

The Influence of Tax Planning, Profitability, And Costs Operations For Earning Management

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ABSTRACT

This study aims to analyze the influence of tax planning, profitability, and operational efficiency (measured by BOPO—Biaya Operasional Pendapatan Operasional) on earnings management in Indonesian public companies. Using regression analysis on data from 90 company observations listed on the Indonesia Stock Exchange (BEI) between 2019 and 2021, the research reveals several key findings. Tax planning, measured by the Effective Tax Rate (ETR), does not significantly affect earnings management, indicating that tax obligations do not directly drive managerial decisions to manipulate financial reports. Similarly, profitability, measured by Return on Assets (ROA), shows no significant impact on earnings management, suggesting that neither high nor low profitability consistently leads to increased earnings manipulation. In contrast, BOPO demonstrates a positive and statistically significant effect on earnings management, highlighting that operational cost management is a critical lever used by firms to influence reported earnings. This implies that companies may manipulate operational expenses to present more favorable financial outcomes. Overall, the independent variables explain only about 28% of the variation in earnings management practices, indicating that other unexamined factors also play a crucial role. The results suggest that regulators should pay closer attention to how operational costs are managed and reported, as they can be indicators of potential earnings manipulation. Future research could expand on these findings by incorporating additional variables such as corporate governance, audit quality, and institutional factors, as well as employing qualitative methods to gain deeper insights into earnings management practices.

Keywords: Tax Planning, Profitability, Operational Efficiency (BOPO), Earnings Management, Financial Reporting.

1. INTRODUCTION

Profit is the simplest measure to assess a company's performance. Information about profit (*income*) has a very important role for interested parties in a company (Saniamisha & Jin, 2019). In analyzing financial statements both internal and external, profits are often used as a basis for decision-making such as the provision of compensation and the distribution of bonuses to managers, the measure of achievement or performance of management and the basis for determining the amount of tax imposition (Simorangkir et al., 2020). Therefore, the quality of profits is the center of attention for investors, creditors, accounting policymakers, and the government, in this case the Directorate General of Taxes. In addition, the goal that management wants to achieve is to get high profits. This is related to the bonus that will be obtained by the management, because the higher the profit obtained, the higher the bonus that will be given by the company to the management as the direct manager (Wirawan, 2020). On the other hand, profit information can help owners (*Stakeholders*) in estimating *Earning power* (profit power) to assess risk in investment and credit.

The importance of profit information is the responsibility of the management whose performance is measured from the achievement of the profit obtained. It is this situation that usually encourages managers to behave distorted in presenting and reporting such profit information, known as earning management practices (*Revenue Management*). Tax payments are one of the things that are considered to increase the burden that must be incurred and reduce the company's assets. This will result in a decrease in the company's profit and have an impact on the assessment of the quality of management performance by stakeholders. So that the management will try to pay the tax as little as possible (Sinambela & Sinambela, 2022). Efforts to minimize or minimize the tax burden borne by companies as taxpayers can be taken by engineering methods that are still within the scope of taxation and beyond taxation. In this case, the company should develop a strategy in accordance with applicable regulations. Efforts to legally engineer taxation are often referred to as tax planning techniques (*Tax planning*). Tax planning is planning for the fulfillment of tax obligations completely, correctly, and on time so that it can avoid wasting resources owned (Megarani et al., 2019).

Many companies try to regulate the tax expenses that must be paid by taking actions on the financial condition of the financial statements that are processed in such a way that it has an impact on taxation so that the company pays the lowest tax. Taxes are considered a cost so strategies are needed to reduce them (Kristanti, 2019). As a taxpayer, every company must comply with and carry out its tax obligations in accordance with applicable tax regulations (Marques et al., 2011). Tax planning is the first step in tax management. Tax management itself is a means of fulfilling tax obligations correctly, but the amount of tax paid can be kept to a minimum in order to obtain the expected profit. Of course, this tax planning action can be considered as an effort to encourage the implementation of earning management.

