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The Positive Accounting Theory Model and CEO Narcissism to Detect Earnings Management Practices of Public Companies in Indonesia

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ABSTRACT

Objectives: This study wants to test the effect of the positive accounting theory model, namely leverage, profitability, and company size to detect earnings management practices in public companies in Indonesia. In addition, this study also wants to know about the effect of CEO narcissism on the practice of earnings management in public companies. **Methods:** This study uses secondary data from public companies in Indonesia from 2018 to 2023. Data analysis was carried out using the MRA model. **Results:** The results of this study indicate that the positive accounting theory model, namely leverage, profitability, and company size, has a positive effect on the occurrence of earnings management practices in public companies. In addition, the narcissistic nature of the CEO is also known to moderate the influence of leverage and company profitability in determining the occurrence of earnings management practices.

Keywords: Leverage; Earnings management; Narcissism; Profitability; Company size

JEL Classification: M41; M40

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INTRODUCTION

Companies listed on the stock exchange are often motivated to show large profits to attract investors and maintain business continuity (Christian & Sulistiawan, 2022; Hasanuddin et al., 2021). However, earnings management practices are often carried out by manipulating financial reporting for the benefit of certain parties, thereby reducing the credibility of the report (Indriani & Pujiono, 2021). Research by (Jarne-Jarne et al., 2022; Bisogno & Donatella, 2021) shows that 50.4% of 284 manufacturing companies in Indonesia have an M-value of more than -1.78, indicating the potential for financial statement manipulation.

Previous research shows different views on earnings management. On the one hand, earnings management can increase the value of information to help users of financial statements make decisions Holthausen (1990), Arya et al. (2002), Jiraporn et al. (2008). On the other hand, earnings management is often used aggressively for personal gain, harming financial statement users Francis et al. (2016), Chen et al. (2017), Nguyen & Soobaroyen (2019).

” For example, major cases involving Enron, which caused losses of up to US$ 11 billion (Rp 159.5 trillion) and the bankruptcy of Lehman Brothers in 2008 with assets of US$ 600 billion, triggered the global financial crisis (Arnold & de Lange, 2004). The Bernard Madoff case in New York resulted in a US$ 65 billion loss with a 150-year prison sentence (Amalia Yunia Rahmawati, 2020). Indonesia also experienced scandals such as the manipulation of PT Kereta Api Indonesia's financial statements in 2005, which turned a loss of IDR 63 billion into a profit of IDR 6.9 million, as well as recording errors by PT Kimia Farma, which caused a loss of IDR 32.7 billion (Koroy, 2008).

On 12 March 2019, Ernst & Young (EY) Indonesia Public Accounting Firm revealed the results of a comprehensive audit of PT Tiga Pilar Sejahtera Food's (AISA) financial statements for the 2017 financial year. The audit findings showed that AISA's management engaged in window dressing practices by inflating trade receivables by IDR 1.63 trillion, overstating revenue by IDR 662 billion, and inflating food product EBITDA by IDR 392 billion (Jurnal & Mea, 2021).

Table 1. International and National Earnings Management Cases

NO	CASE	KERUGIAN
1	Enron Corp.	US$ 11 miliar
2	Lehman Brothers	US$ 600 miliar
3	Bernard Madoff	US$ 65 miliar
4	PT Kereta Api Indonesia	Rp 63 miliar
5	PT Kimia Farma	Rp 32,7 miliar
6	PT Tiga Pilar Sejahtera Food	Rp 1,63 triliun

Sumber: Corporate Finance Institute & CNBC Indonesia

Earnings management practices have a significant effect on decision-making and market transparency. This research focuses on manufacturing companies, which accounted for 19.25% of GDP in the first quarter of 2023 (Oktris et al. 2024), and are vulnerable to financial statement manipulation due to leverage, firm size, and profitability (OJK, 2023).

The research period 2018-2023 covers the impact of the COVID-19 pandemic and the economic recovery phase. CEO Narcissism is studied as a moderating variable, because narcissistic traits can encourage managers to choose accounting methods to maintain self-image (Raskin & Hall, 1979; Amernic & Craig 2010). In this context, agency theory helps understand the effect of CEO traits on earnings management practices.

