

THE RELATIONSHIP OF FIRM SIZE, CEO ABILITY, TAX AGGRESSIVENESS, TO EARNINGS QUALITY

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Abstract

This study uses aspects of company characteristics in the form of firm size, managerial specific aspect in the form of CEO's ability, and tax aggressiveness to be tested its relation to earnings quality of company. The sample used is a manufacturing company listed on the Indonesia Stock Exchange (IDX) period 2013-2014. Based on quantitative methods, the multiple linear regression is used to test the hypothesis. The results show that firm size has a positive relationship to the earnings quality. On the other hand, neither the ability of the CEO nor the tax aggressiveness have a significant relationship to earnings quality. Based on these findings can be concluded that the characteristics of the company in the form of company size is a determinant of earnings quality.

Keywords: Firm size, CEO ability, tax aggressiveness, earnings quality, firm characteristics, managerial specific effect

INTRODUCTION

This study aims to examine the influence of firm size, CEO ability and tax aggressiveness towards earnings quality. Research on earnings quality by Dechow et al. (2010) has examined the proxies, factors of earnings quality, and consequences of earnings quality. One factor of the quality of the profit they studied is the company's characteristic in the form of firm size. This

research proposes two other determinants: 1) managerial characteristics in the form of CEO ability and 2) tax aggressiveness.

Demerjian et al. (2012) found that their measurements about managerial abilities were strongly correlated with fixed effects managers and stock price reactions to chief executive officers (CEOs) turnovers. They also found out which CEO's replacing CEOs with more (able) CEOs relate to the increase (decrease) in subsequent firm performance. Silva (2010) stated that the availability of managers with high capability can compensate for the decrease in capital productivity. In addition, Dejong & Ling (2013) found that individual executives play a significant role in determining accruals. They further found that individual executives influencing accruals are more correlated with operating decisions than investment and financing decisions. Demerjian et al. (2013) found that earnings quality was positively associated with managerial abilities. They claim that managers can influence the quality of judgments and estimates used to shape earnings. Thus, the researcher considers that CEO abilities can serve as a decisive factor to improve earnings quality.

Tax aggressiveness is an activity such as seeking offshore tax havens or creating complex structures involving tax-indifferent or related members, consisting of complex transactions designed to darken and to avoid detection by the IRS (Chen et al., 2010). The tax aggressiveness of the firm causes the market to react (Chen et al., 2010). This is documented by Hanlon & Slemrod (2009) through his research that the reaction of stock prices related to corporate tax aggressiveness is negatively related. When the market knows that the related company is doing tax evasion, stock prices will decline (Hanlon & Slemrod, 2009). Thus, researchers view that tax aggressiveness can be used as a determinant of earnings quality.

In this study, earnings quality is measured by accrual estimation error (Dechow & Dichev, 2002), CEO ability is calculated by general ability index (GAI), tax aggressiveness is measured by effective tax rate (ETR), while firm size is measured by total assets which is owned by the company. In testing the hypothesis used multiple linear regression analysis. Based on the tests that have been done, the results showed no relationship between CEO ability to earnings quality. In addition, researchers also found no evidence that tax aggressiveness is negatively related to earnings quality. However, researchers found that firm size positively related to earnings quality.

This research provides some contribution both in terms of practice and theoretical. First, for regulators, this study can give consideration that there is a need for stronger regulation on small companies. Second, for investors, this study gives consideration that in decision making, investors also consider the size of the company because the larger the company, the more reliable profit to be the basis of the decision. Third, for theoretical, this research reinforces the

results of previous studies that the characteristics of the company, especially the size of the company, is a determinant of the quality of corporate earnings.

In the next section, we discuss the theoretical foundations of firm size, CEO abilities, tax aggressiveness, earnings quality and logic underlying the development of hypotheses. Then, elaborated on research methods that include the selection of samples, measurement of variables and their data sources, and hypothesis testing. In the next section, contains the results of sample selection, the results of hypothesis testing, and the translation of the results obtained. In the last section, drawn some conclusions and limitations of research conducted.

