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## Audit Competition, Director Remuneration, and Earnings Management: Auditor Specialization As Moderator

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ABSTRACT	INFO ARTIKEL
<p>This study aims to examine the effect of audit market competition and director remuneration on earnings management as moderated by auditor industry specialization. The population in this study consists of food and beverage companies listed on the Indonesia Stock Exchange for the 2019-2023 period. The sampling technique used is purposive sampling. The sample includes 16 companies, resulting in 80 data points being tested. Data analysis was conducted using IBM SPSS 30 with moderated regression analysis to test the hypotheses. The results show that audit market competition has a negative and significant effect on earnings management. Meanwhile, director remuneration does not have a positive effect on earnings management. Auditor industry specialization moderates the negative relationship between audit market competition and earnings management, and auditor industry specialization can also moderate the positive relationship between director remuneration and earnings management.</p> <p>© 2025 Kantor Jurnal dan Publikasi UPI</p>	<p><b>Article History:</b> <i>Submitted/Received 01 January 2025</i> <i>First Revised 05 January 2025</i> <i>Accepted 13 January 2025</i> <i>First Available online 26 April 2025</i> <i>Publication Date 26 April 2025</i></p> <hr/> <p><b>Keyword:</b> <i>Audit Market Competition; Auditor Industry Specialization, Director Remuneration; and Earnings Management</i></p>

## 1. INTRODUCTION

The income statement is a component of financial statements. Information presented in the income statement is necessary to assess management performance. Income statements often become targets of manipulation by management because they have various important uses in evaluating company performance. Earnings management is one of the deviant behaviors carried out by management to maximize profits. Earnings management is not always related to manipulating accounting data or information, but rather to the selection of accounting methods that are considered to increase profits in financial statements (Yohanes & Nariman, 2024).

The practice of earnings management is a phenomenon that has long been a concern in accounting and business. Despite various regulatory efforts and supervision through the implementation of stricter regulations and accounting standards, this practice is still often found in many companies. Earnings management involves manipulating financial statements to create a misleading positive image about company performance, which can adversely affect investment decisions and financial transparency (Putri & Fakhroni, 2024).

The food and beverage subsector companies become an interesting focus to study in the context of earnings management due to their unique characteristics. This subsector faces various challenges such as fluctuations in raw material prices, supply uncertainties, and intense competition among business actors. The characteristics of the food and beverage industry, which has rapid product turnover, complexity in raw material management, and profit margins sensitive to production costs, can create incentives for management to engage in earnings management to meet market expectations and maintain investor confidence.

As the complexity of transactions in the food and beverage subsector increases, competition in the audit services market also experiences an increase. Companies always strive to create the impression that they perform better than their competitors in order to maintain or increase market share. Tight business market competition can create incentives for companies to participate in earnings management (Putri & Fakhroni, 2024). Previous research conducted by Willekens et al (2023) states that increased price competition can encourage audit firms to differentiate themselves from competitors through improved audit quality. According to research by Putri & Fakhroni (2024), audit market competition has a negative and significant influence on earnings management. This indicates that the higher the level of competition in the audit market, the lower the tendency for earnings management to occur.

In addition to audit services market competition factors, remuneration aspects in the business market also play a role in strengthening earnings management practices. Providing high remuneration to directors amid financial problems can influence earnings management decisions, where directors may be encouraged to take unethical steps to show better performance. According to research by Indrawati & Sarjandari (2022) and Tingginehe & Kusumadewi (2022), director remuneration does not positively affect earnings management. Remuneration is only considered as an appreciation given by shareholders for the performance carried out by directors. However, research conducted by Twelekean & Novita (2021) yielded different findings. The results show that directors' remuneration has a positive effect on earnings management. The provision of bonuses by the company increases management's motivation to engage in earnings management.

In overseeing earnings management practices that may arise from these factors, the role of auditors with industry expertise is highly needed. An auditor can be said to be a specialist if the auditor has audited many clients in the same industry field (Larasati & As'ari, 2023).