Research also incorporates positive accounting theory, which views earnings as a leading indicator for investors (Himawan & Andayani, 2020). Leverage, firm size, and profitability variables show an important role in earnings management, although the results are still mixed (Astuti et al., 2017; Wirianata, 2020; Capalbo et al., 2018). This study aims to examine these relationships in the context of manufacturing.

Profitability reflects the capability and efficiency of company management (Rely, 2022). and affect earnings management (Nurcahyo & Suryaputri, 2019). This study examines the effect of leverage, company size, and profitability on earnings management with CEO Narcissism as a moderating variable. Narcissistic CEOs tend to make decisions based on ego and recognition needs, choose risky capital structures (Malmendier & Tate, 2008). and maintain the company's image through a careful approach (Chen et al., 2017).

The CEO's persuasive ability can influence the relationship between financial factors and earnings management (Reilly et al., 2014). The focus on personal achievement makes narcissistic CEOs more likely to optimise factors such as leverage and profitability without harming the image. This study aims to understand the role of CEO Narcissism in moderating the influence of financial factors on corporate earnings management practices.

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The explanation in the previous paragraph concludes that this study will conduct tests to prove several existing research hypotheses. Several research hypotheses can be formulated as follows:

H1: Leverage has a significant effect on earnings management
H2: Company Size has a significant effect on earnings management
H3: Profitability has a significant effect on earnings management
H4: CEO Narcissism can moderate Leverage on earnings management.
H5: CEO Narcissism can moderate Company Size on earnings management.
H6: CEO Narcissism can moderate Profitability on earnings management.

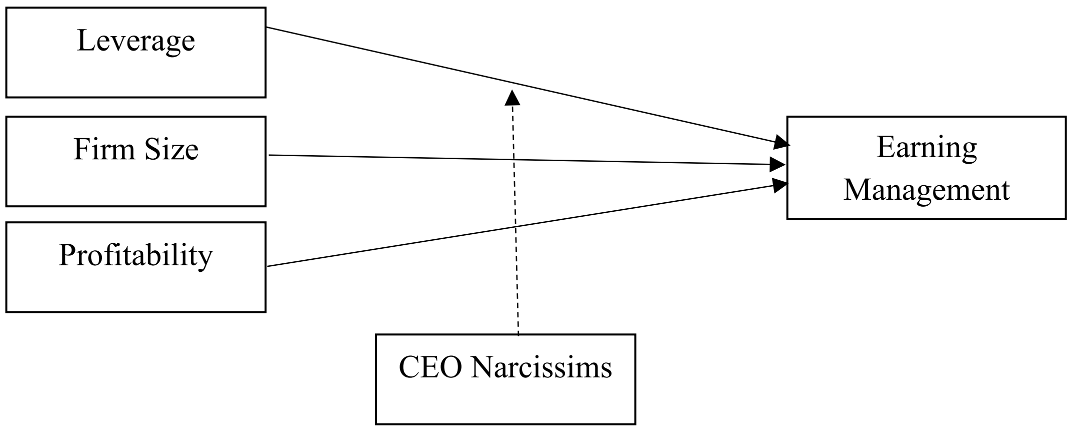

Figure 1. Research Model

METHOD

This study adopts an explanatory research approach in a quantitative scope based on a positivistic paradigm. The quantitative method was chosen as explained by Sugiyono (2020), because it allows for systematic analysis of certain groups and samples. The sampling technique was carried out randomly, while data collection was carried out through the use of standardized research instruments. Furthermore, the data obtained were analyzed using statistical methods.

This approach aims to test the truth of the previously established hypothesis in this study. "This study specifically examines the causal relationship between independent variables (leverage, company size, and profitability) with the dependent variable (earnings management). This study specifically integrates CEO narcissism as a moderating variable to explore its mediator role in influencing the dynamics of the relationship between variables. This analytical framework is designed to produce a holistic understanding through the application of rigorous and measurable statistical methods.

Samples were taken randomly, data were collected through standardised instruments, and analysed using statistical methods. This study uses quantitative data that is measurable and presented in numerical form, namely the annual financial statements of manufacturing companies listed on the Indonesia Stock Exchange (IDX) in the 2018-2023 period obtained through the official IDX website (www.idx.co.id).

