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Abstract:

Research objective: This study examines the effect of business strategy, company diversification, and customer concentration on earnings management.

Method: The research data were obtained from www.idx.co.id, www.idnfinansial.com, and the company's official website, resulting in 148 observations from 37 companies from 2017 to 2020. The analytical method used in this research was multiple regression analysis.

Research findings: The results of this study indicate that the defender-type business strategy is positively associated with earnings management, while the prospectors-type business strategy is not associated with earnings management. Furthermore, company diversification is negatively associated with earnings management, and customer concentration is not associated with earnings management.

Practical implication: This research indicates that the Indonesian Financial Services Authority needs to formulate policies related to investor protection in the Indonesian capital market and to improve corporate governance policies related to the authority of managers in the company.

Keywords: Business Strategy; Company Diversification; Customer Concentration; Earnings Quality; Indonesia.

Abstrak:

Tujuan penelitian: Penelitian ini menguji pengaruh strategi bisnis, diversifikasi perusahaan, dan konsentrasi pelanggan terhadap manajemen laba.

Metode: Data penelitian diperoleh dari www.idx.co.id, www.idnfinansial.com, dan situs resmi perusahaan, menghasilkan 148 observasi dari 37 perusahaan dari tahun 2017 hingga 2020. Metode analisis yang digunakan dalam penelitian ini adalah analisis regresi berganda.

Temuan penelitian: Hasil penelitian ini menunjukkan bahwa strategi bisnis tipe defender berhubungan positif dengan manajemen laba, sedangkan strategi bisnis tipe prospector tidak berhubungan dengan manajemen laba. Selanjutnya, diversifikasi perusahaan berhubungan negatif dengan manajemen laba, dan konsentrasi pelanggan tidak berhubungan dengan manajemen laba.

Implikasi praktis: Penelitian ini mengindikasikan bahwa Otoritas Jasa Keuangan Indonesia perlu merumuskan kebijakan terkait perlindungan investor di pasar modal Indonesia dan meningkatkan kebijakan tata kelola perusahaan terkait kewenangan manajer dalam perusahaan.

Kata kunci: Strategi Bisnis; Diversifikasi Perusahaan; Konsentrasi Pelanggan; Kualitas Laba; Indonesia.

INTRODUCTION

The company aims to maximize profit (Brigham & Houston, 2019). Net profit indicates a company's profitability because profit can reflect returns to equity holders within a certain

period (Subramanyam, 2014). Thus, profit becomes an essential thing, the primary goal of a company, and the expectation of every person in business who is interested in the company. However, companies often face obstacles to achieving this goal, such as wrong planning, weak control and supervision of the company's operational activities, and changes in economic conditions that can result in a decline in company profits (Suryaningrum et al., 2023). It is not infrequently why managers manage earnings because they cannot meet profit targets by manipulating financial statements, so company profits look good every period (Wagener, 2023). A global case related to earnings management practices occurred at PT Toshiba, where an independent panel stated that three directors played an active role in increasing Toshiba's operating profit by 151.8 billion (equivalent to Rp. 15.85 trillion) from 2008 by putting pressure on the company's business units because unrealistic profit targets encourage the head of the business unit to fry his accounting records (Hakim, 2015). Not only in the international environment, but earnings management also occurs in Indonesia. The airline company PT Garuda Indonesia is also indicated to practice earnings management. Since 2015, PT Garuda Indonesia has reportedly manipulated financial statements to look healthy by postponing all debt payments. It is conducted so that users of information from PT Garuda would consider good and healthy financial statements (Gulo & Setyawati, 2023). Earnings management occurs when managers use their perspective on financial statements and change transactions to trick stakeholders into knowing the real state of the company (Azizah & Mappanyukki, 2023). Managers should avoid this behavior because there are shareholder rights (principals) that the company should fulfill. The principal has the right to obtain all the same information accurately and promptly, and management hides no information or issues for the benefit of other parties (OECD, 2015). Then, the company should inform all activities, especially achieving profits (OECD, 2015). The information must be accountable for its truth and accuracy because profit is used as important information for users of financial statements in making decisions.

