



INNOVATIVE: Journal Of Social Science Research

Volume 4 Nomor 3 Tahun 2024 Page 494-503

E-ISSN 2807-4238 and P-ISSN 2807-4246

Website: <https://j-innovative.org/index.php/Innovative>

The Influence of CEO Tenure on Earnings Management

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Abstrak

Penelitian ini merupakan penelitian kuantitatif dengan pendekatan eksploratif mengenai masa jabatan CEO dan Manajemen Laba (Jonathan Sarwono, 2016). Data yang digunakan dalam penelitian ini tergolong data primer yang peneliti peroleh dari penyebaran kuesioner online kepada 300 CEO perusahaan BUMN dan swasta yang tersebar di seluruh Indonesia. Data yang digunakan dalam penelitian ini dianalisis menggunakan alat analisis smart PLS 4.0. Hasil pada artikel ini menunjukkan variabel CEO Tenure memang mempunyai hubungan positif dan mempunyai pengaruh signifikan terhadap Manajemen Laba karena nilai P-Values bernilai positif dan berada di bawah tingkat signifikansi 0,05 yaitu 0,021. Dengan demikian hipotesis dalam penelitian ini diterima dan dapat dibuktikan.

Kata Kunci: *Pengeluaran Konsumsi Rumah Tangga, Pertumbuhan Ekonomi, Investasi*

Abstract

This research is a quantitative research with an exploratory approach regarding CEO tenure and Profit Management (Jonathan Sarwono, 2016). The data used in this research is classified as primary data which researchers obtained from distributing online questionnaires to 300 CEOs of state-owned and private companies spread throughout Indonesia. The data used in this research was analyzed using the smart PLS 4.0 analysis tool. The result in this article show the CEO Tenure variable does have a positive relationship and has a significant influence on Profit Management because the P-Values value is positive and is below the 0.05 significance level, namely 0.021. In this way, the hypothesis in this research is accepted and can be proven.

Keywords: *Household Consumption Expenditures, Economic Growth, Investment*

INTRODUCTION

Earnings management is a company management's choice of concrete actions or company accounting policies, where this choice will have an impact on the company's profits in order to achieve certain goals (Scott, 2015). In accordance with agency theory, the existence of an agency relationship between owners and managers in a company will give rise to a conflict of interest which triggers the emergence of managers' opportunistic behavior. (Cheng, 2006)state that the CEO is an individual who has the authority to make strategic and organizational decisions, and also has the authority to determine when and what information must be disclosed, so that the CEO's decisions can influence the disclosure of financial statements.

This of course provides opportunities for CEO opportunistic behavior which will encourage earnings management actions. Apart from the opportunities for the CEO, the characteristics of the CEO's tenure also influence the CEO's decision to carry out earnings management practices. Earnings management is a decision made by company management by embezzling financial reports. Earnings management is a process by managers in a company to reduce the quality of profits that will be reported with the aim of achieving the desired results but conflicting with the company's economic performance to interested stakeholders in order to attract investors and obtain personal benefits (DeJong, 2013).

The term of office of a company's CEO must be considered because this will support the role and responsibilities of a CEO and indirectly influence every decision made by the CEO (Sudana, 2018). The CEO's term of office is special because the retirement age of a CEO cannot be determined in advance (Sudana, 2018). This causes diversity in the tenure of a company's CEO. However, Pricewaterhouse Coopers (PwC) in the "2018 CEO Success study"

research which analyzed CEO succession in the 2,500 largest public companies in the world over the last 19 years, reported that while the average tenure of a CEO is five years (Pricewaterhouse Coopers, 2018).

At the end of a CEO's term of office, a company will experience CEO turnover. Pricewaterhouse Coopers (PwC) research entitled "2018 CEO Success Study" found that CEO turnover in the 2,500 largest companies in the world jumped to a record high of 17.5 percent in 2018. This number is the highest number that has occurred for 19 years (Pricewaterhouse Coopers, 2018). Leadership change is basically an issue that affects every organization, especially because changing the CEO not only changes the company's top executives, but changing the CEO also changes the company's management team and the company's strategy (Lindrianasari, 2011). Because the CEO has authority over the company's financial, operational and investment decisions, the CEO change event will of course influence the CEO's behavior in using earnings management practices during his term of office.

Based on the explanation above, researchers believe that the CEO's tenure can have a positive relationship and a significant influence on Profit Management. There are a number of studies (Wicaksono et al., 2021); (Marjono & Wijaya, 2022); (Hanisah et al., 2021) & (Cristi & Edi, 2022) show a positive relationship and significant influence on Profit Management. In contrast to previous research, the number of samples used in this study was larger and more varied, spread throughout Indonesia.