This study uses a population of manufacturing companies listed on the IDX, especially in the Basic Industry and Chemical, Miscellaneous Industries, and Consumer Goods Industry sectors. With purposive sampling technique, 41 companies were selected as samples. Observation data for six years resulted in 246 units analysed.

Independent variables, also known as independent variables, are variables that influence other variables. In this study, the independent variables include leverage, firm size, and profitability. Debt Ratio is used as a debt ratio to assess the extent to which companies utilise debt. This measurement uses Debt to Aseets Ratio (DER) as a research instrument, which can be calculated using the following formula.

$$Debt\ Asset\ Ratio = \frac{\text{total debt}}{\text{total assets}}\ \text{X}\ 100\%$$

The dimensions or size of the company reflect the scale of the company which can be evaluated based on the type of business sector being run. The formula for company size can be measured as follows.

"Firm size = Ln (total assets)"

Data measurement for this variable is carried out using ratios. In this study, company profitability is measured using ROA (Return on Assets), which is calculated using the following formula.

$$ROA = \frac{\text{EAT}}{total\ assets}\ \text{X}\ 100\%$$

The dependent variable in this study is earnings management as measured by discretionary accruals. "The following is the general formula for calculating Discretionary Accruals using the Modified Jones Model:

$$\boxed{\mathbf{TAC_{it} = NI_{it} - CFO_{it}}}$$

Total accruals (TACit) are estimated using the following multiple regression equation:

$$\boxed{\mathbf{TAC_{it} / A_{it-1} = \alpha 1\ (1/A_{it-1}) + \alpha 2\ (\Delta REV_{it} / A_{it-1}) + \alpha 3\ (PPE_{IT} / A_{it-1}) + e}}$$

Furthermore, to calculate nondiscretionary accruals, the following formula is used:

$$\boxed{\mathbf{NDA_{it} = \alpha 1\ (1/A_{it-1}) + \alpha 2\ ((\Delta REV_{it} - \Delta REC_{it}) / A_{it-1}) + \alpha 3\ (PPEit_{t} / A_{it-1})}}$$

Where,

TAC$_{it}$ =" Total accruals of Company (i) in year (t),"

NI$_{it}$ =" Net income of Company (i) in year (t),"

CFO$_{it}$ =" Cash flow from operating activities of company (i) in year (t),"

A$_{it-1}$ **="**Total assets company (i) in year (t),"

ΔREV$_{it}$ =" Change in revenue of company (i) in year (t),"

ΔREC$_{it}$ =" Change in receivables of company (i) in year (t),"

PPEI$_{it}$ =" *Property, plant, and equipment of company (i) in year (t)*

This study examines CEO narcissism as a moderating variable measured through visual analysis of profile photos in annual reports. This approach is based on the premise that the CEO's visual expression reflects the narcissistic characteristics of Chatterjee & Hambrick (2007), Olsen et al. (2014) and Al-Shammari et al. (2019) the level of CEO narcissism can be

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measured through an assessment of the CEO image contained in the Company's Annual Report. The measurement scale for the level of CEO narcissism is carried out on the following scale:

a) 1 point is given for annual reports that do not include CEO images.
b) 2 points are given for annual reports that feature a picture of the CEO with other executives.
c) 3 points are awarded for annual reports that feature a picture of the CEO alone that is less than half a page in size.
d) 4 points are awarded for annual reports that feature a picture of the CEO that is more than half a page but not a full page.
e) 5 points are awarded for annual reports that feature a full-page image of the CEO.

