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EARNINGS MANAGEMENT PRACTICES OF FAMILY AND NON-FAMILY ENTITIES

Golrida Karyawati Purba, Veron Beatrix Umboh

Universitas Pelita Harapan, MH Thamrin Boulevard 1100, Banten 15811

Surel: golrida.karyawati@uph.edu

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Abstrak - Praktik Manajemen Laba Perusahaan Keluarga dan Nonkeluarga
Tujuan Utama - Tulisan ini bertujuan menganalis kecenderungan pemilihan praktik manajemen laba perusahaan keluarga/nonkeluarga
Metode – Peneliti mengumpulkan bukti-bukti empiris atas perusahaan yang sahamnya telah tercatat pada Bursa Indonesia, setidaknya tahun 2017-2019. Model regresi logistik digunakan untuk menguji pilihan manajemen laba.
Temuan Utama - Bukti empiris mengungkap bahwa mayoritas perusahaan -perusahaan di Indonesia adalah perusahaan keluarga. Lebih lanjut, studi ini membuktikan bahwa dibanding dengan perusahaan non keluarga, perusahaan keluarga lebih memilih manajemen laba akrual daripada manajemen laba ril. Akan tetapi ketika ukuran perusahaan meningkat, perusahaan keluarga mulai beralih kepada pilihan manajemen laba ril.
Implikasi Teori dan Kebijakan – Hasil pengujian mendukung bahwa teori *socioemotional wealth* menjelaskan dengan baik praktik manajemen laba dari bisnis keluarga dan nonkeluarga. Hasil studi bermanfaat bagi auditor dalam menilai risiko salah saji laporan keuangan.
Kebaharuan Penelitian - Sejauh diketahui penulis riset mengenai pilihan manajemen laba belum dilakukan di negara-negara berkembang yang didominasi oleh perusahaan keluarga.

Abstract** - **Earnings Management Practices of Family and Non-Family Entities
***Main Purpose** - This study aims to analyze earnings management preference conducted by family /non-family entities.*
***Method** - The study uses logistic regression as a method. The samples are companies whose shares have been listed on the Indonesia Stock Exchange in 2017-2019.*
***Main Findings** - The findings reveal that most companies in Indonesia are family entities. Furthermore, this study proves that accrual earnings management practices are preferred by family entities compare to non-family entities. However, as size is increased, the family entities increasingly shift to real earnings management.*
***Theory and Practical Implications** - This study suggests that the socio-emotional wealth theory explains well the earnings management practice preferences of family entities and non-family entities. The results of this study are important for the auditor in assessing the risk of misstatement in financial statements.*
***Novelty** - As far as the authors are concerned, a study on earnings management preferences has not been conducted in developing countries dominated by family entities.*

Issues regarding earnings management practices remain important to examine today due to the very dynamic practices of financial reporting as the business environment changes. Previous studies analyzed various factors that influence earnings management practices. Studies prove that corporate governance mechanisms affect earnings management (Abdou et al., 2020; Bekiris & Doukakis, 2011; Chen & Zhang, 2012; González & García-Meca, 2013; Lin & Hwang, 2010; Mulyadi & Anwar, 2015). Gounopoulos & Pham (2018) and Jiang et al. (2013) proved that CEOs who are experienced and experts in the financial sector are less likely to practice earnings management to maintain their professional reputations. The previous study has also proven that external funding (with equity and debt) affects earnings management practices. Companies that require external funding will aggressively practice earnings management (Zhang et al., 2020). Ater & Hansen (2020) and Liu et al. (2010) found that business entities tend to increase reported earnings ahead of debt issuance. Aharony et al. (2010), Alhadab (2018) and Kapoor & Goel (2017) proved that companies conduct earnings management around IPO (initial public offering) of equity. Business strategies, competition, and diversification are also factors of which influencing earnings management practices. Wu et al. (2015) concluded that companies implementing a strategy of cost leadership tend to conduct earnings management compare to implementing differentiation strategies. Lemma et al. (2018) and Markarian & Santaló (2014) have proven that high market competition increases the intensity of earnings management practice. Lim et al. (2008) and Mehdi & Seboui (2011) found the companies implementing some diversification strategies were more aggressive in managing earnings.