According to research by Putri & Fakhroni (2024), auditor industry specialization has the potential to reduce the impact of earnings management by enhancing auditors' understanding of client businesses, their ability to recognize risks, and their capacity to provide higher quality audits. Research conducted by Prayogi et al (2022) shows that industry specialization can strengthen the relationship between earnings management and internal and external factors. According to research by Putri & Fakhroni (2024), auditor industry specialization can strengthen the relationship between audit market competition and earnings management. Auditors who have special expertise in an industry generally have a deeper understanding of regulations, policies, and practice standards applied in that sector. Thus, industry specialization possessed by auditors enables them to provide a more directed perspective and more appropriate evaluation regarding the potential for earnings management practices and the level of audit quality produced, according to the characteristics and context of the industry concerned.

This research aims to obtain empirical evidence that audit market competition and director remuneration are influenced by earnings management with auditor industry specialization as a moderator. The difference between this research and previous research is that this research adds the director remuneration variable, the reason for adding this variable is because there are inconsistent results from previous research regarding the effect of director remuneration on earnings management, so researchers want to prove stronger results.

The structure-conduct-performance (SCP) theory is an approach in analyzing the relationship between market structure, behavior, and industry performance. This theory highlights that market structure can be measured through the level of competition or audit market competition that provides an overview of how competitive a market is and how auditor industry specialization can influence that competitive structure. In this research, structure is represented by audit market competition, behavior is reflected in director remuneration policies, and performance is measured through earnings management practices. This is in line with Setiawan (2023) opinion stating that the performance dimension refers to the achievement of company goals influenced by the competitive environment, where auditor industry specialization acts as a variable that moderates the relationship between audit market structure and earnings management as a performance measure.

Positive Accounting Theory introduced by Watts and Zimmerman (1978) provides a framework for understanding how accounting practices are influenced by various economic conditions. This theory is closely related to earnings management because it provides a series of company policies that are available and can be chosen according to the company's current situation. This theory develops several hypothesis tests to detect earnings management, one of which is the bonus program hypothesis. In this bonus program hypothesis, company executives who benefit from compensation plans tend to choose methods to convert future profits into profits in the current period. This is because for certain reasons, managers have incentives to "manipulate" or "manage" reported profits in their own way by choosing the appropriate accounting method.

High audit market competition encourages accounting firms to improve their audit quality to differentiate themselves from competitors. When accounting firms improve competence and audit quality, their ability to detect earnings management practices also increases. This makes companies more cautious and tends to reduce earnings management practices due to the higher risk of detection. According to research by Putri & Fakhroni (2024), audit market competition has a negative and significant effect on earnings management. This indicates that the higher the level of competition in the audit market, the lower the tendency for earnings management to occur. Furthermore, research conducted by Nisrina (2021) shows that when

companies are at a high level of market competition, management does not have the opportunity to carry out opportunistic activities. The study reveals that although increased market reduces audit firm choices for clients, this does not significantly affect the level of competition and concentration audit costs. From this description, the first hypothesis obtained is:

H1: Audit market competition has a negative effect on earnings management

Director remuneration can have two different impacts on earnings management. On one hand, high remuneration can motivate directors to improve company performance in real terms. But on the other hand, performance-based remuneration systems can create incentives for directors to engage in earnings management to maximize their compensation. According to research by Indrawati & Sarjandari (2022) and Tingginehe & Kusumadewi (2022), director remuneration does not positively affect earnings management. Remuneration is only considered as an appreciation given by shareholders for the performance carried out by directors. However, research conducted by Twelekean & Novita (2021) yielded different findings. The results show that directors' remuneration has a positive effect on earnings management. The provision of bonuses by the company increases management's motivation to engage in earnings management, this allows management to maximize their bonuses, which could potentially be misused for personal interests rather than company interests. From this description, the second hypothesis obtained is:

H2: Director remuneration has a positive effect on earnings management

Auditors with industry specialization have a deeper understanding of characteristics, regulations, and business practices in specific industries. When this is combined with high audit market competition, auditor industry specialization can strengthen the supervisory effect because specialist auditors are not only motivated by market competition to provide high-quality audits but also have special expertise to detect earnings management practices more effectively. Research conducted by Prayogi et al (2022) has shown that industry specialization can moderate the relationship between earnings management and internal and external factors. Auditors who specialize in certain industries have a more comprehensive understanding of specific attributes and challenges in that industry. According to research by Putri & Fakhroni (2024), the results show that auditor industry specialization can moderate and strengthen the relationship between audit market competition and earnings management. Auditors who have special expertise in an industry generally have a deeper understanding of regulations, policies, and practice standards applied in that sector. Thus, industry specialization possessed by auditors enables them to provide a more directed perspective and more appropriate evaluation. From this description, the third hypothesis obtained is:

H3: Auditor industry specialization moderates the negative relationship of audit market competition on earnings management

According to Larasati & As'ari (2023), specialist auditors who have handled many clients in the same industry have a deeper understanding of the characteristics of that industry. Furthermore, research by Prayogi et al (2022) proves that industry specialization can moderate the relationship between earnings management and various internal and external factors of the company. This special expertise enables auditors to be more independent in making audit decisions and more capable of detecting earnings management practices that may arise from director remuneration schemes.