This study uses descriptive analysis to describe the distribution of data, including minimum-maximum values, mean, and standard deviation. In addition, this study also conducted a moderated regression analysis (MRA) test using the SPSS application. The regression equation in this study is formulated as follows.

$$\mathbf{Y = \alpha + \beta_1X_1 + \beta_2X_2 + \beta_3X_3 + e"(1)}$$

$$\mathbf{Y = \alpha + \beta_1X_1 + \beta_2X_2 + \beta_3X_3 + \beta_4Z + \beta_5X_1{*}Z + \beta_6X_2{*}Z + \beta_7X_3{*}Z + e\ (2)}$$

Where,

Y	= Earning Management
α	= Constant
$\beta_1 - \beta_6$	= Coefficients
X_1	= *Leverage*
X_2	= Firm Size
X_3	= Profitability
Z	= *CEO Narcissism*
e	= Error

RESULTS AND DISCUSSION

This study applies purposive sampling technique by setting specific selection criteria as the basis for selecting the analysis unit. The selection parameters used include: a. Manufacturing companies that are consistently listed on the IDX during the period 2018-2023. b. Manufacturing companies that do not experience losses and remain listed on the IDX during the period 2018-2023. c. Companies that have complete financial reports for the period 2018-2023 and are available on the official IDX website. d. Companies that have not experienced a change of CEO during the period 2018-2023. The sample selection process for this study is presented in table 1 below.

Table 1. Sample Selection Process

No.	Selection Criteria	Total
1.	Total manufacturing companies listed on the IDX in the period 2018-2023	165
2.	Manufacturing companies listed on the IDX but experienced losses during the 2018-2023 period	(85)
3.	Companies that experienced a change of CEO during the research period	(27)
4.	Companies whose financial reports are not available on the official BEI website or the Company website	(12)
Total Companies in this study		**41**
Total Observation		**246**

Source: data processed

Based on the predetermined selection criteria, this study determined 41 companies as samples. With an observation period of six years, the total data collected and analyzed in this study amounted to 246 observations.

This analysis intends to explain all aspects studied in this study. The following is the output of descriptive statistical data processing:

Table 2. Descriptive Statistics Test Results

	N	Min.	Max	Mean	Std. Deviation
Leverage	246	0,00	3,22	0,3207	0,23921
Size Firm	246	10,61	19,04	15,0976	1,76523
Profitability	246	0,00	2,07	0,0964	0,16117
CEO Narcissism	246	1,00	5,00	3,6057	1,09312
Earning Management	246	-0,93	2,28	0,0242	0,64446

Source: Output SPSS, 2025

Analysis of the leverage variable (N=246) shows a range of values between 0.00 to 3.22 with a mean of 0.3207 (SD=0.23921). This result indicates the dominance of conservative capital structure in the sample of companies, with relatively limited variation between entities.

The firm size variable shows a quite varied distribution (min=10.61; max=19.04; mean=15.0976; SD=1.76523). This characteristic reflects the composition of the sample, which is dominated by companies with medium to large scale operations, with moderate data dispersion.

The profitability level of the sample varies from 0.00 to 2.07 (mean=0.0964; SD=0.16117). This finding indicates relatively low financial performance in general, although there are outliers with significant profitability achievements.

CEO Narcissism showed a fairly wide distribution (min=1.00; max=5.00; mean=3.6057; SD=1.09312). This pattern indicates a fairly prominent prevalence of the narcissistic personality trait among the sample executives, with a marked diversity of individual characteristics.

Earnings Management exhibits quite extreme dispersion (min=-1.93; max=2.28; mean=0.0242; SD=0.64446). This result implies that although most companies perform earnings engineering on a limited scale, there is significant variation in practice between sample entities.

The next test is the normality test by conducting the Kolmogorov-Smirnov test. This test procedure is conducted to confirm the assumption of normal distribution in the data. A dataset is declared normally distributed when it obtains a p-value> 0.05 in the statistical test.

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Table 3. Normality Test Results

		Unstandardized Residual
N		246
Normal Parameters	Mean	0,5616799
	Std. Deviation	4,00650839
Most Extreme Differences	Absolute	0,059
	Positive	0,059
	Negative	-0,059
Kolmogorov-Smirnov Z		0,927
Asymp. Sig. (2-tailed)		0,356

Source: Output SPSS, 2025

The test results above after transforming the data show a two-sided Kolmogorov-Smirnov significance value of 0.356, which is statistically significant above the α level of 0.05. This finding confirms the fulfilment of the normality assumption for further analysis.

Multicollinearity testing aims to verify the absence of multicollinearity between independent variables. Diagnostic criteria indicate multicollinearity can be ignored if it fulfils the conditions: (1) Variance Inflation Factor (VIF) < 10, and (2) Tolerance value > 0.1.