Another factor that can affect earning management is profitability. Companies that have high profitability will be linked to the amount of compensation or bonuses that management receives. Anggraeni & Arief (2022), states that the company may use a compensation policy in the form of a functional bonus to adjust the accounting procedures related to the company's profits. So companies that have high profitability will be more likely to practice earning management practices (Wirawan, 2020).

In addition, another factor that will affect earning management is operating income operating costs (BOPO). BOPO is used to measure the level of efficiency and general ability of companies in carrying out their operational activities. The level of efficiency and ability of the company to carry out its operational activities can be seen from the BOPO Ratio. The BOPO ratio is also used to regulate the ability of bank management to control operational

costs and operating income. The smaller the BOPO ratio, the more efficient the operational costs incurred by the bank. The lower the BOPO, the more efficient the bank will be (Siregar & Anggraini, 2022)

Prior studies have examined the individual effects of tax planning Baraja et al. (2019), profitability Karim et al. (2020), and operational efficiency Siregar & Anggraini (2022) on earnings management. In line with research (Fitri & Hakim, 2021) which states profitability has no effect on earning management . In contrast to Sari et al. (2021) which finds management's efforts to manage profits by reducing profitability in the current period. However, these factors are typically analyzed in isolation, leaving a significant gap in understanding their combined influence on financial reporting practices. For instance, while tax minimization strategies like transfer pricing may incentivize earnings manipulation (Midiastuty et al., 2022), empirical findings remain inconsistent, with some studies reporting a positive link (Zahdjuki et al., 2018) and others finding no significant effect (Achyani & Lestari, 2019). Similarly, high profitability could reduce the need for manipulation (Bima et al., 2017), yet firms may still engage in earnings management to meet market expectations (Altamuro et al., 2005). Operational inefficiencies, reflected in high BOPO ratios, are often associated with earnings manipulation (Rohmiati et al., 2019), but their interaction with tax and profitability dynamics remains underexplored.

The Indonesian context adds further complexity to this issue. Recent tax reforms, including stricter transfer pricing regulations and pandemic-related economic pressures, have created new incentives for earnings management (Firmansyah & Ardiansyah, 2021). Manufacturing firms listed on the Indonesia Stock Exchange (IDX) face additional challenges, such as commodity price volatility and supply chain disruptions, which may amplify the temptation to manipulate financial reports. Despite these challenges, limited research has examined how tax planning, profitability, and operational costs collectively influence earnings management in this setting.

This study addresses these gaps by integrating tax planning (measured by ETR), profitability (ROA), and operational efficiency (BOPO) into a unified framework to assess their combined impact on earnings management in Indonesian manufacturing firms (2019–2021). By doing so, it provides a more comprehensive understanding of the drivers of financial reporting practices in emerging markets. Additionally, the findings offer practical insights for regulators to identify manipulation risks, particularly through operational cost management (e.g., BOPO anomalies). The research questions guiding this study are: (1) How do tax planning, profitability, and operational costs collectively influence earnings management in Indonesian firms? and (2) Which factor (ETR, ROA, or BOPO) exerts the strongest effect?

By answering these questions, this study contributes to both academic literature and policymaking, highlighting the nuanced interplay of financial and operational factors in earnings management. It also underscores the need for context-specific regulatory frameworks to enhance financial reporting integrity in dynamic economic environments like Indonesia.

2. LITERATURE REVIEW

Positive Accounting Theory

This research is based on Positive Accounting Theory (PAT), developed by Watts and Zimmerman in 1986. This theory explains why managers engage in earnings management through three main hypotheses. The Bonus Plan Hypothesis suggests that managers manipulate earnings to maximize bonuses, especially when these bonuses are directly linked to the achievement of specific financial targets. The Debt Covenant Hypothesis explains that firms may adjust their reported earnings to avoid violating the terms of debt agreements,

which can have significant consequences for the company's financial standing. Lastly, the Political Cost Hypothesis states that companies might reduce reported profits to avoid regulatory scrutiny or government intervention. Positive Accounting Theory provides the foundational framework for understanding how various factors such as tax planning (Effective Tax Rate/ETR), profitability (Return on Assets/ROA), and operational efficiency (BOPO) create incentives for earnings management practices in Indonesian manufacturing firms. These factors motivate managers to influence accounting figures for strategic purposes.