Earnings management can negatively impact companies' reports and have reduced reliability and usefulness. Earnings management has a detrimental impact on investors and can turn against management if it is known by investors (Nazir & Afza, 2018). In agency theory, two misaligned interests exist between the agent and the principal, where each party attempts to achieve the desired level of prosperity. Managers have better information regarding the numbers in financial statements and better understand the company's risks and prospects, causing information asymmetry. It can be an opportunity for management to manage earnings according to their interests so that the company's profit information in financial statements can mislead external parties. Thus, earnings management reviews need to be investigated further. Based on previous research related to earnings management, including business strategies (Ahmad & Astuti, 2020; Daud et al., 2020; Houqe et al., 2013; Wardani & Isbela, 2018), company diversification (Arintasari & Rohman, 2015; Dimarcia & Krisnadewi, 2016; Ermawati et al., 2020; Ermayanti, 2017; Gunarto & Riswandari, 2019; Novyarni & Wijaya, 2018; Nugroho & Darsono, 2015), geographical diversification (Arintasari & Rohman, 2015), good corporate governance (Arintasari & Rohman, 2015) firm size (Amelia & Hernawati, 2016; Kusumawardana & Haryanto, 2019; Verninda, 2020; Wardani & Isbela, 2018). Other studies examined earnings management with profitability (Amelia & Hernawati, 2016; Yanto & Wati, 2020), managerial ownership (Dimarcia & Krisnadewi, 2016; Ermawati et al., 2020; Nugroho & Darsono, 2015), leverage (Dimarcia & Krisnadewi, 2016; Verawati, 2012; Yanto & Wati, 2020), ownership concentration (Fatmawati & Sabeni, 2013), delegation of authority (Ahmad & Astuti, 2020), leadership (Ahmad & Astuti, 2020), financial management policy (Ahmad & Astuti, 2020), liquidity management (Ahmad & Astuti, 2020), and independent commissioner (Amelia & Hernawati, 2016).

Management has characteristics that will influence it in making a decision (Sofiati & Zulaikha, 2018). One of these characteristics is the focus on the primary objective of maximizing profit. Management can manage the company by applying the concept of business decisions as a strategy to adapt to changes in the environment and economic conditions. These management business decisions can specifically relate to business strategy and company diversification. A business strategy is a comprehensive master plan to explain how the company will achieve all the common visions based on the mission that has been previously set (Bubenik et al., 2022). Thus, the chosen business strategy must be well planned because it will be a success factor in maximizing company profits. Research on business strategy has been carried out by Brigita and Adiwibowo (2017), showing that companies that implement cost leadership strategies tend to have higher levels of earnings management, and companies that follow differentiation strategies tend not to use earnings management. Research by Ahmad and Astuti (2020) and Daud et al. (2020) suggested that business strategy does not affect earnings management. At the same time, the research of Houqe et al. (2013) and Wardani and Isbela (2018) concluded that business strategy is positively associated with earnings management. The inconsistency of the previous test results is why business strategy testing needs to be investigated further.