Earnings management practices are carried out through real and accrual approaches (Enomoto et al., 2015; Rosa et al., 2020). The accrual approach is conducted by utilizing flexibility in accounting standards (Badertscher, 2011; Zang, 2012). Accounting standards generally provide alternative accounting methods, where the choice of the method is determined by the manager's judgment (Dewi & Herusetya, 2015). Managers will choose methods or estimates that produce the desired profit (e.g., valuation of inventory methods, depreciation methods, or estimates of uncollectible accounts). Achleitner et al. (2014) concluded which accrual form of earning management is less risky of reducing the future of firm value. The real approach affects cash outflow directly (Salehi et al., 2020; Taylor & Xu, 2010; Yang & Wu, 2020) because it is carried out through firm routine activities, such as by initiating discounts; reducing discretionary expenses, or overproducing to decline the cost of sales. Real approach actions may hurt the value of companies in the long run (Boujelben et al., 2020; Graham et al., 2005). However, the actions are more difficult to detect because they can be camouflaged as normal activities (Hewitt et al., 2020). This study showed that company conditions affect earnings management preference. Li et al. (2020) and Muljono & Suk (2017) found that in a condition of financial distress, preference for accrual form of earnings management is higher than real approach. Firm leverage is also found as a factor that influencing earnings management preference. The higher the leverage of a company, the bigger the company's tendency to choose a real approach (Vakilifard & Mortazavi, 2016).

Generally, companies of Asia developing countries (e.g., Indonesia) are family entities (Baatour et al., 2017; Madyan et al., 2019). Agency theory posits that the family entities have an incentive to practice earnings management. In family entities, agency problems occur between the majority shareholder, the family controlling the company, and the minority shareholders (Al-Okaily et al., 2020; Paiva et al., 2016; Setia-Atmaja, 2016). Because the manager comes from the family, they will be on the side of the family's interests. Managers will use asymmetric information within the organization to control shareholder benefit even though it may harm the minority shareholders. Various policies are determined for the welfare of the family (Cahyani & Sanjaya, 2014). Managers will utilize insider information to conduct the expropriation of minority shareholders through earnings management practices (Cherif et al., 2020; Tian et al., 2018). Chi et al. (2015), Ding et al. (2011), Margono et al. (2019), and Paiva et al. (2019) found that earnings management actions are more intense done by family entities compare to non-family entities. However, family companies have been characterized by having a long-term orientation (Chen et al., 2015). Socioemotional wealth theory explains that founding family firms, while pursuing economic aspects, also

Table 1. Sample Filtering

Criteria	Total
Firms listed on the IDX in 2017-2019	550
Firms of the financial sector	(94)
Delisting firms within 2017-2019	(3)
Firms of non-rupiah currency	(87)
Firms have not published financial statements consecutively 2017-2019	(18)
Incomplete data	(12)
Firms sampled	**336**
Total observation samples (336 companies x 3 years)	**1008**

pay attention to non-economic aspects, including the family's emotional attachment to the institution. These include retaining family control over the company, maintaining the family dignity of having family identity closed tied to the company, and perpetuating family generations in the institution (Gómez-Mejía et al., 2011). The family will make decisions that preserve their socioemotional wealth in the long run (Hashmi et al., 2018). Family entities will keep all business strategies and practices from damaging the company long-term. The theory of socioemotional wealth indicates that family entities tend to prefer the accrual approach because the real approach potentially decreases the family entities' value in the long run (Achleitner et al., 2014). However, the implementation of the Sarbanes-Oxley Act causes the accrual approach to be more challenging to be done because the practice is easier to detect. Therefore family companies began to shift to a real approach (Li, 2019). Findings made by Lassoued et al. (2018) and Razzaque et al. (2016) showed that family entities have the intention to conduct a real approach because the probability of being detected is more negligible than the accrual approach and it is more flexible in terms of timing of execution.

A study on earnings management preferences on family entities has been conducted in Japan (Chen et al., 2015) and Germany (Achleitner et al., 2014). These found the family entities prefer accrual to a realistic approach. Masri (2018) and Tian et al. (2018) proved that real approach intensity is smaller in the family entities than in the non-family entities. However, empirical evidence found that family firms also practice a real approach, consider that the practice is less threatening to the firm reputation (Cherif et al., 2020; Razzaque et al., 2016). According to Margono et al. (2019) and Martin et al. (2014), the family entities in Indonesia are more aggressive in conducting earnings management. However, as far as the author is concerned, studies on the family/non-family entities' preferences have not been conducted in Asia developing countries. Considering that most Asian developing countries are family entities, this study is essential to be done.