Agency Theory

As a supporting theory, Agency Theory—proposed by Jensen and Meckling in 1976—is also used to explain the dynamics between managers (as agents) and shareholders (as principals). This theory highlights potential conflicts of interest, where managers may act in their own self-interest, including manipulating earnings to increase personal compensation, secure job stability, and influence stock prices in a way that benefits their position and reputation in the capital market.

Tax Planning

Tax planning is a form of tax management function in an effort to save taxes legally (Janah & Munandar, 2022). According to Lipatova & Polezharova (2015) "Tax planning is done to optimize tax payments." Tax planning generally focuses on a process to engineer the Taxpayer's business and transactions so that the tax payment obligation is in the lowest possible amount but still within the scope of tax regulations. Pohan (2013) defines "Tax Planning is the process of organizing the business of a taxpayer or a group of taxpayers in such a way that their tax debts, both income tax and other taxes, are in the lowest possible position, as long as this is possible both by the provisions of tax laws and regulations and commercially."

Profitability

A company's financial performance is a financial condition that is influenced by the management decision-making process. Financial performance is complex because it concerns the effectiveness of capital utilization, and the efficiency of the company's activities. On the other hand, shareholders make business investments with the main goal of achieving improved welfare (Naziah & Nyale, 2022). Thus, the measurement of the company's financial performance must be able to provide an indicator of changes in the level of welfare of shareholders as a result of investment in a certain period of time. The ability of a company to generate profits over a certain period through its operational activities is called profitability. Profitability is the result of various policies and decisions, which indicate liquidity, effectiveness of asset management, and debt management of operational assets (Brigham & Houston, 2007).

Operating Costs of Operating Income (BOPO)

BOPO is a ratio level in considering the performance of bank activities while operating and the level of efficiency on. BOPO is needed to see the level of efficiency of the company's operating activities. If the BOPO ratio is low, the ROA is also low, and vice versa (Astuti, 2022). Operational efficiency is carried out by the bank in order to find out whether the bank in its operations related to the bank's main business, is carried out correctly (in accordance with the expectations of the management and shareholders) and is used to show whether the bank has used all its production factors effectively and successfully (Rohimah, 2021).

Earning management

Profit in accounting is defined as the difference between realizable income, generated from transactions in a period and the costs that are worth charging it. Earning management according to (Louis & Sun (2011) is "The selection of accounting policies by management to achieve specific objectives." Earning management is a deliberate process, according to the limits of financial accounting standards, to direct profit reporting at a certain level. Fischer & Rosenzweig (1995) states that "Earning management is the actions of managers to increase (decrease) the profit of the current period of a company that he manages without causing an increase (decrease) in the company's long-term economic profits." According to Schipper in (Sulistyanto, 2018) defines earning management as "Management disclosure as a tool of management's direct intervention in the financial reporting process through the processing of income or profits with the intention of obtaining certain profits or benefits for the manager or the company." Although there are several definitions of earning management, there are several similarities between them. From this equation, it can be concluded that earning management is a managerial activity to influence financial statements either by manipulating the company's financial data or information or by selecting accounting methods, which aim to obtain profits for the company.

The Relationship Between Tax Planning and Earning management

Tax planning can affect earning management because there are policies and strategies that can be used to reduce the tax burden. Companies can use a variety of legal and legitimate tax planning methods to optimize their tax position. In conducting tax planning, companies may experience adjustments in their financial reporting, including earning management (Midiastuty et al., 2022). First, companies can use aggressive transfer pricing methods to shift profits to lower tax jurisdictions (Turwanto & Alfian, 2022). This way, companies can manipulate their financial figures to reduce the tax burden that must be paid. However, keep in mind that the method of determining transfer pricing must be in accordance with applicable rules and regulations so as not to violate tax provisions. Second, companies can also take advantage of loopholes or loopholes in tax regulations to avoid or reduce the taxes they have to pay (Kurniawan, 2018). For example, they can use tax incentives offered by the government or allocate fees to posts recognized by tax law as tax deductions.