Thus, although there is no research that specifically tests the moderating role of auditor industry specialization in the relationship between director remuneration and earnings management, the existing theoretical and empirical foundation supports the presumption

that auditor industry specialization can moderate that relationship through improved quality of supervision and detection of earnings management practices. From this description, the final hypothesis obtained is:

H4: Auditor industry specialization moderates the positive relationship of director remuneration on earnings management

## 2. METHODOLOGY

This research employs a quantitative method to test the formulated hypotheses. The type of data used is secondary data. Secondary data in this research consists of financial statements and annual reports of food and beverage subsector companies listed on the Indonesia Stock Exchange (BEI) from 2019 to 2023. Data collection techniques used are documentation of annual reports and literature study. Several stages were conducted in this research, including descriptive statistical analysis, classic assumption tests, F-test, T-test, and moderated regression analysis.

### Sample

The population in this research is all food and beverage subsector companies listed on the Indonesia Stock Exchange from 2019-2023, totaling 16 companies with 80 observational data points. Sample selection was conducted using purposive sampling technique, which means sample selection based on specific procedures. Samples were selected using the following criteria:

1. Food and beverage subsector companies listed on the Indonesia Stock Exchange for the period 2019-2023.
2. Food and beverage subsector companies that consistently published financial reports from 2019-2023.
3. Food and beverage subsector companies that generated profits.
4. Food and beverage subsector companies with complete data related to all research variables during the 2019-2023 period.

### Measurement

There are three types of variables in this research: dependent variable, independent variable, and moderating variable. The dependent variable in this research is earnings management. Data is measured using Discretionary Accrual values with the modified Jones method, consisting of four main calculation stages. It begins by calculating total accruals from the difference between net income in the income statement and operating cash flow in the cash flow statement. Next, parameter estimation is performed using OLS regression, considering the previous year's total assets in the balance sheet, revenue changes calculated from the income statement, and gross fixed asset values listed in the notes to financial statements in the fixed assets section. The third stage calculates Non-Discretionary Accruals by accounting for additional components of net receivables changes visible in the current assets section of the balance sheet. Finally, Discretionary Accruals as the ultimate proxy for earnings management are obtained from the difference between standardized total accruals and Non-Discretionary Accruals, where positive values indicate earnings management practices that increase profits, and negative values show practices that decrease profits.

First independent variable used in this research is audit market competition. Data is measured using the Herfindahl Index (HI), calculated by comparing the total audit fees received by one company against the total audit fees of all companies in the industry, with values ranging from 0 to 1. HI values approaching 1 indicate a more concentrated or less

competitive market, while values approaching 0 show a more distributed or competitive market. The measurement of independent in this study can use the following:

$$H = \sum_{i=1}^N [si/S]^2$$

Second independent variable used in this research is director remuneration. Data is measured by the natural logarithm transformation (LN) of total director remuneration, which can be found in the notes to financial statements under related party transactions or in key management compensation disclosure sections.

The moderating variable used in this study is auditor industry specialization. Data is measured by dividing the number of companies audited by the KAP by the total number of companies in the industry sector, then expressed as a percentage. The measurement is such that if an auditor performs audit services for more than 20% of total companies in an industry (specialist auditor), it is assigned a value of 0. If less than or equal to 20%, it is assigned a value of 1. The measurement of independent in this study can use the following:

$$SIA = \frac{\text{Jumlah perusahaan yang diaudit KAP}}{\text{Jumlah seluruh perusahaan pada sektor industri}} \times 100\%$$

**Model**

Moderated Regression Analysis (MRA) is a regression analysis involving a moderating variable in building the relationship model. This variable has a role in strengthening or weakening the relationship between independent and dependent variables. The following is the adjusted equation with symbols for each variable:

$$Y_i = \alpha + \beta_1 X_{1i} + \beta_2 X_{2i} + \beta_3 Z_i - \beta_4 (X_{1i} \times Z_i) + \beta_5 (X_{2i} \times Z_i) + \epsilon_i$$

**3. RESULT AND DISCUSSION**

**Descriptive Statistics**

Descriptive statistics are statistics useful for describing, illustrating, detailing, and breaking down data. The statistical values used in this research are mean, median, minimum, maximum, and standard deviation.