This study will collect empirical evidence to satisfy the analysis of earnings management preferences according to a firm characteristic of family or non-family entities in Indonesia. This study also analyzes company size, which plays a significant role in influencing earnings management practice preferences. The study outcome is expected to contribute to enriching the analysis in estimating the risk of a misstatement on finan-

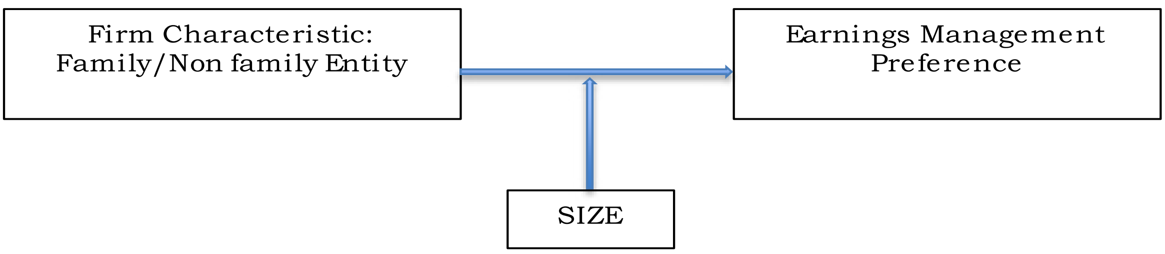

Figure 1. Conceptual Model

cial statements that can be used by investors and auditors and other parties in making decisions regarding financial statements.

METHOD

This study used samples from public firms which have listed their stock in IDX at least for the period 2017 – 2019. The screening process is shown in Table 1. This study uses secondary data, including financial statement components obtained from S&P Capital IQ. Data on company founders, shareholder structure, board of directors and commissioners, and various company affiliations with shareholders or with corporate groups are obtained from the company's annual report and prospectus.

Figure 1 shows all the variables tested. The dependent variable is earning management preference (EM) and is measured by dummy variables. Characteristics of family / non-family firms (DFAM) as the independent variable. Firm size (SIZE) is the moderating variable. The preference for the accrual approach is given a value "1", while the preference for the real approach is given a value "0". The model of Barth et al. (2008) and Lang et al. (2003) is using as the measurement of EM, as stated below:

$$\Delta NIi,t = \alpha + \beta 1SIZEi,t + \beta 2GROWTHi,t + \beta 3EISSUEi,t + \beta 4LEVi,t + \beta 5DISSUEi,t + \beta 6TURNi,t + \beta 7CFOi,t + \beta 8AUDi,t + \varepsilon i,t \quad (1)$$

Notes:

ΔNI	=	Change of net income (by total assets)
SIZE	=	Total assets on 31 December.
GROWTH	=	The proportion of turnover in sales
EISSUE	=	The proportion of turnover in common stock
LEV	=	Total liabilities/total assets
DISSUE	=	The proportion of change of Total liabilities
TURN	=	Sales/total assets
CFO	=	Cash flow-operating activities/ total assets (year-end)
AUD	=	Dummy variable ("1" if firm's auditor is big four, and "0" otherwise)

Since all earnings management practices are included in changes in net income, formula (1) is used to estimate total earnings management. Barth et al. (2008) and Lang et al. (2003) also derived formula (2) to determine accrual approach with the following model:

$$ACCi,t = \alpha + \beta 1SIZEi,t + \beta 2GROWTHi,t + \beta 3EISSUEi,t + \beta 4LEVi,t + \beta 5DISSUEi,t + \beta 6TURNi,t + \beta 7AUDi,t + \varepsilon i,t \quad (2)$$

Notes:

ACC	=	Accrual earnings management approach
SIZE	=	Firm total assets on 31 December.
GROWTH	=	The proportion of turnover in sales
EISSUE	=	The proportion of turnover in common stock
LEV	=	Total liabilities/total assets
DISSUE	=	The proportion of turnover in total liabilities
TURN	=	Sales divided by total assets
AUD	=	Dummy variable ("1" if firm's auditor is big four, and "0" otherwise)