Research that has been conducted Zahdjuki et al. (2018) shows that tax planning has a positive effect on earning management . Empirical studies often use financial data and corporate reporting to identify patterns and trends in tax planning and their impact on earning management. For example, research Mudjiyanti (2018) Using regression analysis to test whether there is a statistical relationship between the tax planning variable and the earning management variable, it was found that there is a positive relationship between the two variables. So the following hypothesis is proposed:

H1. Tax Planning has a Positive Effect on Earning management

The Relationship Between Profitability and Earning management

In situations where operating income is increasing, the company's management may tend to do earning management to make financial statements look more profitable. This can be done in a variety of ways, such as speeding up revenue recognition, delaying expense recognition, or using selectively profitable accounting methods (Pratami & Pradipto, 2021). The goal is to improve the company's image in the eyes of investors and financial analysts, which can have a positive impact on the company's stock price. However, a study by (Bima et al., 2017) found evidence suggesting that companies with higher operating revenues tend to engage in fewer earning management practices. Companies with higher operating income

have less incentive to manipulate profits because they are already performing well financially. On the other hand, Altamuro et al. (2005) argues that companies with higher operating profits may have greater opportunities and resources to engage in earning management . These companies may have more flexibility in choosing accounting methods and may use aggressive accounting practices to manipulate reported profits

H2. Profitability has a positive effect on Earning management

The Relationship Between Operating Costs of Operating Income (BOPO) and Earning management

In the context of accounting, operational costs and earning management are two important aspects that are interrelated. Several arguments can be used to explain the relationship between operating costs and earning management. First, operational costs can affect earning management through their impact on a company's revenue. In an effort to achieve the desired profit target, managers can use a variety of strategies, including reducing or controlling operational costs. By reducing operating costs, the company can increase its net profit, thus achieving the set target. Second, operational costs can also affect the company's accounting policies. Managers have the freedom to choose accounting policies that can affect the presentation of the company's profits and balance sheet (Gao & Gao, 2016). Research Widyasari et al. (2017) found a positive relationship between operating costs and earning management , indicating that managers tend to reduce operating costs to manipulate financial statements to achieve profit targets. Research Qawasmeh & Azzam (2020) also found a positive relationship between the two variables. So the following hypothesis is proposed:

H3. Operating Expenses Operating Income (BOPO) has a positive effect on Earning management

Research Model

The conceptual framework explains theoretically the conceptual model of research variables, about how the relationship of theories related to the research variables to be studied, namely independent variables and bound variables. Based on the formulation of the problem, theoretical foundation, and previous research, a conceptual framework can be formed in this study, as follows:

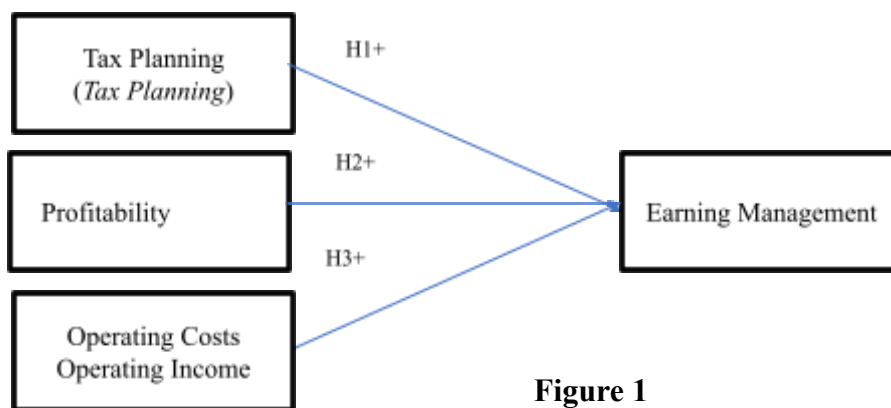


Figure 1
Research Model

3. RESEARCH METHODS

This study adopts a quantitative research design using secondary data from manufacturing companies listed on the Indonesia Stock Exchange (IDX) between 2019 and 2021. It follows an explanatory associative approach rooted in the positivist paradigm, aiming to investigate how tax planning (proxied by Effective Tax Rate/ETR), profitability (measured by Return on Assets/ROA), and operational efficiency (captured through the BOPO ratio) influence earnings management practices, which are assessed using Discretionary Accruals (DA) derived from the Modified Jones Model.