LITERATURE REVIEW

Earnings Quality

Dechow et al. (2010) stated that there are three characteristics to define the quality of profit. First, the quality of earnings depends on the relevance of informed decisions. Second, the quality of the reported earnings depends on whether it is informative about a company's performance, many aspects that can not be observed. Third, the quality of earnings together is determined by the relevance of the underlying financial performance for the decision and the ability of the accounting system to measure performance (Dechow et al., 2010).

Dechow & Dichev (2002) argued that the accrual and profit qualities decrease when related to the estimation of the accrual error. This study obtains an empirical measure of accrual quality such as residual firm-specific regressions of past working capital changes, current, and future operating cash flows. This research found that the measurement of accruals is positively related to earnings persistence.

Another study, Francis et al. (2005) examines the relationship between accrual quality and cost of debt and equity capital. They found that firms with poorer accrual quality had higher ratios of interest expense to interest-bearing debt and lower debt ratings than firms with better accrual quality. One of the accrual roles is to adjust the cash flow over time so that adjusted earnings can better measure the performance of the company. The higher the accrual accuracy in reflecting future cash flows, indicating a good quality of profit (Dechow et al., 2010).

Dechow et al. (2010) has used various measures as measurement of earnings quality which consist of persistence, accruals, smoothness, timeliness, loss avoidance, investor responsiveness, and external. They claimed that the quality of profit is a function of the firm's fundamental performance. Higher earnings quality provides more information about the characteristics of corporate finance that are relevant to the specific decision made by the decision maker (Dechow et al., 2010). The determinants of earnings include company characteristics, financial reporting practices, governance and control, capital market incentives,

and external factors (Dechow et al., 2010). The proxies of earnings quality include persistence, magnitude of accruals, residuals from accrual models, smoothness, timely loss recognition (TLR), benchmarks, ERCs, external indicators of earnings misstatements (Dechow et al., 2010)

Firm Size

Watts & Zimmerman (1986) states the political cost in economic theory that adopts self-interest view which assumes maximum benefit. Based on this assumption, the political process is defined as a competition for the transfer of wealth. In the political process theory it is assumed that there is use of accounting numbers in the process. In addition, managers are also expected to adopt procedures or methods to reduce the transfer of wealth. When associated with firm size, large companies have stronger political pressures than small firms. Considering this consequences, large corporations tend to report corporate profits as they should be aimed at suppressing the political costs that companies must face.

Baker & Hall (2004) developed a model that explains how to measure the CEO's incentive strength and how to reconcile large differences in paying sensitivity between executives in large and small companies. The study found that the CEO's marginal product increased significantly by firm size and overall CEO incentives were approximately constant, or slightly down, with firm size.

Moeller et al. (2004) examined a sample of 12,023 acquisitions of public companies from 1980 to 2001. The weighted average announcement rate was 1.1%, but the company's shareholders acquired an average \$ 25.2 million loss at the time of the announcement. This disparity shows the effect of size in acquisition announcement returns. The re-announcement to acquire - the company's shareholders is approximately two percent higher for a small acquirer irrespective of the form of financing and whether the acquired company is public or private.

CEO Ability

Custodio et al. (2013) examines the CEOs in terms of their pay. They find that salary is higher for CEOs with managerial ability (general managerial skills) that are collected during lifetime work experience. CEO pay increased most when the company recruited externally a new CEO and changed from a specialist CEO to a CEO generalist. Premium pay is higher when CEOs are recruited to demonstrate complex tasks such as restructuring and acquisitions (Custodio et al., 2013).

Another study, Ahmed & Duellman (2013) examines whether overconfident managers overestimate the future return of their corporate investments. Researchers view that overconfident managers tend to delay recognition losses and generally use less conservative

accounting. They found evidence that there was a negative relationship between CEO overconfidence and accounting conservatism.