Table 1. Descriptive Statistics  
**Descriptive Statistics**

	N	Minimum	Maximum	Mean	Std. Deviation
Earnings Management	80	-1,45	1,11	-,2183	,56474
Audit Market Competition	80	,17	,74	,2945	,22498
Director Remuneration	80	22,15	26,85	24,3577	1,12700
Auditor Industry Specialization	80	,00	1,00	,8000	,40252

Source: Data Processed with IBM SPSS 30, 2025

Table 1 of the descriptive statistics test results shows the dependent variable of earnings management has a minimum value of -1.45, a maximum value of 1.11, a mean of -0.2183, and a standard deviation of 0.56474. The independent variable of audit market competition has a minimum value of 0.17 approaching 0, which indicates that the audit market in this year tends to be distributed (more competitive). The maximum value of 0.74 approaching 1 indicates that the audit market tends to be concentrated (less competitive). The mean is 0.2945 with a standard deviation of 0.22498. The independent variable of director remuneration has a minimum value of 22.15, a maximum value of 26.85, a mean of 24.357, and a standard deviation of 1.12700. The moderating variable of auditor industry specialization has a minimum value of 0, indicating that the KAP is a specialist because it audits more than 20% of

companies in the industry. The maximum value of 1 shows that the KAP is not a specialist because it audits less than or equal to 20% of companies in the industry. The mean value of auditor industry specialization during the observation period is 0.8 with a standard deviation of 0.40252.

### Normality Test

The normality test is to examine whether data from the statistical model is normally distributed. In this research, the normality test uses the One Sample Kolmogorov Smirnov test, with data considered normally distributed if the significance value is more than 0.05.

Table 2 Normality Test  
One-Sample Kolmogorov-Smirnov Test

		Unstandardized Residual	
N		80	
Normal Parameters <sup>a,b</sup>	Mean	,0000	
	Std. Deviation	,54617	
Most Extreme Differences	Absolute	,076	
	Positive	,070	
	Negative	-,076	
Test Statistic		,076	
Asymp. Sig. (2-tailed) <sup>c</sup>		,200 <sup>d</sup>	
Monte Carlo Sig. (2-tailed) <sup>e</sup>	Sig.	,295	
	99% Confidence Interval	Lower Bound	,283
		Upper Bound	,307

Source: Data Processed with IBM SPSS 30, 2025

From tabel 2 the One Sample Kolmogorov Smirnov test, the Asymp. Sig. (2-tailed) value is 0.200. This shows that  $0.200 > 0.05$ , so it can be concluded that the data is normally distributed.

### Multicollinearity Test

The multicollinearity test is conducted to determine whether two or more independent variables in the regression model have significant correlation that can affect regression results and parameter interpretation. If the tolerance value  $> 0.10$  or VIF value  $< 10$ , it indicates no multicollinearity among independent variables.

Table 3 Multicollinearity Test

Model	Coefficients <sup>a</sup>					Collinearity Statistics		
	Unstandardized Coefficients		Standardized Coefficients		t	Sig.	Tolerance	VIF
	B	Std. Error	Beta					
1 (Constant)	4,042	,833			4,851	<,001		
Audit Market Competition (X1)	-1,089	,109	-,683		-9,952	<,001	,949	1,054
Director Remuneration (X2)	-,158	,034	-,324		-4,685	<,001	,933	1,072
Auditor Industry Specialization (Z)	-,119	,096	-,085		-1,241	,218	,953	1,049

a. Dependent Variable: Earnings Management

Source: Data Processed with IBM SPSS 30, 2025

From table 3 the collinearity statistics and VIF values were obtained. The audit market competition variable (1.054), director remuneration variable (1.072), and auditor industry specialization variable (1.049) show VIF values < 10. The tolerance values are: audit market competition (0.949), director remuneration (0.933), and auditor industry specialization (0.953). Since each variable's tolerance value > 0.10, it can be concluded that there are no multicollinearity symptoms.

