5 and 10 percent levels (one-tailed)				

Source: processed by author

Table 4 Regression for the election year (2019)

	AEM		REM	
	Coefficient	*t-Statistic*	*Coefficient*	*t-Statistic*
C	3.896	0.605	0.418	0.862
BUMN	0.230	0.376	0.022	0.456
SIZE	-0.065	-0.300	-0.017	-0.995
LEV	-1.221	-0.930	0.163	1.337
ROA t-1	-1.959	-0.468	-0.616	-1.811*
GRR	-0.138	-0.201	0.177	1.385
REM	0.588	7.603***	-	-
AEM	-	-	-0.002	0.727
F-Statistic	9.988***		2.182*	
Adjusted R^2	14.7%		10.3%	
N	315		315	
Note: ***, **, * Significant at 1,5 and 10 percent levels (one-tailed)				

Source: processed by author

Table 5 Regression for the post-election year (2020-2021)

	AEM		REM	
	Coefficient	*t-Statistic*	*Coefficient*	*t-Statistic*
C	2.195	0.338	-0.039	-0.107
BUMN	-0.092	-0.138	0.038	1.010
SIZE	-0.032	-0.147	-0.001	-0.103
LEV	-0.891	-0.772	0.125	1.938
ROA t-1	0.048	0.013	0.254	1.216
GRR	0.006	0.008	-0.022	-0.532
REM	3.458	2.171**	-	-
AEM	-	-	0.005	2.171**
F-Statistic	4.990		2.125**	
Adjusted R^2	-0.005%		5.1%	
n	315		315	
Note: ***, **, * Significant at 1,5 and 10 percent levels (one-tailed)				

Source: processed by author

Tables 3, 4 and 5 consistently demonstrate that during the pre-election years (2017-2018), election year (2019), and post-election years (2020-2021), there is no impact of state ownership on EM actions.

Subsequently, a second additional analysis was conducted using an independent sample t-test to compare the impact of election and non-election years on AEM and REM.

Table 6 shows that non-election periods have higher REM than election periods, indicating that companies in election periods do indeed reduce company REM. However, for AEM, the results

are not significant, meaning there are no differences in AEM behavior during the election and non-election periods. This is consistent with Azizah's (2018) findings that companies in Indonesia tend to prefer REM over AEM.

Table 6 Independent sample t-test for AEM and REM during election and non-election period

	Period	*Mean*	*t-test*
AEM	*Election*	2.073	0.460
	Non-Election	1.683	
REM	*Election*	-0.029	-2.250***
	Non-Election	1.046	

*Note: ***, **, * Significant at 1,5 and 10 percent levels (two-tailed)*

Source: processed by author

To further explore management's underlying motivations, an additional analysis was conducted using an independent sample t-test to determine whether the increase in EM during the non-election period occurred before the election or in the post-election period.

Table 7 Independent sample t-test for AEM and REM before election and non-election period

	Period	*Mean*	*t-test*
AEM	*Before Election*	2.612	3.226***
	After Election	0.754	
REM	*Before Election*	2.074	4.473***
	After Election	0.017	

*Note: ***, **, * Significant at 1,5 and 10 percent levels (two-tailed)*

Source: processed by author

Table 7 indicates that AEM and REM are more prevalent in the pre-election period compared to the post-election period. This also explains why REM is higher during non-election periods than election periods. The high level of EM actions before elections supports previous research by Watts and Zimmerman (1986), which suggests that EM practices are conducted to support election success. Additionally, the findings align with Public Choice Theory, indicating that EM is conducted in the pre-election period to manipulate economic performance measures and alter voters' perceptions of their governance efficiency.

Last, an additional analysis was conducted to compare whether SOEs also influence EM actions during elections. The results are illustrated in Table 8, which shows that the level of SOEs does not affect EM actions at all.

Table 8 Independent sample t-test for EM between SOEs and non-SOEs

		Period	*Mean*	*t-test*
AEM	*BUMN*	*Election*	2.787	0.831
		Non-Election	1.629	
	Non-BUMN	*Election*	1.716	0.006
		Non-Election	1.710	
REM	*BUMN*	*Before Election*	0.005	-1.429
		After Election	1.291	
	Non-BUMN	*Election*	-0.046	-1.731*
		Non-Election	0.923	

*Note: ***, **, * Significant at 1,5 and 10 percent levels (one-tailed)*

Source: processed by author

Table 8 also indicates that elections impact all types of enterprises. Both SOEs and non-SOEs companies respond to elections by reducing their REM actions because elections are perceived to cause political uncertainty, leading stakeholders to be more lenient with financial report figures. Consequently, many companies respond by reducing their EM actions. It can also be concluded that there are similar characteristics between SOEs and non-SOEs during elections, where both types of enterprises face agency conflicts. As agents with more information than principals, they tend to align in using the opportunity provided by elections to exploit their superior information for personal gain rather than acting in the principal's best interests (Jensen & Meckling, 1976).

5 Conclusion

This study aims to describe whether there is a difference in EM behavior between SOEs and non-SOEs around the election period. Previous studies have shown that elections increase earnings management behavior in government-owned companies in Italy. Therefore, this study aims to explore the influence of elections on EM behavior in Indonesia. To identify the relationship between elections and EM, this study uses a sample of 21 SOEs and 42 non-SOEs in Indonesia over five periods (2017-2021). The AEM value calculation uses the Jones (1991) model, while REM values are calculated using the Roychowdhury (2006) model. The analysis is conducted using linear regression to evaluate the impact of elections on EM. The results indicate that elections in Indonesia have a negative impact on companies' REM behavior but do not have a significant impact on AEM. This study also shows that the level of state ownership (SOEs) does not affect the earnings management actions of companies in Indonesia during elections, which differs from previous findings by Capalbo et al. (2021), who found that SOEs in Italy tend to increase EM during election years.

This research has limitations, which also create opportunities for future research development. First, the criteria we employ to select the matched sample are primarily determined by the similarities in industry and total assets. Subsequent studies can employ more advanced criteria for selecting matched samples. Second, this study employs more company financial information. Further research could incorporate additional factors, such as the level of government ownership, the connection between management and politics, and the quality of auditors, to demonstrate a more profound impact of general elections on earnings management practices in Indonesia.

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