Furthermore, Demerjian et al. (2013) examines the relationship between managerial ability and earnings quality. Their research found that earnings quality was positively associated with managerial skills. In particular, more capable managers are associated with fewer subsequent restatements, higher earnings and accruals persistence, lower errors in terms of bad debts, and higher accrual quality estimates. The results are consistent with the premise that managers relate to the quality of judgments and estimates used to shape earnings (Demerjian et al., 2013).

Tax Aggressiveness

Dyreng et al. (2008) developed a new measure of long-term tax evasion by the company. The measurement is based on the company's ability to pay cash taxes per dollar of pre-tax profit. The results of such measurements may indicate that the company conducts long-term tax evasion (Dyreng et al., 2008). By using companies that have re-reporting on financial statements, Badertscher et al. (2009) examines the association between pre-tax profit management activities that are specifically influential, and has no effect on taxable income. In other words, it can be stated that Badertscher et al. (2009) examines tax and non-tax implications on earnings before tax management. The results of these examinations indicate that discrepancy in earnings management is more common. In addition, the company also makes trade off between net present value of tax benefits to net expected detection costs associated with nonconforming earnings management.

The tax aggressiveness of the firm causes the market to react. This is evidenced by Hanlon & Slemrod (2009) through his research by finding that the reaction of stock prices related to negative corporate tax aggressiveness. When the market knows that the related company is doing tax evasion, stock prices will decline (Hanlon & Slemrod, 2009). Further explained by Kim et al. (2011) that the existence of information about tax avoidance hidden by the managerial has a positive relationship with stock price crashes.

Robinson (2010) conducted a test on how tax avoidance by the company. Specifically, Robinson (2010) tested the company's involvement in investing in low-income housing tax credits. The results of the tests are able to confirm the allegation that corporate investors tend to use accounting methods to reduce profit before tax through certain payments to companies in order to have the right to determine accounting methods (Robinson, 2010). Based on these findings, implications can be obtained that companies will sacrifice real economic earnings to influence perceptions about financial performance (Robinson, 2010).

Minnick & Noga (2010) aims to examine the role of corporate governance in long-term earnings management by the company. Corporate governance is reflected through the composition of the board of directors, the duality of the CEO, and managerial entrenchment. The results indicate that a compensation boost given to managers encourages them to make decisions that are oriented toward long-term benefits. Specifically, it was also stated by Minnick & Noga (2010) that the investment will provide greater returns to shareholders.

HYPOTHESIS DEVELOPMENT

The Relationship of Firm Size and Earnings Quality

Watts & Zimmerman (1986) menyatakan bahwa perusahaan yang lebih besar memiliki sensitivitas yang lebih tinggi terhadap politik. Perusahaan yang lebih besar memiliki tingkat pajak yang lebih besar dibandingkan perusahaan kecil karena adanya tekanan *political cost*. Menyadari hal tersebut, perusahaan besar cenderung melaporkan laba perusahaan sebagaimana mestinya yang mana ditujukan untuk menekan *political cost* yang harus dihadapi perusahaan.

Kualitas laba yang lebih tinggi memberikan lebih banyak informasi tentang karakteristik kinerja keuangan perusahaan yang relevan dengan keputusan spesifik yang dibuat oleh pembuat keputusan (Dechow et al., 2010). Berdasarkan literatur yang telah ditinjau, semakin besar perusahaan maka semakin banyak pihak-pihak berkepentingan yang menuntut kualitas laba yang semakin tinggi. Dengan demikian, hipotesis pertama penelitian ini adalah sebagai berikut.

Watts & Zimmerman (1986) states that larger companies have a higher sensitivity to politics. Larger firms have higher tax rates than small firms due to political cost pressures. Understanding this risk, large corporations tend to report corporate profits as they should be aimed at suppressing the political costs that companies must face.