Table 4. Multicollinearity Test Results

Variable	Tolerance	VIF
Leverage	0,445	2,249
Size Firm	0,611	1,636
Profitability	0,791	1,264
CEO Narcissism	0,529	1,889

Source: Output SPSS, 2025

The multicollinearity test results show that all tolerance and VIF values for each independent variable have met the requirements, namely VIF < 10 and tolerance value> 0.1.

The next test carried out is the heteroscedasticity test. This test intends to check if there are differences in variance between the residuals of various observations. The Glejser test results show a significance value for each variable confirming that the regression model built does not show symptoms of heteroscedasticity.

Table 5. Heteroscedasticity Test Results

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig
		B	Std. Error	Beta		
1	Constant	3,174	0,192		16,549	0,000
	Leverage	0,447	0,324	0,131	1,380	0,169
	Size Firm	-0,398	0,244	-0,132	-1,627	0,105
	Profitability	-0,426	0,275	-0,111	-1,551	0,122
	CEO Narcisssim	-0,099	0,259	-0,034	-0,384	0,701

Source: Output SPSS, 2025

The next test is the autocorrelation test which aims to identify the presence of autocorrelation by analysing the correlation between residuals at observation time t and t-1 in a time series.

Table 6. Autocorrelation Test Results

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Durbin Watson
1	0,785	0,616	0,610	0,61121	1,828

Source: Output SPSS, 2025

The results of the Durbin-Watson test show a statistical value of 1.828, which is within the acceptance range (du=1.799 <DW <4-du=2.201) indicating that the regression model meets the assumption of non-autocorrelation and is valid for inferential analysis.

The next test is to test the research hypothesis by conducting a Moderated Regression Analysis (MRA). Table 7 below presents the results of the MRA test that has been carried out.

Table 7. Research Hypothesis Test Results

Relationship	Beta	t-count	Sig.
Leverage → EM	0,695	11,085	0,000
Size Firm→ EM	0,181	3,343	0,001
Profitability → EM	0,188	3,020	0,003
CEO Narsism→EM	0,165	2,929	0,004
Leverage*CEO Narsism→EM	0,185	3,251	0,001
Size Firm*CEO Narsism→EM	0,021	0,393	0,695
Profitability*CEO Narsism→EM	0,191	2,700	0,007
Coefficient of determination (R^2)			0,592

Source: Output SPSS, 2025

The results of the analysis test that has been carried out indicate that the variables leverage, firm size, profitability, and CEO narcissism have a positive effect on earnings management actions. In addition, the results of the moderation variable test indicate that the CEO narcissism variable is able to moderate the effect of leverage and profitability on earnings management. Based on the results of the existing research hypothesis test, the form of the final equation of this study is as follows.

$Y = -0{,}049 + 0{,}695X_1 + 0{,}181X_2 + 0{,}188X_3 + e$”(Model 1)

$Y = -0{,}070 + 0{,}423X_1 + 0{,}142X_2 + 0{,}135X_3 + 0{,}165Z + 0{,}185X_1{*}Z + 0{,}021X_2{*}Z + 0{,}191X_3{*}Z + e$”(Model 2)

Based on the results of the determination analysis, the R^2 value is 0.592, which means that 59.2% of the variation in the dependent variable (Earnings Management) can be influenced by the independent variables (Leverage, Firm Size, and Profitability) in this regression model. While the other 40.8% of the variance is influenced by exogenous factors that are not modeled. The Adjusted R^2 value of 0.587 reflects the accuracy of the model after being corrected by the degrees of freedom, confirming the adequacy of the model in explaining the relationship between variables.

The results of the regression analysis show that leverage has a positive and significant effect on earnings management, with a significance value of 0.000 (less than $\alpha = 0.05$) and a t-test of 11.085. The regression coefficient of 0.695 indicates that every one unit increase in leverage drives an increase in earnings management practices by 0.695 units, assuming other

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variables remain constant. This indicates that companies with higher debt ratios are more likely to engage in earnings management.