Because total earnings management is included in formula (1) and the accrual approach in formula (2), therefore this study estimates the real form of earnings management from the difference of formula (1) and formula (2) with the following formula:

$$REM = \Delta NI - ACC \quad (3)$$

Notes:

REM	=	Real form of earnings management
ΔNI	=	Total earnings management
ACC	=	Accrual form of earnings management

A dummy variable measures firm characteristics (family entities/non-family entities). Companies classified as family entities are given a value of 1, and non-family entities are given a value of 0. There are some criterias for determining family entities cha-

Table 2. Descriptive Statistic

	Minimum	Maximum	Mean	Standard Deviation
EM	0	1	0,05	0,221
DFAM	0	1	0,72	0,449
SIZE	8,56	19,68	14,7176	1,69933
DFAMxSIZE	0,00	19,68	10,6017	6,76398

racteristics. First, a company will be categorized as a direct ownership if that company has more than 5% of its shares are owned by their family member (Perwitasari, 2014). Second, a company will be categorized as a indirect ownership if a family owns shares of a company through other companies or institutions, at least 20% (Ozili & Outa, 2019). Third, a family members involved in the board of directors or board of commissioner (Alhadab et al., 2020; Masri, 2018).

This study predicts that the company's size (SIZE) moderating the effect between DFAM and EM. The previous study has researched the natural logarithm of total assets as a measurement of size (Hidayah & Rahmawati, 2019; Lassoued et al., 2018; Wuryani, 2012).

$$\text{Size} = \text{Ln (Total Asset)}$$

Considering that dummy variables measure the dependent variable, the study employs a logistic regression model to predict earnings management preferences. The logistic regression model is stated as follows:

$$EM_{i,t} = \alpha_{i,t} + \beta 1DFAM_{i,t} + \beta 2DFAM{*}SIZE_{i,t} + SIZE_{i,t} + \varepsilon_{i,t}$$

Notes:

EM	=	Earnings management, dummy variable ("1" if accrual form of earnings management actions are higher than a real form of earnings management; "0" if otherwise
DFAM	=	Firm characteristics - family/Non family entities, dummy variable ("1" = family entities; "0" = non-family entities
SIZE	=	Company' size, measured by total assets
DFAM*-SIZE	=	Interaction between firm characteristics (family / non-family entities) and company' size

To find out whether the regression model is fit for predicting the effect among variables matters, the goodness of fit of the regression model's test by using 3 model tests, which are: Omnibus test, Hosmer and Lemeshow test, and the Nagelkerke R Square test. The regression model will only be used to make predictions if the model passes the three model tests. This study predicts the effect among variables matter in the logistic regression model using the Wald test.

RESULT AND DISCUSSION

Statistical description of earnings management actions in indonesia. More than 1008 observations over three years are examined about the preference of earnings management. Statistically, the earning management practices of the observed companies are described in Tables 2 and 3. Most of the samples are family entities as seen from the mean value of DFAM which is 0,72 or 72% of samples. This percentage is considerable compared to the non-family entities which only 28%, as shown in Table 3. This finding approves that business form in Indonesia generally is a family entities, and the cha-

Table 3. Frequency Distribution of Dummy Variables

Variable	Dummy = 1		Dummy = 0	
	Frequency	Percentage	Frequency	Percentage
EM	52	5,2%	956	94,8%
DFAM	726	72%	282	28%

Table 4. Omnibus Test Coefficient

	Omnibus Chi-Square	Omnibus Significant Value
Step	36,768	0
Block	36,768	0
Model	36,768	0

racteristics of the family entities remain the same since the study conducted by Baatour et al. (2017).

According to a survey conducted by Pricewaterhouse Coopers in 2014, more than 60% of public firms in Southeast Asia are family entities. The family entities is characterized by family share ownership, either directly or indirectly, and also the involvement of family members in corporate governance such as occupying the key positions or top management of the company (Margono et al., 2019; Octavia, 2017; Ozili & Outa, 2019). Family members generally control family entities in Southeast Asia. The family will generate policies that are considered most efficient for the company. Therefore the performance and operations of the family entities tend to be efficient (Alhadab et al., 2020; Herrero, 2011).