Higher earnings quality provides more information about the characteristics of corporate finance that are relevant to the specific decision made by the decision maker (Dechow et al., 2010). Based on the literature that has been reviewed, the bigger the size of company, the more interested parties that demand the higher profit quality. Thus, the first hypothesis of this study is as follows.

H1: The larger the size of the firm, the higher the quality of the company's profit

The Relationship of CEO Ability and Earnings Quality

Dechow and Dichev (2002) found that measurements of accruals were positively related to earnings persistence. Dechow et al (2010) states that the quality of earnings evaluated for a decision depends on an informative representation of financial performance. Good et al. (2011)

examines the relationship between CEO capabilities and management earnings forecasts. They found that high-ability CEOs send more information to the market than low-capacity CEOs. In line with previous researchers, Dejong & Ling's (2013) found that the effects of individual executives on accruals are more related to operating decisions than investment and financing decisions. They also found that CEOs are more likely to influence accrual through corporate policy decisions and CFOs are more likely to influence accruals through accounting decisions. Furthermore, CFOs tend to report earnings more solidly than CEOs, as CFOs are more likely to encourage accruals to zero.

Demerjian et al. (2013) examined the relationship between managerial ability and earnings quality. Their research found that earnings quality was positively associated with managerial skills. They claim that managers have an effect on the quality of judgments and estimates used to shape earnings. Meanwhile, Choi et al. (2015) found that the relationship between the current accrual current and future cash flows is stronger when the CEO demonstrates superior operating capability.

Based on the literature reviewed, CEO can use its ability to generate revenue from limited company resources through the accuracy of estimates and judgments. Thus, the first hypothesis of this study is as follows.

H2: The higher ability of CEO, the higher the quality of earnings quality.

The Relationship of Tax Aggressiveness and Earnings Quality

Tax aggressiveness is an activity such as seeking offshore tax havens or creating complex structures involving tax-indifferent of related members, consisting of complex transactions designed to darken and to avoid detection by the IRS (Chen et al., 2010). The tax aggressiveness of the firm causes the market to react. This is evidenced by Hanlon & Slemrod (2009) through his research that the reaction of stock prices related to corporate tax aggressiveness is negatively related. When the market knows that the related company is doing tax evasion, stock prices will decline (Hanlon & Slemrod, 2009).

Badertscher et al. (2009) examines tax and non-tax implications on earnings management before tax. The results of these tests indicate that discrepancy in earnings management is more common. In addition, the company also makes trade off between net present value of tax benefits to net expected detection costs associated with nonconforming earnings management.

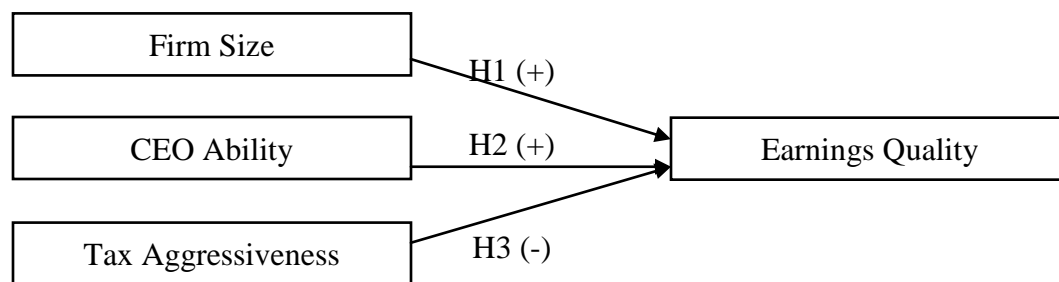
Chen et al. (2010) found that family firms did fewer tax aggressiveness than non-family firms. This can happen because family firms are more centralized with penalties and reputation

damage than an IRS audit rather than a non-family company. They claim that the hidden actions of managers can affect the level of tax aggressiveness.

