



The Role of The Company Life Cycle on Chief Executive Officer Power and Earnings Management

Akhmad Sigit Adiwibowo ^{1✉} and Putri Nurmala ²

^{1,2}Accounting Department, Faculty of Economics and Business, Universitas Pamulang, Indonesia

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ABSTRACT

Purpose : This study aims to re-examine whether chief executive officer (CEO) power affects earnings management and whether company life cycles can moderate the effect of CEO power on earnings management.

Method : This study used publicly listed companies in the Indonesia Stock Exchange period 2017-2021, are 74 companies, or 370 data, were picked using a purposive sampling method that eliminates companies with outliers. This research uses panel data regression with a random effect model to examine CEO power on earnings management with the company's life cycle as moderating variables.

Findings : This study finds that CEO power does not affect earnings management, and the decline stage can moderate the effect of CEO power on earnings management. However, the introduction, growth, and mature stage cannot moderate the effect of CEO power on earnings management.

Novelty : This study contributes to the literature on earnings management by highlighting CEO power in Indonesian companies with different life cycles. This study provides a unique perspective on earnings management, especially in emerging markets like Indonesia.

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INTRODUCTION

The greater the CEO's power, the more earnings management activity will increase. The increase in earnings management activity is because CEOs with high power have high self-confidence (Choe et al., 2014). This high self-confidence has the power to affect various companies' decisions in the interests of the CEO (Ben-David et al., 2007; Hirshleifer et al., 2012; Malmendier et al., 2011). One of the company's significant decisions made by the CEO is performance targets. The greater the CEO's power, the more the company will make less challenging performance targets so that the CEO will get optimal compensation for conveniently achieving these targets (Abernethy et al., 2015). On the other hand, if the shareholders force the CEO to set performance targets that are too difficult, the CEO who has great power will take actions that result in differences in interests between the CEO and shareholders, such as earnings management (Kuang & Qin, 2009). Therefore, the greater the power possessed by the CEO of a company, the greater the level of earnings management carried out by the company's management.

The case of CEO power affecting earnings management occurred at PT Garuda Indonesia (Persero) Tbk (GIAA). GIAA reported a net profit of USD 809.85 thousand in 2018, which is abnormal. It is due to a loss of USD 216.5 million in the previous year. The results of an audit revealed that GIAA made a mistake in recording revenue from PT Mahata Aero Teknologi regarding the installation of Wi-Fi on board. I Gusti Ngurah Askhara Danadiputra, the CEO of GIAA that year, was the CEO with high power because he was the board's chairman and had finance experience. As a result, the GIAA case demonstrates how CEO power can increase earnings management activities.

Previous studies on the effect of CEO power on earnings management have different conclusions. Previous studies stated that the greater the CEO's power would increase earnings management (A. Ali & Zhang, 2015; Le et al., 2022). However, according to several studies, the larger the CEO's power, the lower the company's earnings management (Agrawal et al., 2005; J. W. Lin & Hwang, 2010; Salem Alzoubi, 2014). The increase in earnings management is because the CEO has high self-confidence (Ben-David et al., 2007; Hirshleifer et al., 2012; Malmendier

* E-mail: dosen01456@unpam.ac.id

Address: Jln Surya Kencana No 1, Pamulang, Tangerang Selatan, Banten, 15417, Indonesia

et al., 2011). The high confidence possessed by the CEO is used to pressure CFOs, so CFOs are forced to carry out earnings management (Friedman, 2014; F. Lin et al., 2020). The CEO forces the CFO to manage earnings to maximize the CEO's compensation from shareholders (Abernethy et al., 2015). The lower earnings management because the CEO with high power has an influential role in detecting the existence of earnings management so that the quality of the information in the financial statements continues to improve. In addition, some studies state that although CEO power reduces accounting conservatism, CEO power has no significant effect on earnings management (Gounopoulos & Pham, 2018; Hu et al., 2017). Therefore, explaining how CEO power affects earnings management needs to be more consistent.