Company diversification is applied when the company feels profits and growth begin to decline, and diversification is carried out to strengthen competitive advantage with competitors (Habiburrochman et al., 2019). In addition, the company diversifies to share the risk when a loss occurs so that it does not have a total effect on its profit. Research conducted by Ermayanti (2017), Gunarto and Riswandari (2019), Novyarni and Wijaya (2018), Nugroho and Darsono (2015) suggested that company diversification affects earnings management, while research by Arintasari and Rohman (2015), Dimarcia and Krisnadewi (2016), and Ermawati et al. (2020) concluded that company diversification does not affect earnings management. The inconsistency of the previous test results is why the company diversification test needs to be investigated further. This study examined the association between business strategy, company diversification, customer concentration, and earnings management. In previous research, testing earnings management using the company's business activities was carried out using business strategy and company diversification. Meanwhile, in this research, apart from testing both, it also includes customer concentration, which has rarely been tested for earnings management in previous research. In a previous study, customer concentration was tested against profitability by Hui et al. (2019). Another study examines customer concentration on tax avoidance by Aryotama and Firmansyah (2019). Concentrated customers reflect that most of the company's revenue comes from a certain number of customers (Marvin, 2019). Another aspect from the customer side is the relationship between the company and its customers, and this relationship will affect the profits obtained by the company because it relates to how many customers and how much customers demand the company's products (Kotler & Armstrong, 2010). Aryotama and Firmansyah (2019) found a positive effect of customer concentration on tax avoidance. When the relationship with the customer deteriorates, the customer will switch to another supplier, and the company will lose its source of income. It will impact the management business decisions that the company will implement. These risks align with managers' activities to manage earnings and maintain earnings stability, so that customer concentration needs to be investigated further in business management decisions.

This study adds control variables, profitability, and firm size. These variables support the interpretation of test results and eliminate biased calculation results in this study. Profitability has a positive effect on earnings management. A higher level of profitability will improve the earnings management practices carried out by managers (Lestari & Wulandari, 2019). Then, the firm size positively influences earnings management (Amelia & Hernawati,

2016). Companies of small and large sizes have the potential to practice earnings management (Amelia & Hernawati, 2016). This research is expected to contribute to the expansion of financial accounting research related to earnings management from the point of view of business management decisions. In addition, this research is also expected to be used by OJK (Financial Services Authority) related to investor protection policies in the Indonesian capital market and IAI (Indonesian Accountants Association) related to financial statement disclosures to minimize information asymmetry, as well as for investors to be able to assess company financial and business information for more accurate decision making.

LITERATURE REVIEW

Based on agency theory, managers can determine actions or decisions to run the company's business. Jensen and Meckling (1976) stated that managers take action because of two conditions: when their interests are the same as those of the owner. When their interests align with the owners' interests, managers prioritize the company's interests while optimizing personal profits (Houque et al., 2013). Conversely, when their interests are not aligned, managers tend to maximize their interests (Houque et al., 2013). Business strategy relates to management decisions to compete in product marketing (Farida & Setiawan, 2022). Business strategy can be a stimulus for managers in making decisions to manage earnings (Houque et al., 2013). Therefore, the business strategy management can affect the profit the company achieves. Miles et al. (1978) categorized business strategies based on market orientation: prospector, defender, analyzer, and reactor. This grouping is a continuum that places prospectors and defenders at both ends (Bentley et al., 2013). This study uses the defender and prospector strategy because this is consistent with previous research in both management and accounting (Bentley et al., 2013). The defender strategy tends to be the reason for the higher level of earnings management than the prospector strategy, evidenced by the company's inability to deal with risks and uncertainties in business (Higgins et al., 2014). The main priority of the defender strategy is to maintain a reputation as a stable company, especially in front of company owners and customers (Higgins et al., 2014; Houque et al., 2013). Meanwhile, the main priority of the prospector strategy is to seek new market opportunities and continue to innovate rather than meet the expectations of its investors (Houque et al., 2013).

Houque et al. (2013) and Wardani and Isbela (2018) found that the defender strategy is when the company operates in a relatively stable production area. Hence, the company prioritizes maintaining a certain market share by creating products and services and the number of customers. Stable. Technology financing is carried out as efficiently as possible and is the center of organizational performance (Paylosa, 2014). It attracts investors because the company does not spend much money to meet its production needs but still generates a stable profit. Furthermore, Houque et al. (2013) and Wardani and Isbela (2018) concluded that companies that apply the prospector strategy regularly seek new market opportunities by innovating new products and market development and experimenting with potential responses to emerging environmental trends. Usually, companies find it difficult to find optimal profits because they are more concerned with effectiveness than efficiency but attempt to avoid low profitability (Paylosa, 2014).