Based on the reviewed literature, the company will tend to use its accounting discretion to make the profit figure smaller so as to reduce the amount of tax payable. However, this results in a decrease in the quality of the firm's earnings because the profit does not reflect the actual company condition. Thus, the first hypothesis of this study is as follows.

H3: The higher the aggressiveness of corporate taxes, the lower the quality of the profits generated

Figure 1. Research Design



RESEARCH METHODOLOGY

Study and Sampling

The sample selection is based on non-probability sampling method in the form of purposive sampling. Some of the criteria underlying the selection of samples, among others:

Table 1. Sample Selection

Criteria	Company
Manufacturing companies listed on the BEI year 2013-2014	344
Company without data completeness	69
Total	275

Using the period of 2013-2014 is based on measurement of earnings quality (Dechow & Dichev, 2002). In that measurement, earnings quality is calculated from CFO_{t-1} , CFO_t , and CFO_{t+1} . Besides, each of variable must be scaled by the average of total asset. For the year 2014, data CFO_{t+1} is based on financial statement in year 2015, then the average total asset is derived from those from 2014 up to 2016. Concerning the financial statement in 2016; it is the latest

report that is available in the Indonesia Stock Exchange (IDX) database. Because of that, the year 2014 is used to be the cut off point. Similarly for 2013, it is chosen to be the other cut off point. As for the year 2013, the data for CFO_{t-1} is sourced from the financial statement of 2012 and its average total assets consists of those from 2011 to 2013. Financial statement in 2011 is the earliest data used in this research because we consider the effect of financial crisis in the previous year (2008-2009).

Variable Measurement

The following is an elaboration of the analytical methods used to examine the relationship between firm size, CEO ability, tax aggressiveness and earnings quality.

a. Earnings Quality

Measurement of earnings quality refers to the measurement model of accrual error estimation by Dechow & Dichev (2002). The following equations are used to calculate the quality of revenue:

$$\Delta WC_t = b_0 + b_1CFO_{t-1} + b_2CFO_t + b_3CFO_{t+1} + e_t$$

Each variable will be scaled to an average total asset for 3 years. Data relating to the calculation of earnings quality can be obtained through the company's financial statements.

b. Tax Aggressiveness

Measurement of tax aggressiveness is based on the effective tax rate (ETR) (Chen et al., 2010) with the following calculations:

$$ETR_{i,t} = \text{Amount of Tax Expense}_{i,t} / \text{Pre-Tax Income}_{i,t}$$

Data can be obtained through the company's financial statements accessed through the Indonesia Stock Exchange website.

c. CEO Ability

Measurement of the ability of CEO is measured by the general ability index (GAI) proposed by Custodio et al. (2013). The GAI value comes from five measurement variables consisting of (1) number of positions, (2) number of firms, (3) number of industries, (4) dummy CEO experience and (5) dummy conglomerate experience. Data can be obtained through the company's annual report. Furthermore, the five variables are processed by using the main component analysis (PCA) to obtain the value of CEO ability.

d. Firm Size

Firm size refers to the total number of company assets measured by total logarithmic assets (Demerjian et al., 2013).

Hypothesis testing approach

To examine the hypothesis, this research used regression analysis with equation (1) follows:

$$EQ_{i,t} = \alpha_0 + \alpha_1 TA_{i,t} + \alpha_2 CEO_{i,t} + \alpha_3 Size_{i,t} + \varepsilon_{i,t}$$

Information :

- $EQ_{i,t}$: The quality of earnings is measured by accrual estimation error (Dechow & Dichev, 2002)
- $TA_{i,t}$: The tax aggressiveness is measured by ETR (Chen et al., 2010)
- $CEO_{i,t}$: The CEO ability are measured by the General Ability Index (GAI) (Custodio et al., 2013)
- $Size_{i,t}$: Firm size is measured by the total asset log of company i in year t