Based on the inconsistency of the results of previous studies, it is crucial to re-examine the effect of CEO Power on earnings management. This research will explain that the inconsistency of the results of previous studies was due to other factors. One factor that affects earnings management is the company's life cycle; therefore, this research can contribute to the growing body of literature on the factors that affect earnings management by highlighting CEO Power in companies with different life cycles. Research by Shiue et al. (2012) states that companies in the growth stage perform lower earnings management than in other stages. T. Chen (2016) also stated that the company's life cycle could moderate the effect of internal control on earnings management. Nagar & Radhakrishnan (2015) research supports the statement that companies in the growth and maturity stages manage earnings to avoid losses. However, companies need to find earnings management practices in the introductory stage. Can (2020); L. Chen et al. (2018); Hussain et al. (2020); Ph et al. (2019) have a different opinion, which states that companies in the introductory stage mainly carried out earnings management than companies that were already in the growth and mature stages. As a result, it is intriguing to consider the firm life cycle as a predictable component that can explain the inconsistent findings of previous research on the influence of CEO Power on earnings management. Using the company life cycle as a moderating variable is still rare, so this study should be original.

The greater the CEO's power significantly increases the company's earnings management practice (Abernethy et al., 2015; A. Ali & Zhang, 2015; Ben-David et al., 2007; Feng et al., 2011; Friedman, 2014; Le et al., 2022). Agency theory can explain the increasing practice of earnings management because agency theory explains the conflict between the agent and the principal. In this case, the CEO is the agent, and the shareholders are the principal. The conflict between the CEO and shareholders is called agency conflict (Eugene F. Fama, 1980). Agency conflict explains that the agent (CEO) does not always work to maximise the principal's (shareholders) welfare but works to maximise the agent's (CEO) welfare.

This behaviour is prevalent in companies with great CEO Power. When the company operates, as usual, the CEO with great power will make less challenging performance targets so that the CEO can conveniently achieve these targets, and the CEO will receive maximum compensation with minimal effort (Abernethy et al., 2015). However, when the company's performance is experiencing a decline, and CEO cannot achieve the performance target, the CEO, who has great power, will pressure the CFO to carry out earnings management so that the financial statement figures are in line with the expectations of the shareholders (Feng et al., 2011; Friedman, 2014). CEOs will conveniently pressure CFOs to do earnings management because CEOs with great power have high self-confidence (Ben-David et al., 2007; Hirshleifer et al., 2012; Malmendier et al., 2011). CFOs are forced to do earnings management, not for the benefit of the CFO, but the CFO succumbs to pressure and demands from the CEO for the benefit of the CEO (Feng et al., 2011). Therefore, the following formulation of the hypothesis is as follows:

H₁: CEO Power had a significant positive effect on earnings management.

The effect of CEO power on earnings management will vary based on the company's life cycle. The life cycle significantly impacts company performance (Shahzad et al., 2019). Companies in the mature stage have higher profitability and less risk than companies in the introduction stage (Akbar et al., 2019). It is because companies in the mature stage can maximise their production capacity at low costs (Grofcikova, 2020). In comparison, companies in the introduction stage must increase their competitive advantage through heavy expenditure on research and development (R&D), marketing, and human capital. In addition, U.S. GAAP requires that management immediately recognise this expenditure as an expense, which makes the company's performance depressed (Hansen et al., 2018). This condition makes investors' expectations of the company's performance, which is in the introduction stage, low. Investors' low expectations make it easy for the company's management to meet those expectations, so the CEO does not have to manage earnings. Investors get more accurate accounting information (Dickinson et al., 2018; Nagar & Radhakrishnan, 2015).

On the other hand, companies in the mature stage, with a stable position, make investors' expectations of the company's performance relatively higher (Dickinson et al., 2018; Nagar & Radhakrishnan, 2015). The high expectations of investors make management work harder to meet the high expectations of investors. The high expectation of investors will encourage the CEO to manage earnings so that the company's performance always looks good and pursues investor expectations (Bartov et al., 2001). This explanation is supported by the signal theory, which states that companies in the mature stage with confidence in better future performance will carry out earnings management to signal to investors that their company's performance will not deteriorate in the next period (Al-Shattarat et al., 2022; Gunny, 2010). In the mature stage, the CEO uses his power to manage earnings to reduce the risk of losing the company's competitive advantage (Durana et al., 2021; Nagar & Radhakrishnan, 2015).