The research population includes all Indonesian manufacturing firms listed on the IDX under ICB sector code 2000 during the study period (N = 147). A purposive sampling method was applied to select firms with complete financial reports for three consecutive years, positive operating income, and non-extreme financial ratios after winsorization. This resulted in a final sample of 90 firm-year observations (30 firms × 3 years).

Data analysis was conducted in three phases. The first phase involved preliminary analysis to examine descriptive statistics, normality using the Shapiro-Wilk test, and multicollinearity through Variance Inflation Factor (VIF) scores. The second phase focused on hypothesis testing using multiple linear regression with the model: $DA = \beta_0 + \beta_1 ETR + \beta_2 ROA + \beta_3 BOPO + \varepsilon$, accompanied by diagnostic tests for heteroskedasticity, autocorrelation, and overall model fit. The third phase included robustness checks through alternative measures of earnings management based on real activities manipulation (Roychowdhury, 2006), subsample comparisons between pre-pandemic and pandemic periods, and lagged variable estimation to address potential endogeneity.

The methodology emphasizes validity, reliability, and generalizability by employing variables grounded in established accounting literature, consistent data sources, and a representative sample of Indonesian manufacturing firms. Ethical considerations were upheld by using only publicly available and anonymized data, while limitations related to data and method were explicitly acknowledged.

By systematically linking theoretical foundations, data collection procedures, and analytical techniques, this study provides a comprehensive understanding of how financial and operational factors shape earnings management behaviors in emerging market settings like Indonesia.

$$Y = a + b_1x_1 + b_2x_2 + b_3x_3 + e$$

Information:

- Y = Earning management
- a = Regression equation constant
- b₁x₁ = Tax Planning regression coefficient (ETR)
- b₂x₂ = Profitability regression coefficient
- b₃x₃ = Operational cost regression coefficient

4. RESULT

Table 1 Descriptive Statistics

	N	Minimum	Maximum	Mean	Deviation hours
DA	90	-0.14	0.23	0.0173	0.07651
ETR	90	0.00	0.96	0.2493	0.11813
LENGTH	90	0.00	0.42	0.1034	0.09181
BOPO	90	0.03	0.70	0.2576	0.15931

There is data that reflects the financial performance of a total of 90 companies, which is measured through several main indicators, namely Discretionary Accruals (DA), Effective Tax Rate (ETR), Return on Assets (ROA), and Operating Profit Margin (BOPO). Let's examine the meaning of each of the indicators and descriptive statistics provided.

First, Discretionary Accruals (DA), which reflect the difference between real profit and expected profit taking into account non-accounting factors. The average DA is 0.0173, indicating that overall, the company tends to have a positive discretionary accrual accumulation on its financial statements, i.e. admitting higher revenue or lower expenses than expected. There is considerable variation in this practice, indicated by the standard deviation of 0.07651. Furthermore, the Effective Tax Rate (ETR), which is the ratio between the actual tax paid by the company and the profit before tax. The average ETR is 0.2493, indicating that the company on average pays taxes of about 24.93% of pre-tax earnings. The variation in the effective tax rate can be seen from the significant standard deviation, which is 0.11813.

The third indicator, Return on Assets (ROA), measures the efficiency of a company in generating profits from its assets. The average ROA is 0.1034, illustrating that the average company earns a profit of around 10.34% of the total assets owned. The variation in the company's ability to generate returns on its assets is reflected in a significant standard deviation, which is 0.09181. Finally, Operating Profit Margin (BOPO) indicates the company's operational efficiency in generating profits from sales. The average BOPO is 0.2576, meaning that the company on average earns a profit of around 25.76% of their total sales revenue after considering operating costs. The variation in the operating profit margin is shown by a considerable standard deviation, which is 0.15931.