This finding is in line with Positive Accounting Theory, which states that earnings management practices are a rational response to external pressures such as debt requirements and financial targets. In addition, Agency Theory explains that conflicts of interest between managers and owners encourage managers in highly indebted companies to manipulate financial statements in order to maintain the company's financial image and avoid strict supervision from creditors and investors. These two theories together strengthen the understanding of why high leverage increases the tendency of companies to engage in earnings management.

This result is supported by a number of previous studies. Research by (Fitriyani & Waluyo, 2022) states that companies with high leverage face stricter scrutiny from creditors and tend to use earnings management to maintain a good financial image. Nalarreason et al. (2019) also found that pressure to comply with debt covenants encourages companies to take advantage of accounting flexibility in reporting earnings. Furthermore, Felicya Nathaly & Yuniarwati (2022) revealed that pressure from creditors can encourage companies to manipulate financial statements to appear more stable. (Astuti et al., 2017) and Sari & Astika (2015) also support this finding, showing that high leverage often causes concerns about business continuity, so management tends to carry out earnings management to maintain a positive perception in the eyes of investors and the public.

The regression results show that company size has a positive and significant effect on earnings management (coefficient 0.181; t-count 3.343; significance 0.001). This means that the larger the company size (based on the log of total assets), the higher the tendency to engage in earnings management. Theoretically, Positive Accounting Theory states that external pressure on large companies encourages earnings management practices to maintain their image. Meanwhile, Agency Theory explains that organizational complexity creates information asymmetry that gives managers room to manipulate financial statements.

The results of this study are consistent with previous studies, including research by Yuliana & Trisnawati (2015) and Nalarreason et al. (2019) which concluded that company size has a positive and significant effect on earnings management practices, regardless of company scale. Watts & Zimmerman (1990) strengthen this finding by explaining that large companies have a strong motivation to carry out earnings management in order to maintain an image of stability and trust in the eyes of investors. Meanwhile, Jensen & Meckling (1976) added that operational complexity and high information asymmetry in large companies increase the potential for agency conflicts, which ultimately encourage financial statement engineering practices. On the other hand, small companies are also not immune to this tendency, where they often carry out earnings management to create a strong performance image in order to attract investor interest and strengthen competitiveness in the market. Thus, this finding further strengthens the empirical evidence that company size is an important factor influencing the intensity of earnings management at various levels of business scale.

Thus, this study reveals that large and small companies both engage in earnings management, albeit with different motivations. This finding suggests the importance of supervision tailored to the characteristics of the company's scale to maintain the integrity of financial statements and prevent manipulation of accounting information.

The regression results show that profitability has a significant effect on earnings management, with a coefficient of 0.188 and a significance of 0.003. This indicates that companies with high ROA are more likely to manipulate financial statements to maintain a positive image. Theoretically, Positive Accounting Theory explains that companies with good performance want to show profit stability in the eyes of investors. Meanwhile, Agency Theory states that managers take advantage of accounting flexibility to achieve personal incentives and reduce conflicts of interest. Various previous studies have confirmed the positive relationship between profitability and earnings management practices. Healy (1985) and Dechow et al. (1995) revealed that companies with strong financial performance tend to be more aggressive in managing earnings in order to maintain investor confidence. Yuliana & Trisnawati (2015) identified that high ROA indicates efficient use of assets, thus encouraging management to maintain a positive image through earnings management. Utami (2019) also found that high profitability has the potential to lead to earnings management practices in order to meet market expectations and obtain managerial incentives. In addition, studies by Amalia Yunia Rahmawati (2020) and Amalia et al. (2019) revealed that profitable companies use earnings management as a strategic tool to maintain performance stability and reputation in the capital market. Thus, both empirically and theoretically, it can be concluded that profitability plays an important role in driving earnings management. Companies that record high profits have a greater incentive to maintain this positive performance trend through strategic accounting reporting techniques. However, this condition also poses challenges in terms of transparency and integrity of financial reports, thus requiring careful supervision from regulators and stakeholders.