Table 1. Sample Selection Procedure

Description	No. of companies
Listed on IDX as of December 31, 2021	767
Financial companies	(105)
IPO between January 1, 2017, and December 31, 2021	(238)
Companies with a negative book value of equity	(31)
Companies with total assets less than Rp 10 trillion	(293)
Companies with insufficient data	(26)
Final sample	74
Duration study	5 years
Total observations	370

Based on this explanation, the following hypothesis can be formulated:

H_{2a}: The introduction stage can moderate the effect of CEO power on earnings management

H_{2b}: The growth stage can moderate the effect of CEO power on earnings management

H_{2c}: The mature stage can moderate the effect of CEO power on earnings management

H_{2d}: The decline stage can moderate the effect of CEO power on earnings management

RESEARCH METHODS

This study uses a sample of companies listed on the Indonesia stock exchange (IDX) between January 1, 2017, and December 31, 2021, which amounted to 424 companies. The sample criteria used in this study are (1) Companies in the non-financial sector cannot be used as a sample in this study because the financial sector has regulatory rigidity. (2) Companies with a positive book value of equity. According to Das et al. (2018); Theiri et al., (2022) research, highly profitable companies tend to maintain profitability one way through earnings management activity. Therefore, this study only uses companies with a positive equity book value indicating high profitability to make the research results more relevant than using all companies, including companies that have low profitability. (3) Companies with total assets of more than Rp 10 trillion. According to research U. Ali et al. (2015); Jensen (1976); Uwuigbe et al. (2015), large companies have a higher potential to engage in earnings management activities due to users' difficulty identifying these activities. As a result, to obtain valid research results, this study only uses samples from large companies, namely those with total assets exceeding Rp 10 trillion. (4) Companies with sufficient data, this study employs a normality test to avoid biased research results, and companies with outlier data are excluded from the research sample. This study uses secondary data sources from the company's annual report, downloaded from www.idx.co.id/perusahaan-tercatat/laporan-keuangan-dan-tahunan and the company website.

The sample in this study consisted of several industrial sectors. Tables 1 and table 2 below provide an overview of the sample selection procedure, the number of companies by sector, and the number of companies by life cycle.

Table 2. Distribution of the Sample according to Sectors Type

Sector	Observation	Percentage (%)
Energy	8	10.81
Basic Material	14	18.92
Industrial	6	8.11
Consumer non-cyclical	11	14.86
Consumer cyclical	5	6.76
Properties and real estate	17	22.97
Infrastructure	10	13.51
Healthcare	1	1.35
Technology	1	1.35
Transportation & Logistic	1	1.35
Total companies	74	100.00