RESULT

Descriptive statistics

Table 2. Descriptive Statistics

	Minimum	Maximum	Range	Mean	Skewness	Kurtosis
Earnings Quality	0.00	0.28	0.28	0.06	1.72	2.84
Tax Aggressiveness	-4.36	4.72	9.08	0.18	2.02	47.44
CEO Ability	-0.97	7.33	8.30	0.00	2.57	8.02
Size	3.64	7.28	3.64	5.14	0.47	0.16

In this study there are 4 variables tested, consisting of 1 dependent variable and 3 independent variables. The dependent variable is earnings quality, while the independent variable consists of tax aggressiveness, the CEO ability and firm size.

Based on Table 2, it can be observed that the earning quality, the lowest value of 0.00 and the highest value reached 0.28. Based on these two values, it can be seen that the distance between the highest data and the lowest data is 0.28. The average value of the 275 tested firms is at 0.06. The value of skewness and kurtosis provides an associated picture of the normal distrbusi curve shape. Skewness value of earnings quality equal to 1.72 with kurtosis 2.84. The positive value indicates that the shape of the data distribution is leaning to the left with a peak of a more pointed curve.

For tax aggressiveness variables, obtained the minimum value up to -4.36 with the highest value in the data of 4.72. The difference between the highest and lowest values resulted in a range of 9.08. The sample used has an average value of 0.18. With the value of skewness 2.02 and kurtosis 47.44. As with the quality of profit, a positive value in skewness and kurtosis

indicates that the shape of the normal distribution curve is leaning toward the left with a sharper peak than the normal curve.

The CEO ability has the lowest score of -0.97 and the highest score reaches 7.33, with a range of 8.30. The average value of proficiency possessed by CEO in the sample companies is 0.00. For the normal distribution curve, it is known that the skewness value is 2.57 and kurtosis 8.02. This value illustrates that the normal distribution curve has a tendency toward the left with a pointy peak.

The last variable, size, has the lowest value of 2.64 with the highest score of 7.28. Furthermore, the obtained value of the range of 3.64. For the average, the company has a company size of 5.14. On the normal distribution curve, the skewness value is 0.47 and kurtosis 0.14. This positive value represents a tendency toward the left and the top of the curve is more pointed than the normal curve., the lowest value of 0.00 and the highest value reached 0.28. Based on these two values, it can be seen that the distance between the highest data and the lowest data is 0.28. The average value of the 275 tested firms is at 0.06. The value of skewness and kurtosis provides an associated picture of the normal distrbusi curve shape. Skewness value of earnings quality equal to 1.72 with kurtosis 2.84. The positive value indicates that the shape of the data distribution is leaning to the left with a peak of a more pointed curve.

Hypothesis Testing Results

To be able to perform multiple linear regression test statistic, classical assumption test should be tested, including normality test, multicollinearity test, heteroscedasticity test, and autocorrelation test. In the normality test, the results obtained that the residual data is not normally distributed. Therefore, healing steps by removing outliers and data transformation. The end result obtained the amount of observation data as much as 263 samples. Based on these samples, the four classical assumption tests were performed and the results obtained that the data had met all four classical assumption assays. Thus, the data have met the requirements for regression test. Here are the results of hypothesis testing performed:

Table 3. Regression Results

Variables	Unstandardized Coefficients	T	Sig
Constant	-2.039	-4.621	0.000
Tax Aggressiveness	0.057	0.547	0.585
CEO Ability	-0.057	-1.435	0.153
Size	-0.216	-2.541	0.012

Based on Table 3, the following equations can be formulated:

$$\text{Earnings Quality} = -2.039 + 0.057 \text{ Tax Aggressiveness} - 0.057 \text{ CEO Ability} - 0.216 \text{ Firm Size}$$

Referring to the results, it can be stated that one of the three tested hypotheses is supported. The first hypothesis relating to tax aggressiveness and the second hypothesis to CEO ability has a significance value greater than 0.05. Therefore, it can be concluded that the two hypotheses are not supported. Conversely, the hypothesis of firm size is supported at the 5% significance level.

