

ABSTRACT

The purpose of this study is to explore the relationships among business strategy, market competition and earnings management. This study uses Porter's typology of business strategies; cost leadership and differentiation. First, it examines the relationships between business strategy and earnings management. Further, it analyzes the joint effect of business strategy and market competition to earnings management.

This study uses secondary data. The population consists of manufacturing firms listed in Indonesia Stock Exchange. This study uses purposive sampling and takes some criterias. Firms included in this study are being listed in IDX before 2010 and also provides annual reports from 2011 until 2014. The samples consists of 180 observations. In this research Ordinary Least Square used to be analysis technique.

The result of this study show that firms that follow cost leadership strategy (cost leaders) are more likely to have a higher level of real earnings management and firms that follow differentiation strategy (differentiators) are less likely to use real earnings management. Further, for cost leaders in the high level of market competition are more likely to have a higher level of earnings management, whereas the level of earnings management of differentiators is not significantly impacted by the market competition.

Keywords : Business strategy, cost leadership, differentiation, market competition, earnings management