Thus, the defender business strategy can motivate management to manage earnings when the company's profits fluctuate so that profits remain stable every period to maintain its reputation as a stable company. Meanwhile, a prospector-type business strategy will likely minimize managers doing earnings management because the company will focus on effectiveness and strengthen its competitiveness by prioritizing innovation in new products and looking for opportunities to expand market share. Based on these assumptions, the

primary first hypothesis (H_{1a}) is stated as follows: *the defender business strategy is positively associated with earnings management*. The supporting first hypothesis (H_{1b}) is defined as: *the prospector business strategy is negatively associated with earnings management*.

Based on the agency conflict hypothesis, the manager's ability to distort information and manipulate earnings highly depends on the company's organizational complexity level (Lupitasari & Marsono, 2012). Large companies with complex organizational levels and the potential for agency conflicts are diversified in multiple industries (Dey, 2008). The diversification carried out by the company also becomes less than optimal because managers often direct the divisions under them according to their interests (Farida & Setiawan, 2022). Firm diversification leads to greater asymmetric information due to a lack of transparency than focused firms (Clarke et al., 2004). A more complex structure due to diversification also causes more information asymmetry and is less transparent (Clarke et al., 2004). It is in line with El Mehdi and Seboui (2011), who stated that diversification could increase asymmetric information, lead to cultural diversity and cause investment allocation errors. It will be an opportunity for managers to perform higher earnings management. Because they operate in diverse business segments, diversified companies will create a supportive situation for managers to manage earnings (El Mehdi & Seboui, 2011). Implementing corporate diversification will also result in a more complex organizational structure, lower transparency levels and higher information complexity for investors and financial analysis (El Mehdi & Seboui, 2011).

Research on the relationship between diversification and earnings management has been carried out by Ermayanti (2017), Gunarto and Riswandari (2019), Novyarni and Wijaya (2018), and Nugroho and Darsono (2015) showing that diversified companies tend to carry out earnings management compared to companies of a similar size focused on one area of their business. It can occur because a more diversified company will reduce transparency due to account translation and consolidation (Aryati & Walansendouw, 2013). Thus, companies that operate in more than one business segment will reduce the company's transparency and accountability. Transactions between business segments can be an opportunity for earnings management. Based on these assumptions, the second hypothesis (H₂) is stated as follows: *company diversification is positively associated with earnings management*.

Asymmetric Information weakens the principal position due to limited access and sources of information regarding finance, management, and company operations, resulting in accountability and responsibility for information not being implemented properly (Arisandy, 2015). Managers recognize more about the level of sales and customer base the company owns. This condition can be utilized according to their interests because management will provide the company's financial statements. The potential benefits resulting from the inherent relationship between the company's suppliers and key customers are sustainable revenue streams, significant revenue, and operational benefits (A. Dhaliwal et al., 2020). Then, having concentrated customers is also an incentive for managers because it can create close relationships. This strong relationship is expected to increase customer loyalty, reduce transaction costs, and increase productivity (Saboo et al., 2017). This advantage is thought to be used by management to manipulate the company's profits according to its interests through a concentrated customer base.

Companies with a concentrated customer base tend to avoid taxes to increase cash savings (Huang et al., 2016). Higgins et al. (2014) concluded that companies with high risk and uncertainty are more aggressive than companies with strategies. Such is the case with tax avoidance, where customer concentration motivates management to take advantage of its good relationship with customers, reducing the company's taxable income to increase cash

savings. This action is indicated to be carried out through earnings management because management can manipulate profits through the distribution of sales of goods or services to concentrated customers. Based on these assumptions, the third hypothesis (H₃) is stated as follows: *customer concentration is positively associated with earnings management.*