Generally, family entities in Indonesia form business groups with a pyramid structure, with tiered indirect ownership (Krismiaji et al., 2016). The aim is to keep family control over companies affiliated with the business group (Peng & Jiang, 2010). The pyramid structure makes a family entities challenging to identify because of the many levels in the company's chain of ownership. This study used various sources, such as Annual reports, IPO prospectus, company official website, and news from trusted platforms to classify observed companies as family entities or non-family entities.

Table 2 shows the minimum mean value of earnings management preference (EM), which is 0,05. This value is close to zero, which is an indicator of a real form of earnings management. It means that most of the companies observed chose a real approach. From the 1008 observations analyzed, 94,2% of observations use the real approach, while only 5,8% chose the accrual approach, as explained in Table 3.

Most of the companies observed prefer a real approach is an interesting finding considering that most Indonesian companies are family entities. Given that the 72% DFAM variable is family firms, even family firms choose a real form of earnings management practices. This finding seems to have contrary aspects between socioeconomic wealth theories, which indicates that family entities, prefer an accrual approach. The existence of the SIZE variable presented in Table 2 will clarify this.

The SIZE variable, as presented in Table 2, shows a mean value of 14.7176. This value is close to the maximum value (19,68) with a standard deviation that is not large (1,69933). These findings indicate that many of the companies observed were large companies. Company size describes the opportunities or limitations of the company to taking action or implementing its strategic plan (Golrida et al., 2017). large companies face more significant challenges in maintaining the company's reputation. The company's actions are being scrutinized by stakeholders (Lassoued et al., 2018; Tulcanaza-Prieto et al., 2020; Wuryani, 2012), thus causing the family entities more restricted in practicing accrual approaches. Therefore, family entities begin to turn into a real form of earnings management, as it is more hidden from detection by auditors or other parties (Hewitt et al., 2020; Zang, 2012). Overall, based on the statistic description in Table 2, it is understandable that firm characteristics and firm size play an essential role in this model.

Regression model on preference of earnings management - family/non-family entities. This study uses a logistic regression model to predict the earnings management preference of family/non-family entities. The model employs DFAM, SIZE, and SIZE x DFAM as variables that affect EM. The SIZE variable is a variable that is predicted to strengthening or weakening the effect between DFAM with EM. The model has undergone goodness of fit tests, which the results are presented in Tables 4, 5 and, 6. Overall, the model is declared as a fit model.

Table 4 presents the result of the Omnibus test. The Omnibus Test of model coefficient shows a significance level of the model, which is 0,000. Therefore, the model is fit at

Table 5. Hosmer and Lemeshow Testing

Hosmer and Lemeshow Chi-Square	Hosmer and Lemeshow Significant Value
8,788	0,360

1% alpha. This finding proves that DFAM, SIZE, and DFAMxSIZE variables togetherly affect the EM variable. Therefore, the model is fit to use in describing the effect of all variables. Inevitably, the issues of family and non-family entities characteristics matter in explaining earnings management practices.

The logistic regression employed in this study is proven to be fit with the samples. The testing results using Hosmer and Lemeshow, which are presented in Table 4, show a level of significance namely 0,360. This value is far beyond the alpha of 0,05. This result proves that the model is fit with 1008 data observed. This means that the observations in the regression model work in estimating the effect nature between independent with dependent variables. Therefore, the logistic regression is fit to estimate the earnings management preferences at the country level.

The ability of independent variables to explain the variance of the dependent variable of the proposed logistic regression was tested using the Nagelkerke R Square test. The testing result which is presented in Table 6, shows the Nagelkerke R Square value which is 10,7%. It means that DFAM, SIZE, and DFAMxSIZE variables togetherly can explain the variance of EM, by 10,7%.

The scope of this analysis is exploring the characteristics of family entities in explaining the form of earnings management actions. Many issues must be addressed concerning earnings management actions. This model has revealed the practice of earning management from the issue of firm characteristics (family/non-family firms) which is quite significant, namely 10,7%. Overall, the logistic regression model tests employed show that the suggested logistic regression model significantly predicts the effect between earnings management preferences of family/non-family entities moderated by firm size.