This study shows that CEO narcissism strengthens the influence of leverage on earnings management practices. The results of the moderation regression show a significant interaction between leverage and CEO narcissism (coefficient 0.185; significance 0.001). This means that companies with high debt are more likely to engage in earnings management if led by a narcissistic CEO. This finding is supported by Agency Theory, which states that narcissistic CEOs seek to maintain their image through financial statement manipulation, as well as Positive Accounting Theory, which states that debt pressure encourages the exploitation of accounting loopholes. Previous studies (Olsen et al. 2014; Meiliya & Rahmawati 2022; Zhang et al. 2017) also support that narcissistic CEOs tend to manipulate financial information under high pressure conditions.

The results of the analysis show that the interaction between company size and CEO narcissism has no significant effect on earnings management (significance 0.695; coefficient 0.021). CEO narcissism does not act as a moderator in this relationship, indicating that company size and CEO narcissism work independently in influencing earnings management. Practitioners and regulators need to consider other more relevant factors in anticipating this practice. Within the Agency Theory framework, external supervision of large companies such as auditors and commissioners limits the space for narcissistic CEOs to manipulate. In line with Positive Accounting Theory, strict regulations and political pressure on large companies reduce the flexibility of managers, including narcissistic CEOs, in choosing opportunistic accounting methods. Previous studies support this finding Shi et al. (2021) and Gao et al. (2024) company size reduces earnings management, while CEO narcissism does not moderate the relationship. DeAngelo, (2021) found that complex monitoring mechanisms in large companies limit manipulation by narcissistic CEOs. Structural factors such as company size are more dominant than individual characteristics of the CEO in influencing earnings management.

The results of the analysis show that the combination of high profitability and CEO narcissism significantly increases earnings management practices (significance 0.007;

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coefficient 0.191). Narcissistic CEOs use company performance to manipulate financial statements in order to maintain their personal image as successful leaders.

In Agency Theory, this reflects a conflict of interest between the agent (CEO) and the principal (owner), with high profitability being used to strengthen the image of success. In Positive Accounting Theory, this manipulative behavior is seen as a rational response to economic and psychological incentives.

Previous studies (Buchholz et al. 2020; Zhang et al. 2017; Olsen et al. 2014) support the finding that narcissistic CEOs are more likely to use profitability to strengthen their image and leadership. Narcissistic CEOs use company profits to maintain their reputation, which motivates them to manipulate financial statements for personal success.

This study shows that CEO narcissism significantly moderates the relationship between profitability and earnings management. Narcissistic CEOs use high profits to improve their self-image, which encourages financial statement manipulation. CEOs with this character tend to be more aggressive in carrying out accounting engineering to maintain their reputation as successful leaders.

CONCLUSION

This study aims to examine the effect of leverage, firm size, and profitability on earnings management. In addition, this study also aims to examine the moderating effect of the CEO narcissism variable on the effect of leverage, firm size, and profitability on earnings management. Based on the data analysis and discussion that has been carried out, this study draws several important conclusions. First, the variables of leverage, firm size, and profitability have a positive and significant effect on earnings management practices. Second, the CEO narcissism variable is able to moderate the effect of leverage and profitability on earnings management. The results of this study can be used as a reference or basis for new references in the development of science while still considering the limitations of existing research. This study has limitations that can be of concern to other researchers. First, this study only focuses on manufacturing companies in the Basic and Chemical Industry, Miscellaneous Industries, and Consumer Goods Industry sectors, so that further research is expected to expand the focus of research on other companies. Second, the period of this study is only limited from 2018 to 2023, so that further research is expected to extend the research period in order to obtain more varied data.

Based on the conclusions that have been described, some suggestions that can be conveyed to related parties. For company management, it is important to pay attention to the leadership traits and psychological characteristics of the CEO, especially in terms of monitoring earnings management practices. Companies need to ensure that strategic decisions are not only based on personal motivation but also pay attention to the principles of good corporate governance. For investors and stakeholders, these findings are a consideration in assessing company performance, not only from a financial perspective, but also from a leadership perspective. Investors are advised to be more careful about companies with high profitability levels led by CEOs with narcissistic tendencies. For further researchers, it is hoped that they can develop this research by considering other psychological variables such as overconfidence, Machiavellianism, or risk-taking behavior, as well as expanding the sample with different industrial sectors and over a longer period of time so that the research results are more generalizable.

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