Based on p-values greater than the significance level of 0.05, we don't have enough evidence to refute the hypothesis that your data follows a normal distribution. Therefore, from the perspective of this normality test, your data can be considered a match to the normal distribution. Based on the results of Tolerance and VIF, we can conclude that this regression model passed the multicollinearity test. There is no strong evidence of the existence of significant multicollinearity issues between independent variables in this model. Based on the Durbin-Watson value (d) of 1.562 greater than the du threshold of 1.505 and less than (4 - d) which is 2.438, then according to the criteria used in the Durbin-Watson test, it can be concluded that in this model there are no symptoms of autocorrelation.

Based on a sizable statistical F-value (4.6120) and a low p-value (0.003), we can conclude that at least one independent variable in the model makes a significant contribution to explaining the variability of dependent variables. Therefore, the regression model as a whole has statistical significance in explaining the data.

Table 2. T Test

	B	Std. Error	Itself	Result
Konstan	0.393	0.173	0.027	
ETR	0.04	0.125	0.097	Rejected

ROA	-0.080	0.130	0.054	Rejected
BOPO	0.161	0.157	0.031	Accepted

The results of regression analysis conducted to analyze the factors that affect the dependent variable of "earning management " produced interesting findings. First of all, the value of the constant coefficient is 0.393 with a standard error of 0.173 and significance (Sig) of about 0.027. This indicates that the constant has statistical significance in influencing earning management.

However, after considering independent variables, the findings revealed that only the BOPO (Operating Profit Margin) variable had a significant influence on earning management. The regression coefficient for BOPO is 0.161 with a standard error of about 0.157, and a significance value (Sig) of about 0.031. These results show that changes in Operating Profit Margin have a significant influence on changes in earning management practices.

However, unlike BOPO, other independent variables, namely ETR (Effective Tax Rate) and ROA (Return on Assets), do not have a significant influence on predicting earning management. The value of the ETR regression coefficient is 0.04 with a standard error of about 0.125 and a significance value (Sig) of about 0.097. Meanwhile, the value of the ROA regression coefficient is -0.080 with a standard error of around 0.130 and a significance value (Sig) of around 0.054.

Based on that output, the regression model you created explains about 31% of the variation in the dependent variable (R Square), and after adjusting for the number of independent variables and the sample size, the Adjusted R Square is about 28%. A positive R-value indicates a positive relationship between the dependent variable and the independent variable in the model, although this relationship is relatively weak. The standard deviation estimate (Std. Error of the Estimate) of 0.11768 indicates the accuracy of the model's prediction in predicting the actual value of the dependent variable.

5. DISCUSSION

Discussion of the Influence of ETR on Earning management

Based on the results of regression analysis in this case study, it was found that ETR (Effective Tax Rate) had no significant effect on earning management practices. The ETR regression coefficient had a positive value of 0.04 but was not statistically significant ($p > 0.05$). This indicates that the effective tax rate paid by the company does not directly affect management's decision to conduct earning management. There are several possible explanations for these findings (Firmansyah & Ardiansyah, 2021).

First, earning management decisions may be more determined by fundamental factors such as the company's operational and financial performance. Second, the company may have implemented careful tax planning so that its tax burden is relatively stable and does not fluctuate significantly between periods. Third, increasingly stringent tax regulations and enforcement can reduce incentives for companies to utilize earning management to save taxes (Achyani & Lestari, 2019).

Overall, although theoretically tax burdens can drive earning management practices, this case study suggests that other factors may be more decisive. Further research taking into account the characteristics of the company and the conditions of the institutional environment is needed to understand the relationship between tax planning and earning management.

Discussion on the Influence of ROA on Earning management

The results of the regression analysis also showed that ROA (Return on Assets) had no significant effect on earning management, with a regression coefficient of -0.08 and a $p >$

value of 0.05. These findings indicate that the rate of return on a company's assets does not consistently influence management's decision to undertake earning management. Some previous literature has argued that companies with high profitability have a greater incentive to do earning management to make their performance look better. However, the results of this case study do not support this argument.