Empirical evidence on the earnings management preference testing. The logistic regression model is fit in predicting the effect of DFAM, SIZE, and DFAMxSIZE variables simultaneously with the EM variable. Table 7 provides the results of the effect of the independent variables on the dependent variable individually. The results of testing the independent variable and the moderating variable with the dependent variable partial produce the following model:

$$EM = 0{,}215 + 5{,}070\ DFAM - 0{,}201\ SIZE - 0{,}394\ DFAM{*}SIZE + \varepsilon$$

Testing results of DFAM variable influence on EM are presented in Table 7. The result reveals a positive (5,070) coefficient of the firm characteristics (DFAM), and the significance level of firm characteristics for two-tailed testing is 0,051, thus for one-tailed testing is 0,025. The positive effect between DFAM (“1” = family entities; “0” = non-family entities) and EM (valued 1 for accrual; 0 for real) can be interpreted that family form business, compared to the non-family form, tend to choose accrual approach. The value of Exp (B) or the odds ratio in Table 7 is 159,147, indicating that the probability or tendency of family entities to choose the accrual approach is 159,147 times greater than the non-family entities.

The output of our study supports the findings of Achleitner et al. (2014) and Chen et al. (2015). Family entities choose accrual over the real approach because families have a long-term goal of bequeathing the company onto the next generations. This behavior is intended to maintain the socioemotional wealth of the family, one of which is business succession to the next generations (Kristianti, 2019). Family entities tend to do accrual than the real form of earnings management. However, the regression output of the DFAM variable seems to be contradicting the de-

Table 6. Output of Nagelkerke R Square

-2 Log likelihood	Cox & Snell R Square	Nagelkerke R Square
372,808	0,036	0,107

Table 7. Wald Testing

	B	S.E.	Wald	Significance	Exp(B)	95% C.I. for Exp(B)	
						Lower	Upper
DFAM	5,07	2,596	3,814	0,051	159,147	0,982	25801,6
SIZE	-0,201	0,151	1,755	0,185	0,818	0,608	1,101
DFAMx-SIZE	-0,394	0,185	4,518	0,034	0,674	0,469	0,97
Constant	0,215	2,167	0,01	0,921	1,24		

scriptive statistics in Tables 2 and 3 which reveal that the majority (94.2%) of the sample chose the real approach. The moderating variable test result, namely SIZE, is presented in Table 7 will clarify this matter.

Testing results of SIZE variable influence on EM variable which is shown in Table 7 shows a significance value of 0,0925 for one tail testing (0,185/2), which means that SIZE influences the earnings management preference significantly. The coefficient of SIZE in Table 7 is a negative sign. The meaning is that the SIZE influence towards earnings management preference is negative on the possibility of choosing the accrual form of the earnings management. It means that the larger the firm's size, the smaller the probability of the firm to prefer the accrual form of earnings management. It can be interpreted from this finding that large companies will tend to practice a real form of earnings management.

Further evidence is that the SIZE variable even weakens the preference of family entities. The SIZE test results as a moderating variable (DFAMxSIZE) presented in Table 7 have a negative coefficient (-0,394). The significant level of DFAMxSIZE which is 0,034 for two-tail testing or 0,017 for one-tail testing, is smaller than alpha at 5%. This result proves that SIZE significantly weakens DFAM and EM effects. From the analysis of SIZE as a moderating variable, it is understood that although family firms prefer the accrual form of earnings management, the firm size weakens the preference of the accrual approach. The larger the business, the more intense the entities is being observed by interested parties (Lassoued et al., 2018; Tulcanaza-Prieto et al., 2020; Wuryani, 2012), which causes family entities to be limited to practice accrual approach.

Although the result proves that family entities choose the accrual form of earnings management, this does not mean the companies do not perform the real form at all. This study measures preferences for earnings management from earnings management intensity performed. When the accrual form of earnings management practice is weakened because of an increasing size of family entities, the companies begin to practice the real form more intensively. The larger the family entities, the greater the probability of the companies choosing the real approach. Statistically, as presented in Table 2, it is revealed that most of the samples are large companies. With the effect of the DFAMxSIZE, it is understood that although family entities choose the accrual form of earnings management when the size getting increased, the family entities will switch to a real approach of earnings management. This explains why companies in Indonesia dominated by family companies tend to practice a real form of earnings management (94,2%).