DISCUSSION

In the first hypothesis is proposed allegations that there is a positive relationship between firm size and earnings quality. Based on the tests conducted, obtained value of significance of 0.012 with coefficient -0.216. The results show that firm size is negatively related to the size of the accrual rate. The smaller the accrual value, the higher the earnings quality of the firm. Therefore, it can be stated that the third hypothesis is supported at the 0.05 level of significance. The results of this study are in accordance with Dechow et al. (2010) which states that the firm size as one of the characteristics proxy company, has a significant relationship with the quality of profit. The relationship can be explained by the existence of political cost (Watts & Zimmerman, 1986) which states that large companies have greater risk pressure. Therefore, large companies will make decisions and determine estimates appropriately to ensure that the resulting profits reflect precisely the actual conditions of the company.

In the second hypothesis, the alleged allegation that the CEO ability has a positive relationship with earnings quality. Test results in the above table shows the significance value of 0.153 with regression coefficient of -0.057. With a much greater significance value than 0.05, it can be stated that the second hypothesis is not supported.

The results of this study are not in line with Baik et al. (2011) and Demerjian et al. (2013). In both studies it is stated that there is a positive relationship between managerial skills and the earnings quality. According to Dejong & Ling (2013), CEOs are more likely to use company policies to influence accruals, so the CEO has no direct involvement in determining company profits. Therefore, although the CEO has the ability, but the skills can not be used to affect the earnings quality.

In the third hypothesis, the alleged assumption that tax aggressiveness will have a negative relationship with the quality of profit. The test results in Table 4 above show a significance value of 0.0585 on with a coefficient of 0.057. Therefore, it can be concluded that the first hypothesis is not supported.

In contrast to the results of research Badertscher et al. (2009), the results of this study indicate that there is no association between the aggressiveness of corporate taxes and the earnings quality generated. This indicates that the tax aggressiveness of the company is not through the company's accrual discretion policies, so that aggressiveness can not be reflected through the accrual of the company.

CONCLUSION

The study aims to examine the relationship between firm size, CEO ability, tax aggressiveness, and earnings quality. Previous research has used firm size as one of the characteristics of the company (Dechow et al., 2010) and the ability of the CEO as a proxy of managerial characteristics (Custodio et al., 2013). Furthermore, this study examines the aggressiveness of tax as one component that is expected to be significantly related to the earnings quality.

It is expected that larger companies will further improve the earnings quality generated by having strong political pressure, so that it has a great risk when the company's profit does not reflect the actual state of the company. In addition, the CEO ability is expected to use his ability to manage the company, so as to provide the right decisions and policies. It is also expected to improve the earnings quality. On the other hand, when companies do taxes aggressively, it will lower the earnings quality because the number of earnings can not be used as a basis for decision-making.

Based on the tests conducted, the findings show that (1) firm size has a positive relationship with earnings quality, (2) the CEO ability has no relation with earnings quality and (3) the tax aggressiveness is not significantly related to earnings quality. Therefore, it can be drawn a conclusion of the amount of political cost when the company has a large size, can be one of the determinants of earnings quality.

This study contains some limitations. First, the determination of firm size is based on only one measure, that is total assets. To obtain stronger results, other measurements of market capitalization can be used. Secondly, this study uses only a short observation period, which is 2013-2014. Therefore, further research can add observation periods and use longitudinal data, so as to provide comprehensive results.

Third, the measurement of the CEO ability index based on working experience does not accurately reflect the true CEO virtue. Future research may be replaced by other measures of reputation of the CEO (Francis et al., 2008). Finally, the sample of this study is limited to manufacturing companies, so it does not accurately describe the companies in the Indonesia Stock Exchange as a whole. Subsequent research can use all companies in the capital market, so as to increase the strength of generalization.

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