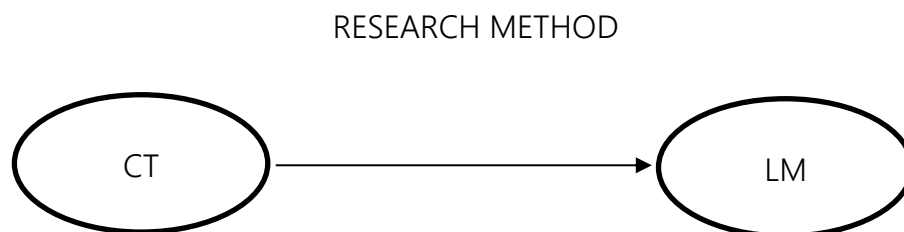


Figure 1 Model

Noted:

CT: CEO Tenure

LM : Laba Management

Based on the first picture in the research model above, it can be concluded that the CEO Tenure variable can have a positive relationship and a significant influence on Profit Management because tenure is closely related to the targets, vision and prospects of what the company must do in the future (Sugiyono, 2019). Therefore, this research aims to analyze the influence of CEO Tenure on Profit Management. In contrast to a number of previous

studies, this research has more and more varied respondents. (Manzilati, 2017) This research is a quantitative research with an exploratory approach regarding CEO tenure and Profit Management (Jonathan Sarwono, 2016). The data used in this research is classified as primary data which researchers obtained from distributing online questionnaires to 300 CEOs of state-owned and private companies spread throughout Indonesia. The data used in this research was analyzed using the smart PLS 4.0 analysis tool with the hypothesis below (Sugiyono, 2019).

Hypothesis:

H1: The Influence of CEO Tenure on Laba Management.

RESULT AND DISCUSSION

Research Background and Hypothesis Development

Earnings management is a company management's choice of concrete actions or company accounting policies, where this choice will have an impact on the company's profits in order to achieve certain goals (Scott, 2015). In accordance with agency theory, the existence of an agency relationship between owners and managers in a company will give rise to a conflict of interest which triggers the emergence of managers' opportunistic behavior. (Cheng, 2006)state that the CEO is an individual who has the authority to make strategic and organizational decisions, and also has the authority to determine when and what information must be disclosed, so that the CEO's decisions can influence the disclosure of financial statements.

This of course provides opportunities for CEO opportunistic behavior which will encourage earnings management actions. Apart from the opportunities for the CEO, the characteristics of the CEO's tenure also influence the CEO's decision to carry out earnings management practices. Earnings management is a decision made by company management by embezzling financial reports. Earnings management is a process by managers in a company to reduce the quality of profits that will be reported with the aim of achieving the desired results but conflicting with the company's economic performance to interested stakeholders in order to attract investors and obtain personal benefits (DeJong, 2013).

The term of office of a company's CEO must be considered because this will support the role and responsibilities of a CEO and indirectly influence every decision made by the CEO (Sudana, 2018). The CEO's term of office is special because the retirement age of a CEO

cannot be determined in advance (Sudana, 2018). This causes diversity in the tenure of a company's CEO. However, Pricewaterhouse Coopers (PwC) in the "2018 CEO Success study" research which analyzed CEO succession in the 2,500 largest public companies in the world over the last 19 years, reported that while the average tenure of a CEO is five years (Pricewaterhouse Coopers, 2018).

At the end of a CEO's term of office, a company will experience CEO turnover. Pricewaterhouse Coopers (PwC) research entitled "2018 CEO Success Study" found that CEO turnover in the 2,500 largest companies in the world jumped to a record high of 17.5 percent in 2018. This number is the highest number that has occurred for 19 years (Pricewaterhouse Coopers, 2018). Leadership change is basically an issue that affects every organization, especially because changing the CEO not only changes the company's top executives, but changing the CEO also changes the company's management team and the company's strategy (Lindrianasari, 2011). Because the CEO has authority over the company's financial, operational and investment decisions, the CEO change event will of course influence the CEO's behavior in using earnings management practices during his term of office.

Earnings management can be defined as an action carried out through the selection of accounting policies to obtain certain goals, for example to increase company value or for the personal interests of company management. Earnings management practices have two main characteristics, namely efficient and opportunistic. Efficient earnings management will improve the quality of financial information published by the company, while opportunistic earnings management will be detrimental to users of financial reports because the financial reports do not reflect actual conditions. Earnings management is all actions used by managers to influence profits by increasing or lowering profits according to their objectives (Supriyono, 2011).