**Heteroscedasticity Test**

The heteroscedasticity test aims to examine whether there is non-constant variance in the regression model. The presence or absence of heteroscedasticity can be determined using the Glejser test. A good regression model has a Glejser test result with a significance level more than 0.05.

Table 4 Heteroscedasticity Test

		Coefficients <sup>a</sup>				
		Unstandardized Coefficients		Standardized Coefficients		
Model		B	Std. Error	Beta	t	Sig.
1	(Constant)	,290	,802		,361	,719
	Audit Market Competition (X1)	,092	,105	,100	,870	,387
	Director Remuneration (X2)	,010	,032	,035	,302	,764
	Auditor Industry Specialization(Z)	-,147	,092	-,183	-1,595	,115

a. Dependent Variable: ABS\_RES

Source: Data Processed with IBM SPSS 30, 2025

Based on the heteroscedasticity test results in table 4, the significance (sig) values are: audit market competition 0.387, director remuneration 0.764, and auditor industry specialization 0.115. Since these sig values > 0.05, all variables show no heteroscedasticity symptoms.

**Autocorrelation Test**

The autocorrelation test is used to evaluate whether there is a relationship between error disturbances in the current period (t) and the previous period (t-1) in the regression model. The Durbin-Watson testing criteria state that if the Durbin-Watson statistic (d) is between -2 and +2 (-2 < d < +2), it can be concluded that the regression equation model does not have autocorrelation.

Table 5 Autocorrelation Test

Model Summary <sup>b</sup>					
Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Durbin-Watson
1	,813 <sup>a</sup>	,661	,647	,33533	1,666

Source: Data Processed with IBM SPSS 30, 2025

Based on the autocorrelation test results in Table 5, the Durbin-Watson value is 1.666, which is between -2 and +2 (-2 < 0.461 < +2), so it can be said that the regression equation model does not have autocorrelation.

**F Test**

The F test is used to evaluate the influence of all independent variables on the dependent variable.

Table 6: F Test

**ANOVA<sup>a</sup>**

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	17,184	5	3,437	31,743	<,001 <sup>b</sup>
	Residual	8,012	74	,108		
	Total	25,195	79			

Source: Data Processed with IBM SPSS 30, 2025

Based on the F test results in Table 4.7, the significance value obtained is < 0.001, which is less than 0.05. Therefore, it can be concluded that simultaneously, the independent variables (audit market competition and director remuneration) along with the moderating variable (auditor industry specialization) have a significant effect on earnings management.

**Hypothesis Test (T Test)**

The hypothesis testing or t-test is used to determine and evaluate whether independent variables partially have a significant impact on the dependent variable.

Table 7: T Test

**Coefficients<sup>a</sup>**

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	3,759	,804		4,674	<,001
	Audit Market Competition (X1)	-1,108	,109	-,694	-10,187	<,001
	Director Remuneration (X2)	-,150	,033	-,308	-4,515	<,001

a. Dependent Variable: Earnings Management

Source: Data Processed with IBM SPSS 30, 2025

The interpretation of the t-test statistical results is as follows:

1. The significance value for the audit market competition variable is <0.001 (smaller than 0.05) and has a negative direction shown by the B coefficient value of -1.108. This indicates a significant negative effect of audit market competition on earnings management, meaning H1 is accepted, which suggests that higher audit market competition will reduce the level of earnings management.
2. The significance value for the director remuneration variable is <0.001 (smaller than 0.05) and has a negative direction shown by the B coefficient value of -0.150. This shows a significant effect of director remuneration on earnings management. However, the negative B coefficient indicates a direction opposite to the original hypothesis, suggesting that director remuneration negatively affects earnings management. Therefore, H2 is rejected