Table 3. Variables Measurement

Variables	Definition	Previous Study
Independent Variable:		
<i>CEO Power</i>	Dummy variable equal to 1 if the CEO of the company is the chairperson of the board of directors and has experience in finance/accounting/business and 0 otherwise.	Gounopoulos & Pham (2018) Bouaziz et al. (2020)
Dependent Variable:		
<i>Earnings Management</i>	<p>REM = (abnormal cash flow × -1) + abnormal production + (abnormal discretionary expenses × -1) where abnormal cash flow residual value from model:</p> $\frac{CFit}{A_{it} - 1} = \alpha + \beta 1 \left(\frac{1}{A_{it} - 1} \right) + \beta 2 \left(\frac{Sales_{it}}{A_{it} - 1} \right) + \beta 3 \left(\frac{\Delta Sales_{it}}{A_{it} - 1} \right) + \epsilon it$ <p>Where CFit is cash-flow company 'i' at time 't' from operations, Salesit is sales of company 'i' at time 't', Δsalesit sales of company 'i' at time 't' subtract to sales of company 'i' at time t-1 and εit residual term, which captures abnormal values level of company 'i' at time 't'. <i>Abnormal production</i> is residual value from model:</p> $\frac{PRODit}{A_{it} - 1} = \alpha + \beta 1 \left(\frac{1}{A_{it} - 1} \right) + \beta 2 \left(\frac{Sales_{it}}{A_{it} - 1} \right) + \beta 3 \left(\frac{\Delta Sales_{it}}{A_{it} - 1} \right) + \beta 4 \left(\frac{\Delta Sales_{it} - 1}{A_{it} - 1} \right) + \epsilon it$ <p>Where PRODit is sum of CGS (cost of goods sold) and change in level of inventory of company 'i' at time 't'. <i>Abnormal discretionary expenses</i> is residual value from model:</p> $\frac{DISEXPit}{A_{it} - 1} = \alpha + \beta 1 \left(\frac{1}{A_{it} - 1} \right) + \beta 2 \left(\frac{Sales_{it} - 1}{A_{it} - 1} \right) + \epsilon it$ <p>Where DISEXPit is sum of sales, general and administration expenditures, and research and development expenditures of company 'i' at time 't'.</p>	Roychowdhury (2006)
Moderating Variable:		
<i>Company Life Cycle</i>	Using four variable indicators based on cash flow patterns, namely: Introduction is coded 1 if CFO -, CFI-, and CFF +, and 0 otherwise. Growth is coded 1 if CFO+, CFI-, and CFF+, and 0 otherwise. Mature is coded 1 if CFO+, CFI-, and CFF+, and 0 otherwise. Decline is coded 1 if CFO-, CFI+, and CFF +/-, and 0 otherwise. where CFO is operating cash flow; CFI represents investment cash flows and CFF represents financing cash flows.	Dickinson (2011)
Control Variables:		
1. CEO Ownership	Dummy variable equal to 1 if the shares are owned by the company's CEO and 0 otherwise.	(Baker et al., 2019; El-Bannany, 2018; Hashmi et al., 2018; Hoang et al., 2017) Bouaziz et al. (2020)
2. CEO Tenure	Number of years the CEO has served at the company.	Cherkasova & Markina (2021)
3. CEO Age	The age of CEO	Alzoubi (2016)
4. Audit Quality	Dummy variable equal to 1 if the company is audited by KAP Big 4, coded 0 otherwise.	Zalata et al. (2022)
5. Board Independency	Ratio of independent directors and commissioners to total board of directors and commissioners	U. Ali et al. (2015)
6. Company Size	Natural logarithm of the company's total assets	Cudia et al. (2021)
7. Profitability	Net profit ratio divided by total assets	Tommasetti et al. (2020)
8. Company Age	Natural logarithm of the years between the listing date and the financial statements	Das et al. (2018)
9. Leverage	Total debt ratio divided by total assets	

Table 4a. Descriptive Statistic Sample for Continuous Variables

Variables	N	Mean	SD	Min	25%	Median	75%	Max
Dependent variables:								
REM	370	0.02	0.11	-0.33	-0.05	0.03	0.09	0.30
Control variables:								
COWN	370	0.01	0.08	0.00	0.00	0.00	0.00	0.93
CTEN (in years)	370	6.23	6.20	0.02	1.86	4.31	8.43	36.53
CAGE (in years)	370	55.00	8.62	34.00	49.00	55.00	60.00	80.00
BIND	370	0.23	0.07	0.09	0.18	0.22	0.29	0.50
SIZE (in trillions of rupiah)	370	40.69	46.60	4.64	14.78	25.40	50.58	367.31
ROA	370	0.03	0.06	-0.29	0.01	0.03	0.06	0.29
FAGE (in years)	370	19.13	9.20	1.57	10.63	20.39	27.31	45.04
LEV	370	0.30	0.17	0.00	0.19	0.31	0.41	0.80

Although Dickinson (2011) states that there are five company life cycles, the regression model used in this study only uses four, namely introduction, growth, mature, and decline, thus ignoring the shake-out cycle to avoid correlation problems and clarify the results of research on the role of the company life cycle in moderating the effects of CEO power on earnings management. Jaggi et al. (2022) research, employed similar regression models. As a result, the following is how the regression model in this study can be explained:

Model 1:

$$\begin{aligned}
 \text{REM}_{it} = & \alpha + \beta_1(\text{CPWR}_{it}) + \beta_2(\text{INTRO}_{it}) + \beta_3(\text{GROWTH}_{it}) + \beta_4(\text{MATURE}_{it}) + \beta_5(\text{DECLINE}_{it}) \\
 & + \beta_6(\text{COWN}_{it}) + \beta_7(\text{CTEN}_{it}) + \beta_8(\text{CAGE}_{it}) + \beta_9(\text{AQUAL}_{it}) + \beta_{10}(\text{BIND}_{it}) + \beta_{11}(\text{SIZE}_{it}) \\
 & + \beta_{12}(\text{ROA}_{it}) + \beta_{13}(\text{FAGE}_{it}) + \beta_{14}(\text{LEV}_{it}) + \varepsilon \dots\dots\dots 1
 \end{aligned}$$

Model 2:

$$\begin{aligned}
 \text{REM}_{it} = & \alpha + \beta_1(\text{CPWR}_{it}) + \beta_2(\text{INTRO}_{it}) + \beta_3(\text{GROWTH}_{it}) + \beta_4(\text{MATURE}_{it}) + \beta_5(\text{DECLINE}_{it}) \\
 & + \beta_6(\text{CPWRINTRO}_{it}) + \beta_7(\text{CPWRGROWTH}_{it}) + \beta_8(\text{CPWRMATURE}_{it}) \\
 & + \beta_9(\text{CPWRDECLINE}_{it}) + \beta_{10}(\text{COWN}_{it}) + \beta_{11}(\text{CTEN}_{it}) + \beta_{12}(\text{CAGE}_{it}) + \beta_{13}(\text{AQUAL}_{it}) \\
 & + \beta_{14}(\text{BIND}_{it}) + \beta_{15}(\text{SIZE}_{it}) + \beta_{16}(\text{ROA}_{it}) + \beta_{17}(\text{FAGE}_{it}) + \beta_{18}(\text{LEV}_{it}) + \varepsilon \dots\dots\dots 2
 \end{aligned}$$

Dependent variables are the real earnings management of the company "i" at period "t" (REM_{it}). The independent variable is the CEO power of Company "i" at period "t." (CPWR_{it}). The variables control is CEO ownership of the company "i" at period t (COWN_{it}), CEO tenure of the company "i" at period t (CTEN_{it}), CEO age of company "i" at period t (CAGE_{it}), audit quality of company "i" at period t (AQUAL_{it}), board independence of company "i" at period t (BIND_{it}), size of the company "i" at period t (SIZE_{it}), company performance of the company "i" at period t (ROA_{it}), age of company "i" at period t (FAGE_{it}), and leverage of company "i" at period t (Levit). The variables moderating is introduction stages of the company "i" at period t (INTRO_{it}), growth stages of the company "i" at period t (GROWTH_{it}), mature stages of the company "i" at period t (MATURE_{it}), and decline stages of the company "i" at period t (DECLINE_{it}).

Table 4c. Descriptive Statistic Sample for Life Cycle Stages Variables

Year	Intro- duction	Growth	Mature	Shake- out	Decline	Total
2017	11	26	32	2	3	74
2018	12	24	31	2	5	74
2019	12	24	32	5	1	74
2020	9	15	41	7	2	74
2021	5	16	42	10	1	74
Total	49	105	178	26	12	370
Percent- age (%)	13.24	28.38	48.11	7.03	3.24	100

Table 4b. Descriptive Statistic Sample for Dichotomous Variables

Variables	Modality	Frequency	(%)
CPWR	0	229	61.89
	1	141	38.11
AQUAL	0	177	47.84
	1	193	52.16