(RISKI HANDAYANI HARIS, 2022) explains that earnings management includes management's efforts to maximize or minimize profits, including income smoothing in accordance with management's wishes. Earnings management is the ownership of accounting policies by managers based on existing accounting standards and can naturally maximize their utility and/or the company's market value. Earnings management occurs when management uses certain decisions in financial reports and transactions to change financial reports as a basis for company performance with the aim of misleading owners or shareholders (shareholders) or to influence contractual results that rely on reported accounting figures. Earnings management is one of the factors that can reduce the credibility of financial reports. Earnings management adds to the bias in financial reports

which believe that engineered profit figures are profit figures without engineering. There are 2 types of earnings management, namely: a. Opportunistic earnings management, namely management's tendency to report profits opportunistically by maximizing its utility. b. Efficient contract profit management, namely profit management which aims to inform or convey certain information to stakeholders (Herawati, 2022)

Based on the explanation above, researchers believe that the CEO's tenure can have a positive relationship and a significant influence on Profit Management. There are a number of studies (Wicaksono et al., 2021); (Marjono & Wijaya, 2022); (Hanisah et al., 2021) & (Cristi & Edi, 2022) show a positive relationship and significant influence on Profit Management. In contrast to previous research, the number of samples used in this study was larger and more varied, spread throughout Indonesia.

Validity Test

In line with the explanation in the research methodology section, the researcher intends to test the influence of CEO Tenure on Profit Management using the smart PLS analysis tool. However, the initial step that must be carried out before going further to find out and solve the hypothesis above is to test the validity of the question items used with the following results(Gujarati, 2013):

Table 1 Validity Test

Variable	Question Item	Loading Factor
CEO Tenure (X1)	The tenure of a CEO is closely related to a company's long, short and medium term programs	0.822
	The tenure of a CEO is closely related to the vision of a company	0.819
	The tenure of a CEO is closely related to company performance	0.811
	The tenure of a CEO is closely related to Profit Management	0.832
	The tenure of a CEO is closely related to the company's performance	0.839
	A CEO's tenure is closely related to employee loyalty	0.819
Laba Management (Y)	Good earnings management depends on the tenure of the CEO	0.889

Good earnings management depends on the wisdom of a CEO	0.887
Good earnings management can ensure all company visions are achieved	0.868
Good earnings management can make company targets easily met	0.861

Valid > 0.70

Realibility Test

The 10 question items consisting of 6 question items for the Tenure variable and question items for the Profit Management variable have been declared valid because each question item in these variables is above 0.70. The next stage is a reliability test to ensure whether the variable is reliable or not with the results below (Sarstedt et al., 2014):

Table 2 Reliability Test

Variable	Composite Reliability	Cronbach Alfa	Noted
CEO Tenure	0.885	0.844	Reliable
Laba Management	0.931	0.891	Reliable

Reliable > 0.70

Path Coefisien

In the final stage, namely the Path Coefficient, to find out the direction of the variable relationship and prove the hypothesis that the researcher proposed in the Research Methodology section, namely that CEO Tenure can have a positive relationship and a significant influence on Profit Management. To find out more about this, below are the results of the path coefficient in this study (Ghozali, 2016):

Table 3 Path Coefisien

Direct Influence	Variable	P-Values	Noted
	CT-> EG	0.021	Accepted

Signifianct Level < 0.05

Proof of the hypothesis that the researcher believes is that the CEO Tenure variable can have a positive relationship and a significant influence on Earnings Management is based on the researcher's assumption that the tenure of a CEO is closely related to the company's work program, company vision and company performance which in the end can influence Company Profit Management. If a CEO's term of office is short while the work

program and vision formulated must take a long time to complete, it can result in poor company profit management, company targets not being achieved, and the company's profitability becoming problematic. This is reinforced by the conclusions of previous researchers (Wicaksono et al., 2021); (Marjono & Wijaya, 2022); (Hanisah et al., 2021) & (Cristi & Edi, 2022) which shows that a CEO's tenure can influence Profit Management. Based on this, the path coefficient results of the third table in this study show that the CEO Tenure variable does have a positive relationship and has a significant influence on Profit Management because the P-Values value is positive and is below the 0.05 significance level, namely 0.021. In this way, the hypothesis in this research is accepted and can be proven.

CONCLUSION

Proof of the hypothesis that the researcher believes is that the CEO Tenure variable can have a positive relationship and a significant influence on Earnings Management is based on the researcher's assumption that the tenure of a CEO is closely related to the company's work program, company vision and company performance which in the end can influence Company Profit Management. If a CEO's term of office is short while the work program and vision formulated must take a long time to complete, it can result in poor company profit management, company targets not being achieved, and the company's profitability becoming problematic. This is reinforced by the conclusions of previous researchers (Wicaksono et al., 2021); (Marjono & Wijaya, 2022); (Hanisah et al., 2021) & (Cristi & Edi, 2022) which shows that a CEO's tenure can influence Profit Management. Based on this, the path coefficient results of the third table in this study show that the CEO Tenure variable does have a positive relationship and has a significant influence on Profit Management because the P-Values value is positive and is below the 0.05 significance level, namely 0.021. In this way, the hypothesis in this research is accepted and can be proven.

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