Explaining earnings management practices. This study succeeds in depicting the earnings management preference of Indonesian firms which are dominated by family entities (Cahyani & Sanjaya, 2014; Krismiaji et al., 2016; Madyan et al., 2019). Family entities chose the accrual approach over the real approach because they have more opportunities to perform accrual earnings management than non-family entities. This happens because the corporate executives of family entities generally came from family members. Corporate executives that come from family members have more control over the company's internal information including financial reporting which given them more space in practicing the accrual approach of earnings management

Another reason is the business orientation. Family entities that are generally long-term oriented (Berrone et al., 2012; Katmon & Farooque, 2017) tend to practice earnings management that does not potentially worsen firm value in the future (Achleitner et al., 2014). Business efficiency is an essential matter for a family entities (Herrero, 2011, including implementing earnings management strategies. Earnings management practices should not damage family entities in the long term. According to Hutagaol-Martowidjojo et al. (2019), family entities practice efficient earnings management, which will positively impact the company's future. Earnings management is conducted still by paying attention to the long-term of business because it will be inherited for the family next generation. Family entities prefers not to chose a real form of earnings management because it may require much expenditure that has the potential to harm the firm value in the future. The company's long run is the main priority of a family entities (Cahyani & Sanjaya, 2014; Chen et al., 2015). The results confirm that the theory of socio-emotional wealth that emphasizes the sustainability of business can explain better the tendency of choosing earnings management.

This study reveals the same analysis result in Indonesia as found in Germany (Achleitner et al., 2014) and Japan (Chen et al., 2015). Some researchers concluded that family entities characteristics of Germany and Japan are close to those in Indonesia, where corporate leadership is dominated by family members (Abdellatif et al., 2010; Klein, 2000; Untoro et al., 2017). Thus, earnings management practices are different according to family or non-family, and the characteristics are essential to consider in understanding earnings management actions. This study satisfies explanations of earnings management practices in Asia countries that have the same family entities characteristics.

An interesting finding is that the earnings management preference of family entities changes according to the company's size. Therefore, the firm size factor is needed to be considered in analyzing the choice of earnings management strategies. Large-scale family entities tend to shift to a real form of earnings management. One reason is that large companies have sufficient resources to practice real approaches, which often incurs high costs. Many family entities in France are large companies (Wang & Hagigi, 2019). A study by Cherif et al. (2020) proves that family entities in France conduct a real form of earnings management. Large family entities in France choose the real approach because of the higher availability of company resources. That real approach, which often involves cash disbursements, is not a problem for these companies. In addition, large firms tend to be more closely eyed by the public which causes the companies to become more difficult to practice an accrual approach that takes advantage of the flaws of accounting regulations. Family entities chose the real approach because the chance of being detected is more petite than the real approach and it is more flexible in terms of timing of execution (Lassoued et al., 2018; Razzaque et al., 2016). Therefore, firm size should also be considered in analyzing family entities' earnings management practices. This study results can better explain the dominance of the real approach in Indonesia. Non-family entities in Indonesia tend to prefer a real approach. Family entities prioritize the accrual form of earnings management. However, when the size is increased, family entities will shift to other earnings management strategies.

Overall, earnings management preference is inseparable from the company's characteristics, including the character of family or non-family entities as well as the company size. This study results can also explain earnings management practices in countries that have similar characteristics to family entities in Indonesia (Abdellatif et al., 2010; Achleitner et al., 2014; Chen et al., 2015; Klein, 2000; Untoro et al., 2017) or the characteristics that can be compared with those in Indonesia (Cherif et al., 2020).

CONCLUSION

This study proves that the firm characteristic of family/non-family entities matters in determining earnings management choices. Family entities in Indonesia tend to choose an accrual approach. However, when the company's size increases, the company will be increasingly monitored, making it more challenging to carry out an accrual approach. Thus the family entities shift to a real form of earnings management. The study findings are expected to increase investors' awareness in anticipating risks in determining investment decisions in family/non-family entities. The study outcome is also essential for auditors especially in evaluating the risk of misstatement in financial statements inherent like family entities. Auditors need to take a different audit approach following the tendency of earnings management practices due to the nature of business. Theoretically, this study results confirm that socioemotional wealth theory is worked in revealing earnings management practices of family companies.

In categorizing a company into a family or non-family business, researchers have sought data from various reliable sources. However, because, generally, family businesses in Indonesia are in pyramid structures, it is often difficult to obtain sufficient information in determining whether a company is a family company or not. Future research is needed to use other methods in determining family business classification. Subsequent research is also expected to take samples from countries where the availability of family business information is greater.

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