Table 5. Correlation Matrix and VIF Coefficient

Variables	CPWR	INTRO	GROWT	MATURE	DECLINE	COWN	CTEN	CAGE	AQUAL	BIND	SIZE	ROA	FAGE	LEV	VIF
CPWR	1.00														1.17
INTRO	-0.06	1.00													2.60
GROWT	0.14	-0.25	1.00												3.82
MATURE	-0.04	-0.38	-0.61	1.00											4.22
DECLINE	0.04	-0.07	-0.12	-0.18	1.00										1.52
COWN	-0.06	-0.04	0.08	-0.02	-0.02	1.00									1.07
CTEN	-0.08	-0.08	-0.02	0.07	-0.07	0.05	1.00								1.17
CAGE	-0.23	0.02	-0.08	0.01	0.10	-0.14	0.25	1.00							1.30
AQUAL	0.07	-0.14	-0.07	0.26	-0.19	-0.09	0.06	-0.01	1.00						1.25
BIND	-0.07	0.12	0.01	-0.11	0.10	0.07	0.03	-0.16	-0.22	1.00					1.20
SIZE	0.13	-0.10	0.15	-0.01	-0.08	-0.09	0.00	0.12	0.24	-0.13	1.00				1.27
ROA	0.09	-0.24	0.03	0.19	-0.15	-0.02	0.07	-0.14	0.14	-0.13	0.10	1.00			1.24
FAGE	-0.14	-0.02	-0.13	0.10	0.02	-0.03	0.18	0.11	0.01	-0.19	0.17	0.09	1.00		1.31
LEV	0.00	0.00	0.16	-0.10	-0.04	0.05	-0.01	0.04	-0.12	0.18	0.12	-0.27	-0.31	1.00	1.32

RESULTS AND DISCUSSIONS

The analysis in this study begins with descriptive statistics, then correlation analysis and finally regression analysis which will show whether the hypothesis in this study is accepted or rejected.

Tables 4a and 4b show that, on average, the sample companies in this study manage earnings aggregately to 0.02 units. Independent variables in this study show that 61.89% of the CEOs of the sample companies tend to have less power, whereas 38.11% of CEOs have power as measured by CEO duality and financial expertise. In this study, the characteristics of the CEO are the control variable, with the average of the CEO owning 1 per cent company shares; the average CEO has served the company for 6.23 years, and the average age CEO is 55 years old. The other control variable is the corporate governance characteristics; Big-4 auditors audited 52.16 per cent of sample companies, and the average board of commissioners and board of directors has 23 per cent independent commissioners and directors. Company characteristics which is also a control variable, show that the average company sampled has total assets of IDR 40.69 trillion, an average company age of 19.13 years, and a ROA of 3%.

Table 4c show that most of the sample companies in this study are the companies in the mature stage (48.11%) and only a small number of companies that are in decline stages (3.24%). The companies in the introduction stages are 13.24 per cent, in the growth stages is 28.38 per cent and the remaining 7.03 percent are sample companies in this study that are in the shake-out stage.

Table 5 indicates no multicollinearity issues between variables in this study. Although the highest correlation between audit quality and mature stage is 0.26, it is still below 0.85, indicating no multicollinearity issue between these variables. The variance inflation factor (VIF) is less than ten (10), and the highest VIF is 4.22, so there is no multicollinearity problem in this study.

The normality test for the two regression models in this study shows, as shown in Table 6 that the significance greater than 0.05. According to the normality test residuals have a normal distribution.

The Redundant fixed effects test, the Hausman test, and the Lagrange multiplier test were the three tests that determined the best possible regression model, as shown in Table 7. The results indicate that the random effect model is the most appropriate regression model for regression equations model 1 and model 2.

Table 6. Normality test

Model	Observation	Skewness	Kurtosis	Significance
Model 1	370	-0.01	2.73	0.56
Model 2	370	0.04	2.69	0.46

Table 7. Test Model Regression

Model	Redundant fixed effects tests	Hausman test	Lagrange multiplier test	Selected Model
Model 1	0.00	0.75	0.00	Random Effect Model
Model 2	0.00	0.79	0.00	Random Effect Model

Table 8. Regression Analyses Result

Variables	Model 1		Model 2	
	Coefficient	Sig.	Coefficient	Sig.
Independent variables:				
CPWR	-0.02	0.16	-0.01	0.79
Moderating Variables:				
INTRO	0.05	0.01**	0.04	0.03**
GROWTH	-0.01	0.82	-0.01	0.76
MATURE	-0.02	0.08*	-0.01	0.25
DECLINE	0.03	0.18	0.01	0.69
INTRO*CPWR			0.01	0.85
GROWTH*CPWR			-0.01	0.86
MATURE*CPWR			0.03	0.38
DECLINE*CPWR			0.10	0.05**
Control variables:				
COWN	0.02	0.75	0.02	0.73
CTEN	0.00	0.45	-0.00	0.67
CAGE	0.00	0.14	0.00	0.15
AQUAL	0.05	0.01**	0.05	0.01**
BIND	-0.06	0.36	-0.07	0.26
SIZE	0.00	0.76	0.01	0.76
ROA	-0.52	0.00***	-0.55	0.00***
FAGE	-0.01	0.55	-0.01	0.51
LEV	-0.06	0.09*	-0.07	0.06*
R-square	24.60%		26.50%	
Prob(F-statistic)	0.00		0.00	
Observations	370		370	