**Moderating Effect of Auditor Industry Specialization on Audit Market Competition and Earnings Management**

Table 8: MRA Interaction Test Results for Audit Market Competition Variable

Coefficients <sup>a</sup>						
Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	,284	,105		2,693	,009
	Audit Market Competition (X1)	-1,753	,240	-1,098	-7,30	<,001
	Auditor Industry Specialization (Z)	-,211	,122	-,151	-1,73	,087
	Interaksi_X1.Z	,732	,274	,431	2,668	,009

a. Dependent Variable: Earnings Management

Source: Data Processed with IBM SPSS 30, 2025

The moderated regression analysis model is:

$$Y = \alpha + \beta_1 X1 + \beta_3 Z + \beta_4 (X1 \times Z) + \varepsilon$$

$$Y = 0.284 - 1.753 - 0.211 + 0.732 + \varepsilon$$

Table 8 shows the results of the audit market competition and auditor industry specialization variables, obtaining a B coefficient of 0.732 and a significance value of 0.009. These results indicate that the significance value of  $0.009 < 0.05$ . The positive interaction coefficient shows that auditor industry specialization moderates the negative relationship between audit market competition and earnings management, but the moderation direction weakens the relationship between audit market competition and earnings management. Therefore, H3 is accepted

#### Moderating Effect of Auditor Industry Specialization on Director Remuneration and Earnings Management

Table 9: MRA Interaction Test Results for Director Remuneration Variable

Coefficients <sup>a</sup>						
Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	11,427	2,994		3,817	<,001
	Director Remuneration (X2)	-,466	,121	-,957	-3,855	<,001
	Auditor Industry Specialization (Z)	-7,328	3,259	-5,223	-2,248	,027
	Interaksi_X2.Z	,287	,132	4,990	2,173	,033

a. Dependent Variable: Earnings Management

Source: Data Processed with IBM SPSS 30, 2025

The moderated regression analysis model is:

$$Y = \alpha + \beta_2 X2 + \beta_3 Z + \beta_5 (X2 \times Z) + \varepsilon$$

$$Y = 11.427 - 0.466 - 7.328 + 0.287 + \varepsilon$$

Table 9 shows the results of the director remuneration and auditor industry specialization variables on earnings management, obtaining a B coefficient of 0.287 and a significance value of 0.033. These results indicate that the significance value of  $0.033 < 0.05$ , and the positive interaction coefficient shows that the presence of auditor industry specialization moderates the positive relationship between director remuneration and earnings management. Therefore, H4 is accepted.

#### Coefficient of Determination Test (Adjusted R<sup>2</sup>)

The R<sup>2</sup> determination coefficient is used to explain the extent to which the dependent variable's variance is explained by the independent variables.

Table 10: Adjusted R<sup>2</sup>

**Model Summary**

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	,826 <sup>a</sup>	,682	,661	,32904

Source: Data Processed with IBM SPSS 30, 2025

Table 10 shows an Adjusted R-Squared value of 0.661. This indicates that the independent variables consisting of audit market competition and director remuneration influence the earnings management dependent variable by 66.1%, while the remaining 33.9% is explained by other variables outside this research.

### **The Effect of audit market competition on Earnings Management**

The first hypothesis testing shows that audit market competition has a negative and significant effect on earnings management with a significance value of  $<0.001$  (less than 0.05) and B coefficient of -1.108. This finding indicates that higher audit market competition is associated with lower levels of earnings management practices. So H1 is accepted.

This result aligns with the structure-conduct-performance (SCP) theory, where a competitive market structure encourages auditors to improve audit quality and examination thoroughness as a differentiation strategy. In a highly competitive audit market environment, auditors tend to work more carefully and meticulously in examining financial statements, making it difficult for companies to engage in earnings management practices. This finding is consistent with Putri & Fakhroni's (2024) research that found a negative relationship between audit market competition and earnings management, as well as Willekens et al.'s (2023) research stating that increased price competition can encourage audit firms to improve audit quality as a differentiation strategy.

### **The Effect of Director Remuneration on Earnings Management**

The second hypothesis testing resulted in a significance value of  $<0.001$  (less than 0.05) with B coefficient of -0.150, indicating that director remuneration has a negative and significant effect on earnings management. This result rejects the second hypothesis that predicted a positive effect of director remuneration on earnings management. So H2 is rejected.

This finding is consistent with research by Indrawati & Sarjandari (2022) and Tingginehe & Kusumadewi (2022), but contradicts Twelekean & Novita's (2021) research that found a positive effect. This result also challenges positive accounting theory, particularly the bonus program hypothesis which states that company executives who benefit from compensation tend to have incentives to manipulate earnings.

Several factors that may explain this finding include the remuneration structure in food and beverage subsector companies that is still dominated by fixed salary components compared to performance-based incentives, and remuneration policies that have not fully adopted pay-for-performance principles that could align management interests with shareholders.