RESEARCH METHOD

The method in this study uses a quantitative method approach. This study uses secondary financial statement data sourced from www.idx.co.id and www.idnfinancials.com. The period in this study used the years 2017 to d. 2020 because this year, important events started from the closing of large outlets and the record high achieved by the Composite Stock Price Index of all time by breaking through the 6,025 level (Ramadhan, 2018). This was due to the strong domestic market marked by the increase in new investors (Ramadhan, 2018). Meanwhile, the summary of this research sample based on purposive sampling is as follows:

The dependent variable in this study is earnings management. Earnings management in this study uses the model of Kothari et al. (2005), which is in line with Julianto & Sjarief (2016) and Setyastrini & Wirajaya (2017), who employed discretionary accrual proxies obtained from the following equation residual on an annual basis.

$$\frac{TA_{it}}{A_{it-1}} = \alpha * \left[\frac{1}{A_{it-1}} \right] + \beta_1 * \left[\frac{\Delta REV_{it} - \Delta REC_{it}}{A_{it-1}} \right] + \beta_2 * \left[\frac{PPE_{it}}{A_{it-1}} \right] + \beta_3 * [ROA] + \epsilon_{it}$$

Where: TA is total accrual measured by $NI_{it} - CFO_{it}$, where NI_{it} is net income and CFO_{it} is cash flows; REV_{it} is current year's revenue minus previous year's revenue; PPE_{it} is gross property, plant, and equipment; REC_{it} is account receivables; A_{it-1} is total assets; ROA is return on assets for the current year or the previous year.

The value of the discretionary accrual calculation is the absolute value of the equation annually residual for each industry (Pamungkas et al., 2021). This study has three independent variables: business strategy, company diversification, and customer concentration. The framework categorizes business strategies into prospectors, defenders, analyzers, and reactors (Miles et al., 1978). Arieftiara et al. (2015), Aryotama and Firmansyah (2020) and Higgins et al. (2014) employed a composite measure proxy to reflect various aspects of the business based on the ranking of different variables. Five variables were selected to identify various aspects of the business to obtain a total score of business strategy.

There are five aspects, each represented by a certain measure. These aspects are (1) company focus on utilization of new products and services (MESR): the company focuses on exploiting new products and services, reflected in the ratio of advertising and marketing costs to total sales ($MESR = \frac{\text{Selling General and Administrative Expenses}}{\text{Total Sales}}$); (2) company focus on internal production efficiency (COGSR): the company focuses on internal production efficiency, represented by the COGS ratio to total sales ($COGSR = \frac{COGS}{\text{Total Sales}}$); (3) company focus on innovation (RSDR): this measurement shows the company's focus on innovation, represented by the ratio of R&D costs to total sales ($RSDR = \frac{\text{Research and Development Expenses}}{\text{Total Sales}}$); (4) company focus on growth (CAGSR): this measurement aims to focus the company on sales growth, represented by the average annual sales growth rate over the last 5 years ($CAGSR = \left(\frac{\text{Total Sales}}{\text{Total Sales}_{t-5}} \right)^{1/5} - 1$), and (5) the company's commitment to technology efficiency (CIR): this measurement shows the firm's focus on production or technological efficiency ($CIR = \frac{\text{Plant Property \& Equipment}}{\text{Total Assets}}$). In each aspect, company sizes are ranked and then grouped into quantiles. Each quantile will be scored individually from 1 (defender) to 5 (prospector), ranging from 5 to 25. Each variable score is ranked based on how it reflects the business

strategy. The highest rank is the prospector-type company, and the lowest rank is the defender type (see Table 2).

Then, the scores from each rank will be summed to determine the combined size of STRATEGY. Firms with a score of 5-11 on the combined strategy measure will be assigned a dummy variable of 1 for the defender proxy (0 otherwise), and firms with a score of 19-25 on the combined strategy measure will be assigned a dummy variable of 1 for the prospector proxy (0 otherwise), and firms with a score of 12-18 in the combined strategy measure will be assigned a dummy variable of 0 for defender and prospector proxies.