Table 8 shows that CEO power does not significantly impact real earnings management. The combination of CEO duality and financial expertise has no significant effect on earnings management. It is because CEOs with financial expertise are acutely aware that relevant and reliable accounting information is essential for the long-term growth of a company's value. CEOs with financial expertise comprehensively understand the company's financial resources and will better interpret the numbers in the financial reports (Ritchie, 2007). It allows them to collaborate more effectively with other boards of directors while preparing high-quality financial reports (Baldenius et al., 2014). For example, if the company's profits decline over time, a CEO with financial expertise will be more effective at evaluating the contributing factors. As chair of the board of directors, the CEO will more effectively collaborate with the member's board of directors, such as the CMO (Chief Marketing Officer), who will be assigned to develop an effective marketing strategy to increase sales. The CEO will direct the COO (Chief Operating Officer) to implement cost-cutting initiatives, such as renegotiation with suppliers to lower the costs of goods sold and other operational expenses. A CFO (Chief Financial Officer) will be assigned to the CEO to seek funding with lower interest rates, et cetera. CEOs with duality and financial expertise will make accurate and effective decisions, allowing them to quickly resolve declining profits and avoid the CEO's need to manage earnings.

In the decline stage, companies can strengthen CEO power's impact on earnings management activities. Meanwhile, companies in the introduction, growth, and mature stages do not have a role in moderating the impact of CEO power on earnings management. The effect of the CEO's power on earnings management practices during the introduction, growth, and mature stages does not significantly more strength or weakness. During a company's introduction and growth stages, stakeholders have low expectations for the company's performance. Because these stakeholders have low expectations, the Chief Executive Officer (CEO) can meet them quickly, avoiding the need for earnings management. Mature stages cannot moderate the effect of CEO power on earnings management. During the mature stage, when the company is stable, the CEO will be more cautious when reporting sales figures. It is due to mature company CEOs' conservative attitude, namely prudence, in the face of the company's inherent uncertainty. Stakeholders expect the company to maintain stability, encouraging the CEO's prudence at this stage.

Because stakeholders have high expectations, CEOs must work hard to ensure the company's performance grows steadily. The company's income report is lower than expected; if sales fall in the coming period, reserves will be used to compensate.

The results of this study support those of Gounopoulos & Pham (2018) and Hu et al. (2017), who concluded that CEO authority had little bearing on earnings management. In contrast to the Gounopoulos & Pham (2018) statement that CEO power decreases accounting conservatism, this study shows that CEO power increases accounting conservatism at the mature stage. It shows that CEO power can increase abnormal cash flow, resulting in understating sales. This study also confirms the findings of Dickinson et al. (2018) and Nagar & Radhakrishnan (2015), which state that companies can refrain from engaging in earnings management in the introduction stage. In contrast, in the mature stage, earnings management will be implemented. It is because investors' expectations are low during the introduction stage and incredibly high during the mature stage. Therefore, at the mature stage, the company must manage earnings so that its financial performance always appears stable.

CONCLUSIONS

The study shows that CEO power does not affect real earnings management. Furthermore, the CEO's effects on earnings management can only be moderated when the company is in the decline stages. It is because the company is under intense pressure to report profits that meet stakeholders' expectations during the decline stages. The limitation is the difficulty in collecting CEO profiles, so only a few variables are used to characterise CEOs in this study. Consequently, future research uses a more focused sample, such as comparing companies in the introduction and mature stages. In addition, future research is expected to include variables belonging to CEO characteristics, such as religion, citizenship, narcissism, et cetera.

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