There are several possible explanations. First, companies with high ROA may feel that they do not need to do earning management because their profitability is already good (Mukrimaa et al., 2016). Second, companies with low ROA actually need to increase profits through earning management. Third, other factors such as good corporate governance can prevent management from manipulating profits even if their profitability is high or low (Yesica et al., 2020). Overall, the relationship between profitability and earning management seems to be more complex and influenced by the context of each company. Further research taking into account contingency factors is needed to understand the relationship.

Discussion on the Influence of BOPO on Earning management

In contrast to ETR and ROA, the results of regression analysis show that BOPO (Operating Income Operating Costs) has a positive and significant effect on earning management. The BOPO regression coefficient had a positive value of 0.161 and significant at $p < 0.05$. These findings are consistent with several previous studies that found that companies tend to use operational cost management to perform earning management (Rohmiati et al., 2019).

There are several explanations for this positive relationship. First, by lowering operating expenses through various accruals, the company can increase its reported net profit. Second, companies with low levels of operational efficiency (high BOPO) may be motivated to "improve" BOPO ratios through earning management. Third, there is an incentive for management to make financial performance look better by reducing reported operating expenses (Suhaemi & Hasanuh, 2021).

Thus, the findings of this study are in line with the view that earning management is often carried out through manipulation of operational accruals. Regulators need to be aware of the potential for earning management through these operating expense accounts and encourage transparency in corporate financial reporting.

6. CONCLUSION

This study provides compelling evidence that operational efficiency, measured through the BOPO ratio, serves as the most significant driver of earnings management practices among Indonesian manufacturing firms during the 2019-2021 period. The findings reveal a clear pattern where companies with higher operational costs relative to income are more likely to engage in financial reporting manipulations, supporting the Efficiency Wage Theory's predictions about managerial behavior in inefficient operations. This relationship persists even when accounting for other potential factors, demonstrating the particular importance of cost management in emerging market contexts where operational challenges are pronounced.

Contrary to conventional wisdom derived from Positive Accounting Theory, neither tax planning nor profitability showed statistically significant effects on earnings management in this specific setting. The absence of a tax planning effect likely reflects Indonesia's evolving regulatory environment, particularly the aftermath of the 2016 tax amnesty program and increased enforcement by tax authorities. Similarly, the non-significant profitability relationship suggests that in Indonesia's manufacturing sector, the pressure to manipulate earnings may be more strongly tied to operational performance than to absolute profit levels or tax minimization strategies.

The study makes several important contributions to the field of accounting research. First, it challenges the universal applicability of Western-developed theories in emerging markets, demonstrating how local regulatory conditions and economic structures can alter fundamental relationships between financial variables. Second, it provides empirical evidence that operational metrics deserve greater attention in earnings management research, particularly in manufacturing-intensive economies. Third, the methodological approach offers a template for analyzing financial data during crisis periods, as it successfully navigated the unique challenges posed by the COVID-19 pandemic years included in the study period.

For practitioners, these findings suggest that regulators should place greater emphasis on monitoring operational cost reporting, as the BOPO ratio emerges as a more reliable indicator of potential manipulation than traditional metrics in the Indonesian context. Investors and analysts, meanwhile, may need to adjust their financial assessment frameworks to account for this operational efficiency dimension when evaluating emerging market manufacturing firms.

While providing valuable insights, the study acknowledges certain limitations that point to directions for future research. The exclusive focus on manufacturing firms and relatively short three-year timeframe suggest opportunities to expand the analysis to other sectors and longer periods. Additionally, incorporating corporate governance variables could help explain why some firms resist earnings management pressures despite operational challenges. These limitations notwithstanding, the research significantly advances our understanding of financial reporting behaviors in Southeast Asia and provides a foundation for more nuanced, context-sensitive approaches to earnings management detection and prevention in emerging markets worldwide.

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