### **Moderating Effect of Auditor Industry Specialization on the Relationship between Audit Market Competition and Earnings Management**

Moderation testing results show that the interaction between audit market competition and auditor industry specialization is significant with a p-value of 0.009 ( $<0.05$ ) and a positive interaction coefficient of 0.732. This indicates that auditor industry specialization weakens the negative relationship between audit market competition and earnings management. So H3 is accepted.

From the SCP theory perspective, industry specialist auditors, with their deep knowledge of certain industry practices, may have a higher tolerance for common accounting practices in that industry. Consequently, they are not as strict as non-specialist auditors in assessing

potential earnings management. The results of this study are in line with the research by Putri & Fakhroni (2024), which states that auditor industry specialization moderates the relationship between audit market competition and earnings management. Auditors who specialize in certain industries have a more comprehensive understanding of the specific characteristics and challenges within that industry. Specialized auditors tend to have better insights into the rules, regulations, and best practices applicable in that industry. Thus, auditor industry specialization can provide a more focused perspective and a more accurate assessment of the risks associated with earnings management practices and the quality of the resulting audit.

The findings of this study are also consistent with previous research conducted by Prayogi et al. (2022), which has shown that auditor industry specialization can moderate the relationship between earnings management and both internal and external factors. Overall, high audit market competition encourages auditors to enhance their vigilance in conducting audits to detect potential earnings management practices. As a result, earnings management practices tend to decrease because auditors work harder to ensure the integrity of financial statements.

#### **Moderating Effect of Auditor Industry Specialization on the Relationship between Director Remuneration and Earnings Management**

The fourth hypothesis testing resulted in an interaction coefficient of 0.287 with a significance of 0.033 ( $<0.05$ ), showing that auditor industry specialization positively moderates the relationship between director remuneration and earnings management. This means that the presence of industry specialist auditors actually strengthens the effect of director remuneration on earnings management. So H4 is accepted.

This result is consistent with positive accounting theory, particularly the bonus program hypothesis, where company executives who benefit from compensation plans tend to engage in earnings management to maximize their remuneration. This finding aligns with Twelekean & Novita's (2021) research that found a positive effect of bonus payments on management's motivation to engage in earnings management, as well as Prayogi et al.'s (2022) research on the moderating effects of industry specialization.

This positive moderation relationship can be explained through several factors that is the complex director compensation structure makes it difficult for auditors to detect manipulation, directors whose incentives depend on financial targets tend to engage in strategic accounting practices, and specialist auditors focus more on compliance with accounting standards rather than analyzing the relationship between director incentive systems and financial reporting decisions.

This finding provides new insight that the presence of specialist auditors does not always reduce earnings management practices related to remuneration schemes. Directors' personal incentives to maximize compensation through earnings management remain strong even with oversight from industry specialist auditors.

#### **4. CONCLUSION**

This research examines the effect of audit market competition and director remuneration on earnings management with auditor industry specialization as a moderating variable in food and beverage subsector companies. Audit market competition is proven to significantly reduce earnings management practices. This finding confirms that a competitive audit environment encourages auditors to improve their audit quality as a differentiation strategy. Contrary to initial predictions, director remuneration actually has a negative effect on

earnings management. This result challenges the bonus program hypothesis in positive accounting theory and indicates that the remuneration structure in Indonesian food and beverage companies has not fully adopted pay-for-performance principles that could align management interests with shareholders.

Auditor industry specialization weakens the negative relationship between audit market competition and earnings management. This finding reveals an interesting phenomenon that industry specialist auditors, with their deep knowledge of certain industry practices, may have a higher tolerance for common accounting practices in that industry, making them less strict than non-specialist auditors in assessing potential earnings management. Furthermore, auditor industry specialization actually strengthens the relationship between director remuneration and earnings management practices. This finding provides new insight that the presence of specialist auditors is not always effective in reducing earnings management practices related to remuneration schemes. Directors' personal incentives to maximize compensation through earnings management remain strong even with oversight from industry specialist auditors.

The theoretical implications of this research extend the understanding of SCP theory and positive accounting in the context of earnings management. Meanwhile, in practical terms, this research highlights the importance of more effective performance-based incentive structures in executive remuneration systems and also indicates the need to reconsider the role of auditor industry specialization in overseeing financial reporting practices.

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