This study uses a firm diversification measure based on Aryotama and Firmansyah (2019) and Rahayu and Rohman (2014), which use various proxies based on the entropy index. This measure can detect the level of diversification more accurately because it considers each segment's total sales to determine the level of diversification in the company in given year. The equation is: $DIVERSE_{it} = \sum_{i=0}^n P_{it} \ln \left(\frac{1}{P_{it}} \right)$, where EI is entropy index, P_i is percentage of revenue from segment i , and n is the number of segments.

Customer concentration follows the proxy as Aryotama and Firmansyah (2019 and Huang et al. (2016) measure the ratio of sales to main customers to the company's total sales using the CONS proxy. The higher the CONS value reflects the high sales to certain customers, which means that there is an opportunity for managers to carry out earnings management. The equation is: $CONS = \frac{\text{Sales to Major Customers}}{\text{Total Sales}}$. This study uses control variables consisting of profitability and firm size. The proxy of profitability in this study follows Aulia and Mahpudin (2020) and Leksono et al. (2019) using the return on assets (ROA) proxy: $ROA = \frac{\text{Net Income}}{\text{Total Assets}}$. The company size proxy in this study uses the natural logarithm (Ln) as Fajaryani and Suryani (2018) and Legowo et al. (2021): $SIZE = \ln(\text{Total Assets})$.

Hypothesis testing in this study uses multiple linear regression analysis for panel data. To estimate parameters with panel data, three techniques (models) can be used: general effects model, fixed effects model, and random effects model through Chow Test, Hausman Test, and Lagrange Multiplier (LM) Test.

Table 1. Research Sample

Criteria	Amount
Issuers of the consumer goods sector on the IDX as of February 1, 2021	63
Issuers who conduct Initial Public Offering (IPO) after January 1, 2017	-23
Issuers that have annual financial reports with incomplete information during the 2017-2020 period	-3
Company data that can be used in research	37
Number of years of research	4
Total sample	148

Table 2. Variable Ranking by Strategy

Variable	Defender	Prospector
MESR	Low	High
COGSR	Low	High
CIR	High	Low
CAGSR	Low	High
RSDR	Low	High

Source: Samuel et al. (2016)

The research model is as follows:

$$EM_{it} = \alpha_0 + \beta_1 DEF_{it} + \beta_2 PROSPE_{it} + \beta_3 DIVERSE_{it} + \beta_4 CONS_t + \beta_5 ROA_{it} + \beta_6 SIZE_{it} + \varepsilon_{it}$$

where EM_{it} is earnings management for the company i in year t ; DEF_{it} is defender business strategy for the company i in year t ; $PROSPE_{it}$ is prospector business strategy for the company i in year t ; $DIVERSE_{it}$ is diversification for the company i in year t ; $CONS_t$ is customer concentration for the company i in year t ; ROA_{it} is return on assets for the company i in year t ; and $SIZE_{it}$ is size for the company i in year t .

RESULTS AND DISCUSSION

Table 3 summarizes descriptive statistics of the variables used in this study. After performing the Chow test, Hausman test, and Lagrange Multiplier test, the fittest model for the hypothesis test is the random effect model. The summary of the results of hypothesis testing is in Table 3. Based on the test results, the defender business strategy is positively associated with earnings management. This result aligns with the research of Houque et al. (2013) and Wardani and Isbela (2018). The defender strategy will attempt to meet investors' expectations of the company, which are getting higher so that when there is fluctuation in income, management will carry out earnings management. The defender approach is typically responsible for higher earnings management than the prospector strategy, as indicated by the company's inability to deal with business risks and uncertainties (Higgins et al., 2014). This finding confirms agency theory that managers can make judgments or take measures to run the company's operations. Furthermore, the prospector business strategy test result is not associated with earnings management. This result aligns with (Houque et al., 2013; Wardani & Isbela, 2018).

Table 3. Descriptive Statistics

Var.	N	Mean	Median	Min.	Max.	Std. Dev
EM	148.000	0.075	0.056	0.001	0.432	0.073
DEF.	148.000	0.054	0.000	0.000	1.000	0.227
PROSPE.	148.000	0.122	0.000	0.000	1.000	0.328
DIVERSE	148.000	0.515	0.545	-0.555	1.459	0.469
CONS	148.000	0.242	0.000	0.000	0.970	0.310
SIZE	148.000	28.772	28.486	25.730	32.725	1.629
ROA	148.000	0.070	0.065	-2.641	0.921	0.269

Table 4. Summary of Hypothesis Test Results

Variable	Coeff.	T-Stat.	Prob.
C	0.075	0.556	0.289
DEF	0.055	1.923	0.028 **
PROSPE	0.006	0.349	0.364
DIVERSE	-0.039	-2.499	0.007 ***
CONS	0.019	0.806	0.211
ROA	0.105	5.533	0.000 ***
SIZE	0.000	0.030	0,488
R ²	0.232		
Adj.R ²	0.199		
F-stat.	7.105		
Prob(F-stat)	0.000		

***) affects the significance level of 1.000% or 0.010, **) affects the significance level of 5.000% or 0.050, *) affects the significance level of 10.000% or 0.100

Companies that implement a prospector-type business strategy will focus more on steps to maximize profits by emphasizing innovation and strengthening the company's competitiveness. Business strategies can be categorized into prospectors, defenders, analyzers, and reactors (Miles et al., 1978). The prospector and defender are at opposite ends of the pole on the continuum. Then, the business strategy analyzer is between the prospector and defender, so it has the characteristics of a prospector and defender business strategy (Aryotama & Firmansyah, 2019). Meanwhile, the reactor is a business strategy that only reacts to the business environment. This study only pays attention to the extreme poles of business strategy, defenders, and prospectors, to see whether the business strategy is associated with earnings management.

Companies that implement a defender-type business strategy are more risk-averse; in other words, companies tend not to intend to face high uncertainty (Higgins et al., 2014). Meanwhile, companies with the prospector type will be more aggressive, so they take many risks; in other words, companies will be willing to accept risks and have a high level of uncertainty (Higgins et al., 2013). When implementing a defender strategy, consumer goods sector companies will compete primarily based on price, quality, delivery, and services and concentrate on operating efficiency and strict cost control to maintain competitiveness (Farida & Setiawan, 2022). It motivates managers to control costs and regulate sales distribution so that they tend to meet the expectations of external parties through earnings management (Wardani & Isbela, 2018). In addition, the higher the company's growth rate, the more it will manage earnings (Widyasari et al., 2017). Companies with high growth opportunities are pressured to meet earnings thresholds, so companies with high growth potential will tend to carry out earnings management (Setijaningsih & Merisa, 2022). Thus, companies implementing the defender strategy are more motivated to manage earnings to meet investor expectations by keeping the company's growth stable.

Prospectors do not own this condition, especially in consumer goods sector companies, because their strength is finding and exploiting new products and market opportunities. Companies emphasize creativity and flexibility over efficiency, so they must respond quickly to changing market conditions and take advantage of new market opportunities (Farida & Setiawan, 2022). The company considers the strategy implemented to innovate and seek new market opportunities much more important to increase its profit growth, so the action to carry out earnings management is not implemented as part of the prospector-type company strategy.

Through hypothesis testing that has been carried out, this study finds that company diversification, as measured using DIVERSE, has a negative effect on earnings management. This study's result is not in line with Arintasari & Rohman (2015), Dimarcia & Krisnadewi (2016), Ermawati et al. (2020), Ermayanti (2017), Gunarto & Riswandari (2019), Novyarni & Wijaya (2018), and Nugroho & Darsono (2015). The result of this test does not confirm agency problems between managers and shareholders when the company has high diversification, which encourages managers to carry out earnings management. Industrially diversified companies operating in different business segments will make it difficult for subsidiary managers to manipulate earnings (Mukti, 2017). Several things can be the cause of the differences in the results of this study: the use of different measurement or proxy techniques, differences in the characteristics of the research sample, and differences in the research period.

Company diversification is carried out to develop the business by expanding the number of business segments and various diverse products to expand the company's sources of income (Verawati, 2012). Diversified companies tend to make managers direct or manage divisions under their control according to their interests (Jara-Bertina et al., 2015). In actuality, when

firm diversification is applied to the consumer products industry in Indonesia, it does not allow managers to control earnings freely. Companies that diversify apart from aiming to maximize the size and diversity of the company can improve company performance and minimize earnings management (Mukti, 2017). Implementing company diversification will increase managers' responsibility in each market segment they manage. In addition, diversified companies will reduce management's incentives to carry out earnings management because their space will be increasingly limited, and earnings management strategies that take advantage of accrual loopholes in financial accounting standard rules are not the best choice for managers.

Through hypothesis testing, this study found that customer concentration does not affect earnings management. Customer concentration measures how a company's total revenue is distributed among its customer base (Aryotama & Firmansyah, 2019). A company is considered to have a high-concentration customer base if a small number of customers or many customers with a large percentage of purchases to one or two customers (Saboo et al., 2017). On the other hand, a company with an evenly distributed number of customers is unconcentrated. The concentration of customers can create a close relationship between the company and its customers. This strong relationship is expected to increase customer loyalty, reduce transaction costs, and increase productivity (Saboo et al., 2017). The advantage of a concentrated customer base is that it can incentivize managers to manipulate profits by managing transaction costs with customers according to their interests.

The application of a concentrated customer base in the Indonesian consumer goods industry is not related to the activities of managers in influencing the figures in the company's financial statements. Customers tend to want profit for themselves to bid product prices to the company because they have high purchasing power as the company's main customers (Gosman & Kohlbeck, 2009). Companies with a concentrated customer base will face a high risk in the future; when one of the main customers experiences financial difficulties or decides to switch to another product or vendor, then it will have a significant impact on the company's revenue figures (Campello & Gao, 2017; D. Dhaliwal et al., 2016). Companies must also invest in expensive relationships in certain assets, which can be in the form of lower leverage or special equipment that shows the company's commitment to building closer customer relationships (Iitzkowitz, 2013). Thus, a concentrated customer base provides no incentive for managers to manipulate numbers in financial statements when the company is faced with future risks due to major customers experiencing financial difficulties or switching to other vendors, as well as opportunistic behavior from customers to get maximum personal profit, earnings management actions in the context of companies like this are not an option that managers can take.

CONCLUSION AND SUGGESTION

This study concludes that the defender-type business strategy is positively associated with earnings management, while the prospector-type business strategy is not associated with earnings management. Consumer goods sector companies that run the defender business strategy tend to be motivated to manage earnings to maintain their reputation as a stable company and meet investor expectations. In contrast to companies that implement a prospector business strategy, the company will focus more on steps to emphasize innovation and strengthen the company's competitiveness. Meanwhile, company diversification has a negative effect on earnings management. Company diversification can change the organizational structure to become more complex. It causes managers in subsidiaries operating in business segments difficult to manipulate profits. Therefore, more segmentation of operations carried out by the company will reduce earnings management carried out by

management. Furthermore, customer concentration does not affect earnings management. More concentrated customers have advantages in terms of customer relationships because they can create close relationships with customers, which is expected to increase customer loyalty, reduce transaction costs, and increase productivity.

This study has limitations; the differences in the criteria used can provide different sample elimination results, decreasing the number of samples used. The research only uses a sample of companies in the four-year business reporting period, namely 2017-2020. Purposive sampling was carried out from the company population; the elimination results using certain criteria obtained a sample of 37 companies over four years, bringing the total sample to 148 observations. Future research can use manufacturing or non-financial companies for longer to obtain larger samples and provide more comprehensive research results. This research indicates that the Financial Services Authority (OJK) needs to develop policies related to investor protection. OJK needs to improve corporate governance policies for listed companies, especially regarding the Authority of managers in managing companies.

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